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ANALYSIS AND MANAGEMENT RISK IN INTERNATIONAL AFFAIRS

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Abstract: The risk is one of the most controversial issues for all persons involved both in domestic and international world economic affairs. The need to analyze, understand and effectively manage risk is growing, the ultimate aim being to obtain a higher degree of successThe risk means exposure to an uncertain future, the opportunity to face danger or suffering a loss ("Risk - possibility of loss or injury", Webster's, 1995) or the chance that things go wrong ("Risk is the change that something will go wrong ", Wonnacott, 1986). The analysis and risk management in international business, no matter if it is the risk of interest rate, the risk of foreign coin exchange, the price risk is in the hazard identification and risk sources from careful examination of the external environment and internal business processes, measurement and monitoring the risk attached to any time frame and mechanisms for monitoring risk to constitute a catalyst for responsible action by the company to risk, not least ongoing assessment of performance risk control processes.Companies that enjoy successful business develops a paradigm for analysis and risk management in which the core issue consists of adopting to the company level of incorporated vision to the risks and opportunities arising from the conduct of international business.

JEL Classification: F23, M16.

1. Introduction

F.K.Knight considers that the risk is characteristic of a situation in which decision-maker person can assign a mathematical probability of a sequence of events, the uncertainty being, implicitly, that situation where events development can be expressed as a shape of probability laws and equations.

The risk is something intangible and will be seen in different ways by different people. This happens not only on its definition, but also in terms of outcomes and probabilities to be generated by assuming that risk. In other words, everyone will have different perceptions on the concept of risk, and these perceptions are influenced by factors such as: *experience in the field, level of knowledge, culture, position in the business to influence the results, financial situation.* All these factors of influence have an impact on the manner to risk perception by people, the risks that they consider important, the likelihood that a risk to occur and the impact of that risk might have on action taken.

The practice of commercial trading, so implication of affairs shows that there are three categories of factors that generate financial risks: *interest rate risk, the risk of exchange rates and commodity prices risk* and each of them may have a potentially positive or negative impact on profitability and firm value.

2. The risk in international affairs

The expert studies shows that the risk is addressed and defined in relation to the type of business analysis, the risk is the name given to logical and systematic methods for identifying, analyzing, treating and monitoring risks involved in any activity or process.

As to the approach in international affairs, the risk is based on the *low level of control* over the future evolution of events, phenomena which lead to production losses, the risk generators; this lack of control includes the decision-maker unable to establish "apriori" which result will occur.

The absence of perfect information is an objectively determined situation: reduced availability of information at high cost. To these must be added also other restrictions: the information should be numerous and relevant both quantitatively and qualitatively, in such circumstances decision-maker gets more difficult task because many events, situations unrepeatable nature, each of which is necessary to obtain information unique / specific and detailed.

Deadline for decision affects the quality and quantity of information accumulated and raises issues of understanding the nature of specific situations and issues examined. If they have unlimited time for taking a decision, then the manager would expect the event generator of risk (identified above) and then will take the decision.

Each of the three situations decision - certainty, risk and uncertainty - is defined, most often in relation to the other two. Such an approach allows more accurate delineation of the light coverage of each concept and accurate positioning over the other. Depending on the degree of knowledge of the fate and future effects of a particular event, the three concepts can be ranked as follows: to the extreme the certainty and uncertainty, while risk is placed on an intermediate position.

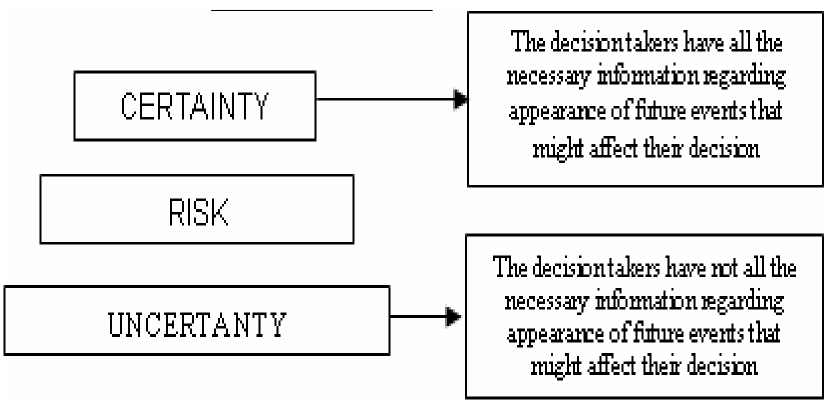

Figure no. 1
Risk, certainty and incertitude relationship

In the economic literature it distinguishes between risk and uncertainty, in the sense that risk requires knowing the probability of occurrence of adverse events, whereas uncertainty can not be assessed quantitatively. Depending on the nature of their affairs can be found a number of *risks* to an extent or other activity and company performance.

