

Suite 304**RISKS AND REWARDS***Minimise Risk and Maximise Benefits**Trade Missions**Risk Management**Knowledge of Overseas Markets***304.01 MINIMISE RISK AND MAXIMISE BENEFITS****Risks and rewards**

There are steps businesses can take to minimise the risks and maximise the benefits of exporting.

You need to develop an effective business strategy before you begin trading internationally. Factor in to your strategy the steps you are going to take to manage the risk, and how much this is going to cost your business.

Risks of overseas trading

There are clear dangers to look out for when setting up new relationships with businesses abroad just as there are at home.

You must be aware of these risks as they could have considerable impact on your business venture. For example:

- Language barriers
- Cultural differences – eg, some cultures consider the payment of an inducement to help trading to be perfectly legitimate.
- Lack of knowledge of overseas markets
- Susceptibility to unscrupulous business partners
- Less legal protection for non-payment or breach of contract
- Effects of fluctuating exchange rates and volatile business climates
- Sovereign risk – the ability or willingness of the country's government to pay their debts
- Private risk – the ability of the private sector to pay for its imports
- Natural risk – many parts of the world are prone to regular catastrophes such as earthquakes or drought
- Transition economy risk – appears in emerging market countries where economic structural reforms are still struggling to do well

Export Clubs are an ideal way of exchanging information about overseas trading with other businesses. Export clubs provide a forum for discussion between experienced and new exporters, and from governments to exporters. Their main emphasis is to encourage businesses to export and usually they offer a programme of events giving information on different aspects of exporting.

Minimise the risks of trading abroad

You have two options when looking at managing or minimising the risks of trading abroad. You can do all of the research yourself or you can use credit management services or an insurance provider.

304.02 TRADE MISSIONS

Trade missions are a very good way of exploring foreign markets. Some of the benefits you can expect are:

- Access to comprehensive market information given at a briefing before you leave
- Reduced travel costs, sometimes government subsidized
- Increased business opportunities from targeted sales leads

Read about chamber-led trade missions at the Chamber Online website.

Credit insurance

Whether you manage the risk yourself or choose to get specialist help, you should look at getting some kind of insurance cover. Credit insurance is a very useful risk management tool, and you should consider it an important part of your international trade strategy.

Credit insurance companies have years of experience and expertise in minimising the risks of overseas trading and provide many services, including keeping you informed of market events as they occur as well as protecting your investment.

If you would prefer to hand the risk management over to an agency, ensure that you use a reputable one.

Rewards of overseas trading

Exporting products to international markets is an exciting and valuable way to grow your business. It can also bring benefits that you were not expecting. Recent research has shown that:

- Exporters have higher levels of productivity, employment and sales than non-exporters
- Increasing a firm's share of exports to total sales creates a further increase in productivity, sales and employment
- Exporting causes an improvement in business performance and productivity

There are many explanations as to why the rewards are so substantive, but the main reason seems to be that successfully trading overseas and acquiring an international profile immediately enhances a business' prestige. This, along with the competitive edge gained by exposure to international competition, make the reasons for trading overseas compelling enough, regardless of the risk involved.

304.03 RISK MANAGEMENT

Risk management and insurance services

There are several products and services available to businesses that trade internationally.

Partnership with a credit insurer

This is a tailored service, where the insurer identifies and assesses your business prospects and covers the risk on your exports.

Individual insurance policy per deal

This is a tailored policy and is ideal for one-off contracts that you would not need to regularly insure. There are many credit insurance companies that provide this service.

Managed credit insurance

This scheme provides a full research service, providing country information, verifying customer details and credit limits, debt collecting and management as well as making claims. It is the preferred service for new or smaller importers looking to contract out the risk.

Finding specialist credit management services is easy – there are many of them out there.

304.04 KNOWLEDGE OF OVERSEAS MARKETS

Apart from your tie commitment, you should expect to invest in at least two short visits to – and some market research about – the country you are investigating. This research is made easier by all of the support provided by government departments.

In particular, details of aid agencies:

- These agencies actively encourage partnerships between developed and developing firms. They liaise, on your behalf, with all the main international aid-funding agencies.

Agreements with overseas markets

Investment and promotion and protection agreements between nations exist to protect investors with internationally recognised standards.

Key elements of these agreements include:

- Provisions for equal and non-discriminatory treatment of investors and their investments
- Compensations for expropriation
- Transfer of capital and returns
- Access to independent settlement of disputes

Governments of most developed countries show their commitment to fair treatment for investors through their membership of the OECD, European Union and/or European Economic Area and therefore there is no need for an additional investment agreement.

Double taxation

Double taxation can occur when a foreign country taxes your business as well as being taxed at home on the same income.

Many countries have now reached double taxation agreements where they will only tax your income once.

Please see '**Acknowledgements**' for sources of research.