

## INTERNATIONAL TRADE AND FINANCE MASTERCLASS

PART 15 OF 25 · SECTION VII: COUNTRY RISK, TRADE AGREEMENTS, AND LEGAL ARCHITECTURE

# PART 15

## COUNTRY RISK, EMERGING MARKETS, AND FINANCIAL CRISES

*How to quantify, price, and survive the risks that come with operating globally — country risk assessment frameworks, sovereign credit analysis, managing through currency crises and hyperinflation, the Argentina playbook, and political risk insurance.*

### IN THIS PART

- Country risk — the four components and how to measure them
- The country risk premium in your discount rate
- Political risk insurance — MIGA, DFC, and Lloyd's
- Currency inconvertibility and capital controls
- Hyperinflationary accounting under ASC 830 and IAS 29
- The Argentina CFO playbook — 2001, 2018, and 2023

### CASE STUDIES

*Each part includes fully worked case studies with detailed calculations, real-world context, and practical lessons for CFOs and finance leaders.*

## ■ THE GEOGRAPHY OF FINANCIAL RISK

### Why Country Risk Is a Financial Discipline, Not Just a Political One

When a company decides to enter a new country market — whether through exports, a sales office, a manufacturing facility, or an acquisition — it is making a financial decision with a set of risks that go far beyond the standard business risks of a domestic transaction. The risk that a foreign government will change the rules, seize assets, restrict currency movements, or simply default on its obligations is not a remote theoretical concern. It is a recurring feature of international business that has cost multinational companies hundreds of billions of dollars over the past century.

The CFO's job is not to avoid all country risk — that would mean avoiding many of the world's most attractive growth markets. The CFO's job is to understand country risk precisely, price it into the return requirement for investments in

that country, structure the business to minimize exposure to the worst outcomes, and build contingency plans for scenarios that cannot be avoided.

## The Four Components of Country Risk

Risk Component	Definition	Key Indicators	Mitigation Tools
Political Risk	Risk of government actions adversely affecting business — expropriation, regulatory change, political violence, contract frustration	Government stability, rule of law, corruption index, expropriation history	Political risk insurance (MIGA/DFC), BIT protections, local partner structures
Economic Risk	Risk that poor economic management creates conditions harming business — recession, fiscal crisis, debt default	GDP growth, inflation rate, fiscal deficit, debt/GDP ratio, current account	Scenario analysis, pricing buffers, short-term contracts, avoid local currency debt
Financial Risk	Risk of currency depreciation, banking instability, or inability to remit funds	Currency volatility, reserve adequacy, banking capital ratios, CA deficit	FX hedging, natural hedges, early dividend repatriation, hard currency invoicing
Legal/Regulatory Risk	Risk that legal system fails to protect contracts and property, or that regulation changes adversely	Contract enforcement time, judicial independence, regulatory transparency, IP protection	Arbitration clauses (ICC/SIAC), choice of law, BIT ISDS protections

## Quantifying Country Risk: The Discount Rate Approach

One of the most practical applications of country risk analysis is the adjustment of the discount rate used to evaluate investments in different countries. An investment in Germany with a ten percent expected return should be evaluated against a much lower hurdle rate than an investment in Nigeria with the same expected return, because the German return is far more certain. The mechanism for capturing this difference is the country risk premium — an additional percentage added to the discount rate to reflect the incremental risk of operating in that country.

## ◆ COUNTRY RISK PREMIUM CALCULATION

## COUNTRY RISK PREMIUM – DISCOUNT RATE CALCULATION

BASE WACC (US domestic operations): 9.5%

CRP FORMULA (Damodaran method):

CRP = Country Default Spread x (Equity Volatility / Bond Volatility)

## NIGERIA INVESTMENT:

Nigeria CDS spread: 650 bps (6.50%)

Nigerian equity vol: 28% | Bond vol: 18%

CRP:  $6.50\% \times (28\%/18\%) = 6.50\% \times 1.556 = 10.11\%$

**Nigeria WACC:  $9.5\% + 10.11\% = 19.61\%$**

## GERMANY INVESTMENT:

Germany CDS spread: 15 bps (0.15%)

German equity vol: 18% | Bond vol: 12%

CRP:  $0.15\% \times (18\%/12\%) = 0.15\% \times 1.50 = 0.23\%$

**Germany WACC:  $9.5\% + 0.23\% = 9.73\%$**

## INVESTMENT IMPLICATION:

**A \$10M project at 12% expected return:**

**In Germany: NPV POSITIVE (12% > 9.73% hurdle)**

**In Nigeria: NPV NEGATIVE (12% < 19.61% hurdle)**

**The same project is value-creating in one country**

**and value-destroying in another purely due to country risk**

## Operating in Hyperinflationary Economies

Under ASC 830 and IAS 29, an economy is considered hyperinflationary when cumulative inflation over three years approaches or exceeds one hundred percent — roughly twenty-six percent per year compounded. When a country meets this threshold, financial statements of the hyperinflationary subsidiary must be restated in terms of the measuring unit current at the balance sheet date before being translated. The practical challenges extend far beyond the accounting: pricing goods in a currency losing value rapidly, maintaining purchasing power of cash balances, managing supplier relationships where costs change weekly, and persuading customers to pay quickly enough that the payment retains its value.