First the *political risks* take of governmental decisions in the countries involved in international transactions, which could result in loss or lack expected profits of partners; is protecțio-some measures, barriers to business, etc. However, this category includes local events and risks that impact on transactions (strikes, riots, etc.). A category of risk, which may be mentioned in context, is the cultural differences between partners induced in international transactions and the specific business environment in different countries. In this context we can talk and legal risks arising from differences in legal systems involved in international affairs and that manifests both during pre (difficulties in concluding the business) and during the execution of contracts. These risks are determined by differences in legal systems as such, but also the legal practice and the degree of compliance with contractual discipline in different countries. Finally, the political risks and risks are passed "natural", ie those which are determined by the scope of unforeseeable and irresistible event or phenomenon, such as natural disasters.

The technological risks are related to structure and development level of the base material in the partner countries, the role of new technologies, etc., with impact on costs and outcomes of economic activities. They are manifested in the production process (production risks) and have particular relevance for the more advanced forms of international transactions as are the cooperation in production,complex exports, overseas investment.

The economic risks (strictly speaking) refers to the macroeconomic imbalances that occur in macro-economic plan (high trade deficits, abnormal increases in prices of inputs, etc..) and which creates difficulties in the conclusion and operation of international business.

The commercial risks, which are actually the economic risks in the broad sense, refer directly to the enforcement of international commercial contracts. Specific to these risks is that due to unpredictable external factors (their occurrence is difficult or impossible to predict), and leads to imbalance within the relationship between contractual parties, which may reflect on the respect of contractual discipline.

The contractual risks are those which relate directly to the obligations assumed by the parties by contract, it may be improper execution of the contract (delivery obligations, such payments). As regards to the question of payment, unpayment risk is treated in literature as contractually risk or as a financial risk (risk of default).

The financial risks relate to currency- flows induced by international transactions and usually are classified in currency risk, short term nature (caused by exchange rate movements) and the risk of default with a contractual nature (as determined by the inability or unwillingness to pay of debtor's contract). Separately, in the treated group and risk caused by the movement of market interest rate, called in the literature of financial risks (in the narrow sense) or credit risk (in a different sense than the risk of default).

It should be noted that the speciality literature the risks frequently named above as commercial risks and contract risks are treated as a unitary category of commercial risks.

Identifying risks involves in-depth knowledge of the types of risks associated with management decisions. The risks that are facing a company involved in international affairs may be manifested in the form of micro-risks and macro-risks.

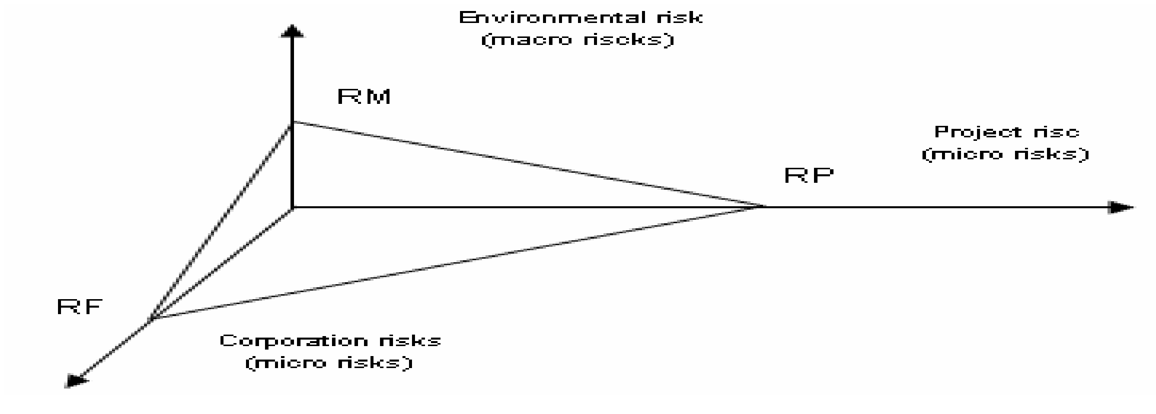

Figure no. 2

Risk types in international affairs

Seen from another point of view the risks in international business can be structured as:

Tabel no.1

Project risks	*Firm risks*	*Macro risks*	*Global risks*
Risk of non-payment	Employees risk	Country risk	Terrorism
Risks related to suplliers	Lost staff advantage for competitors	Transfer Risk	Cyber attacks
Price risk		Sovereign risk	Internet viruses
The risk of damage the goods		Political risk	Poverty
Theft risk		War risk	Environmental issues
Accident risk		Strike risk	Movements against globalization
Flood risk			
Risk of fire the goods			

Sizing of coordinated risk in international affairs

2.1. Interest risk

Before you see what generates interest volatility in international financial markets is important to understand how it works or purposes that risk on a company. The interest rate risk affects both creditors and debtors even if they were loans, fixed or variable (by using the LIBOR inter bank rate rule) as follows:

Creditors with variable interest: interest in international financial markets to fall significantly (receive less interest than expected).

