Companies look at the host country’s current or future political system to assess the political risk. However, international businesses always face some political risk. If you operate a Canadian company, foreign customers may be unable to pay in full and on time because of instability from currency controls imposed by the government.

Types of Political Risk
A company needs to evaluate all of these issues when analyzing level of political risk in a country. Companies must consider the safety of both their products and their people in unstable political situations.

- **Risk of General Political Instability**: General political instability may not be considered serious enough to cause investors to withdraw from a country. However, general instability risk raises uncertainty about Canadian projects overseas.
- **Ownership Risk**: when operations are threatened by government takeover or expropriation, owners may lose their offshore property. This is referred to as protectionism and nationalization of business.
- **Operations Risk**: Government policies of the host country may impede business operations such as finance, marketing, or property. These policies are known as operations risk.
- **Transfer Risk**: government policy may adversely affect currency exchange rates. When policy results in currency devaluation or economic downtime which can affect a company's ability to transfer capital out of the host country. When a company creates wealth in another country it may be forced to return a considerable amount to the country’s government. This process is known as repatriation of earnings.

Even if a company cannot know in advance the scope of the risks, if it can predict the possibility of risk, provide for it, and still project a profit, its venture may be ready for approval. There are a number of questions that the company should ask itself:

1. *Is terrorism part of the political landscape?* Terrorism, civil unrest, and the overthrow of governments can seriously affect the international business community.
2. *Could extremist groups pose a danger to the general stability of society?*
3. *Has there been a withdrawal of freedoms?* If the country’s nationals are treated in this way, foreign companies doing business there could find themselves having to conform to restrictive laws. Withdrawal from freedoms is a signal of unstable government and risk. As the government tries to protect a weakening hold on power, it becomes more controlling.
4. What, if any, is the military’s role in government? If it is in power, how firm is its grasp on power?
5. Is corruption part of the business ethic? Could a company find itself having to make higher and higher payments to officials?
6. Could religious or ethnic pressures lead to civil strife and endanger employees or property?

Evaluating Political Risks
Managers seeking to do business in other countries need to research and find answers to the following questions about the political situation in the target or host countries:

- What are the chances of political and economic instability in the host country over the next five years?
- What agreements are in place between the Canadian government and the host government regarding Canadian investments?
- How committed is the current government to the rules of ownership rights?
- When is the next election or how long will the current government stay in place?
- If a new government were to emerge, how would its platform and ideology change the current state of business affairs?
- Would a new government be likely to propose changes in policies that would affect the country’s way of doing international business?
- How would changes in government affect the profitability and safety of an international project?

Consequences of Terrorism
Terrorism tends to occur when least expected and becomes a greater concern when open borders make it easier for terrorists to carry out their plans. When a terrorist attack takes place it not only instills fear into people but it also has many other negative consequences on a country’s economy and its businesses. Other things are affected as well like transportation, security and travel.

Evaluating Legal Concerns
Laws and regulations differ from one country to the next. When doing business in a foreign country, you must obey the laws from that country make work safe for workers. They may make cost greater for business.