Creditors with fixed interest: interest in international financial markets to increase significantly (to receive lower interest rate market).

Borrowers with variable interest: interests in international financial markets are in growth (credit will pay higher prices to its maturity).

Borrowers with fixed interest: interests in international financial markets are in significant decrease (credit will pay higher prices than the market rate when interest rates fall).

Forms of materialization of the interest risk can be presented as:

Tabel no.2

Position in credit contract	*Interest risk exposed*
Creditors with variable interest	Market interest to low significantly
Creditors with fixed interest	Market interest to increase significantly
Borrowers with variable interest	Market interest to increase significantly
Borrowers with fixed interest	Market interest to low significantly

Forms of materialization the risk of interest

Interest rate risk management is based on principles such as the existence of an approved system for managing interest rate risk (assessment methods, indicators, thresholds, reports, etc.) to form a balanced structure of assets and bonds according to type fixed or variable interest rate after period of maturity and / or interest rate change, control and compliance at all times of all limits and risk parameters associated with interest rate risk, monitoring the general level of interest rates based in the analysis of macroeconomic influence and other nature factors.

In order to assess interest rate risk, proceeding from the historical evolution of interest rates, it mould the model scenarios of deviation level, which is applied to the amount of assets and debt interest rate gap, indicate the sensitivity and potential impact on net interest income.

Changes in interest rates level can drastically affect the investment value of companies, whether these changes are related to increase or decrease of interest rates. From the perspective of the aggregate model we need those fluctuations are not the result of inflation in order to keep it as largely independent risk types. Of course, it is difficult to estimate the influence of inflation on interest rate changes, but it is not impossible to look separately influence factors and the possibility of separation can be expected in the possibility of limit their action.

2.2. The risk of exchange rates

Once the company has chosen to conduct transactions in foreign currency it "indicates" the exchange risk. It becomes necessary to manage an exchange position, which requires more monitoring currency rate movements. In this situation it requires:

Determination of exchange position

Currently, the most companies are driven in order to multiply foreign operations, purchases, sales, loans, lending, payments and receipts of dividends that may cause the exchange risk if they are made in foreign currency. The person who calculated position of a stock exchange must to make an inventory of such operations and to determine the events generating risk.

In general, international affairs are preceded by forecast shown, then by offers or issue of a catalog for an export - through calls for tenders for an import. Further, there are moments of order, the delivery of billing, collection, after which the sale or settlement of foreign exchange for purchase. This different period marks the entrance then the exit from different exchange risk.

International business practice has demonstrated that it must took account of exchange risk as soon as possible, ie during the show supply catalog, in order to see even forecast. However, accounting of exchange risk related to a transaction can be done only while the following four elements are known: size, currency, the precise date of the contract, the date "prescribed by regulation”. The items listed are all these operations that allow development of exchange position which has to respond to the following criteria:

RELIABLE: all its amendments are incorporated in the shortest time

CLEAR: easy to read and made daily

DAY: account daily.

The management position is complex while the number of currencies and operations increased. In fact, the treasurer shall use:

computer applications serve as the daily management of business and accounting services;

telematic resources (eg Reuter) disseminating buying and selling rates on the spot and forward foreign exchange and interest rates;

the most recent data on changes in terms, cancellations and changes to commitments.

Once assessed the net position on the day rate it is desirable to estimate the exchange rate developments. This estimate, in fact, serves as the basis of decisions taken in terms of risk management.

b.Estimation of exchange rate changes

The estimated development estimates assumed a structure to be implemented. Estimation of exchange rate changes can be made starting from two methods: economic analysis and statistical analysis.

Economic analysis. It is based on observations and research of economic indicators that can influence currency exchange rates studied. Among these variables, four are particularly important:

differences in inflation between the two partner countries;

spread real interest rates, interest rate, inflation rate;

balance of payments surplus;

assessing the economic, social, financial and political country.

This method is used for medium-term forecasts, but the economic laws governing them must have time to act.

The statistical analysis is a method which aims at determining the trend turning points. It uses:

math with string variables subordinate to research in evolution rates;

analytical method based on mobile media quotes during a more or less long period (one week or one year);

graphical method seeking to recognize, to the course curves, the figures related to items returned to trends tend to repeat.

The three tools above, parts of the principle by which the past has sufficient data to predict the future whatever the term; they can also be used for predictions for a short maturity. The company can confirm the exchange rate using the services of his bank and numerous expert bodies (Berkeley Consulting Group, Henby Center Amex Bank, BI Metrics, Brown Brothers Harriman, Predex, Citibank). It may also subscribe to the magazine Cambie or in the newspaper "Financial Newspaper" that's supply at regular intervals, rates of "intervention" on which may or may not charge a currency or another

All firms carrying out business or financial operations engaged in foreign currency face a purpose connected with the change of parity between the currencies. Often, a variation of several points at the exchange rate may call into question the profitability of business handled. Also, once payment currency trading service are negotiated by the company's treasurer is required to assess the risk of exchange.

Choice of payment estimates. Any transaction between an exporter and a buyer has the effect of putting an automatic exchange of the two positions. It will have to make an exchange operation at the time of regulation.

Firms must to arm against the risk caused by changes in currency invoicing or accepting the transactions take place in its national currency or to accept this risk by using currency. To bring elements of answer to this question, must be sighted advantages and disadvantages of these two possibilities.

Advantages and disadvantages of ron and foreign currency invoicing. Taking into account the consequences of a billing company in Romanian lei assumed to choose the currency, which is not always possible.

In fact, this situation causes for the foreign exchange risk. It will not permitted unless:

Romania is in a position of strength/force because the benefits from the other side to get the transaction are important. For example: quality of product or service, price competitiveness, long-term adjustment, fast execution time, service after sales performance;

final cost will be lower (second case involved the purchase of ron depreciation or appreciation in the event of a sale).

2.3. The price risk

This is a typical term risk, which has particular relevance for primary products used in production. It refers to the effects it has on the equilibrium contract price changes in commodity market which the contract between the time the agreement will, and when executing the obligation of delivery. Risk matters worse because the period between the conclusion of the contract and make delivery is higher.

Considers several key issues related to conducting international operations: international transactions have high value, complete international transaction takes more than one transaction on the local market, most of these transactions are carried out based on commercial loans (the exporters expected importers pay up to a maturity that can reach up to a year, usually being up to 180 days); very often to facilitate an export order are involved important advances.

Price risk takes forms such as: significant changes in commodity prices on international markets or the local market; the significant changes in the price of finished products in international markets or local market.

Some specialists include in this venture the material changes of the wage cost in variable cost structure associated with the production for export. If these changes are significant they can make it difficult to complete the transaction (importers are buying time when they have to pay initially more expensive than goods purchased on payment, while exporters are buying time when they need to deliver the goods whose prices increased on international markets compared with the price negotiated in the contract).

Depending on the position in the contract we have some risky situations:

Export with term collection: price on international markets to increase significantly versus the price of the contract between the time signature of the contract or time of delivery and payment (the exporter has sold the products too a low then necessary price);

Import with payment term: international market price to decline significantly from the contract price between the time signature of the contract or time of delivery and payment (the importer must pay much more expensive imported products it than the current market);

Export with the collection in advance: the price on international markets to increase significantly the price of the contract between the time of receipt of merchandise and delivery;

Import with payment in advance: the price on international markets to fall significantly between payment moment and moment when goods reach their destination.

Tabel no.3

Pozition in international contract	*Price risk they run*	*The perioad for which this risk is*
Exporter of the term collection	Price to increase	Between the moment of delivery and moment of payment
Importer with payment term	Price to decrease	Between the moment of delivery and

		moment of payment
Exporter with collection in advance	Price to increase	Between the moment of advance payment and moment of delivery
Importer with payment in advance	Price to decrease	Between the moment of payment and the moment of delivery

Forms of price risk materializing in international contracts

The time for which is made the price risk analysis is different when it is about the different payment or prepayment of external contracts. A special problem arises when delivery is made after signing the contract (at a time far beyond the time of pricing the contract): if the exporter is already in stock merchandise will be afraid of falling prices baseline (not to sell too cheaply these stocks to market conditions since the execution of the contract) if the exporter does not have merchandise in stock will be afraid of price increases between the signature time of the contract and its execution time (having to buy goods at contract maturity of the market more expensive than when signing the contract).

3. Conclusions

In a company involved in international affairs the key to success is to understand and avoid risks in the external environment facing it and the capacity of its internal resources to face these risks.

For *more effective management* of the three treated risks above information should be considered to highlight the actual or potential risk in one, clear and unambiguous manner, the availability of guidance on the likelihood of an event related to those risks to occur and indicate the potential strength risk impact on the company.

All the companies conducting international business are affected in some way affected in one way or another of the three financial factors: exchange rate, interest rate and price of goods. The interest rate has always attracted attention of many specialized tests, but attention can not be neglected even for exchange rates or the prices of goods.

In the practice of international trade interest rate risk, exchange rate risk and price risk are challenges for each economic entity by the very fact that these risks can never be completely eliminated from the life and business activity. This challenge is taken up differently by each company based on its behavior and attitude towards risk. Too often the three risks become a complex financial category, difficult to assess and manage, with both as they relate to operations carried out under international trade frame.

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