## 01

## CASE STUDY 1

**ConsumerBrands Argentina***The Complete Argentina Crisis Playbook — 2019 to 2024***Background**

ConsumerBrands Argentina is the Argentine subsidiary of a US consumer goods multinational. Over the period from 2019 to 2024, Argentina experienced multiple currency crises, annual inflation exceeding two hundred percent, and increasingly severe capital controls. This case study documents the complete financial management playbook applied to preserve value.

## ◆ ARGENTINA CRISIS MANAGEMENT PLAYBOOK

## ARGENTINA CRISIS — FINANCIAL TIMELINE AND MANAGEMENT

2019: ARS/USD 60 | Inflation 54% | Managed float  
 2020: ARS/USD 81 | Inflation 42% | Capital controls begin  
 2021: ARS/USD 103 | Inflation 51% | Strict controls  
 2022: ARS/USD 177 | Inflation 95% | Multiple FX rates  
 2023: ARS/USD 800 | Inflation 211% | Hyperinflation declared  
 2024: ARS/USD 1040 | Inflation 120% | Partial unification

## TRANSLATION LOSS (same peso amount, different USD value):

2019: ARS 1.2 billion / 60 = \$20,000,000

2023: ARS 1.2 billion / 800 = \$1,500,000

CTA LOSS OVER 5 YEARS: (\$18,500,000) — all in OCI

## OPERATIONAL MANAGEMENT ACTIONS:

Pricing: Monthly CPI-indexed contracts

Cash: Minimum ARS held — excess into USD-linked instruments

Payables: Extended DPO — pay later in devalued pesos

Receivables: Aggressive DSO reduction — 45 to 15 days

Inventory: Higher levels — real assets beat cash

## REPATRIATION STRATEGY:

Pre-crisis: Maximized dividends before controls tightened

During controls: Royalties, management fees, loan repayments

Total repatriated 2019-2023: \$12,400,000

Cash still in Argentina (2024): \$3,200,000

## 02

## CASE STUDY 2

## Meridian Mining Corp.

*Bolivian Expropriation — ICSID Arbitration and Partial Recovery***Background**

Meridian Mining Corp. operated a silver and zinc mine in Bolivia for eleven years under a concession agreement representing an investment of approximately one hundred and forty million dollars. In 2012, the Bolivian government expropriated the mine as part of a broader nationalization program. Meridian filed for ICSID arbitration under the Bolivia-Netherlands Bilateral Investment Treaty, routing the claim through its Dutch holding company.

## ◆ BIT ARBITRATION — RECOVERY ANALYSIS

## MERIDIAN — BIT ARBITRATION OUTCOME

Original investment: \$140,000,000  
 DCF value at expropriation: \$320,000,000  
 Bolivia's initial compensation offer: \$85,000,000

## ICSID AWARD (2018 — 6 years after filing):

Tribunal's mine valuation: \$190,000,000  
 Award with interest: \$198,000,000

## NET RECOVERY ANALYSIS:

Award: \$198,000,000  
 Less: legal fees (6 years): (\$28,000,000)  
 Less: arbitration costs: (\$8,000,000)  
 Time value: \$85M initial offer had 8% hurdle for 6 years  
 Opportunity cost:  $\$85M \times (1.08^6 - 1) = \$49,900,000$   
 Effective recovery:  $\$198M - \$28M - \$8M - \$49.9M = \$112,100,000$   
 Cents on the dollar vs. DCF value: 35 cents

## MIGA INSURANCE ALTERNATIVE:

Had Meridian bought MIGA expropriation insurance:  
 Cost:  $\$140M \times 1.5\%/yr \times 11 \text{ years} = \$23,100,000$   
 MIGA would have paid 95% of covered loss promptly  
 No 6-year wait, no \$36M in legal and arbitration costs  
 Net recovery: significantly higher and much faster

## 03

## CASE STUDY 3

**Global Manufacturing Corp.***Country Entry Checklist — The Financial Assessment for Entering Vietnam***Background**

Global Manufacturing Corp. is evaluating establishing a manufacturing subsidiary in Vietnam to serve Southeast Asian markets and reduce Section 301 tariff exposure on China-sourced goods. The CFO uses a structured financial assessment framework to evaluate the opportunity across seven financial dimensions before committing capital.

## ◆ VIETNAM ENTRY – FINANCIAL ASSESSMENT

## VIETNAM ENTRY – FINANCIAL ASSESSMENT FRAMEWORK

## 1. COUNTRY RISK PREMIUM:

Vietnam CDS spread: 180 bps | CRP: approximately 2.8%

Investment WACC:  $9.5\% + 2.8\% = 12.3\%$

## 2. CURRENCY RISK (VND):

VND/USD historical volatility: 2-3% per year (managed float)

Mitigation: USD-denominated export contracts

Residual VND cost exposure: manageable with forwards

## 3. TAX STRUCTURE:

Corporate income tax: 20% (standard)

Special economic zone rate: 10% for first 15 years

Transfer pricing: OECD-aligned rules in force since 2017

## 4. REPATRIATION:

Dividends: permitted after tax; 0% WHT (no tax treaty needed)

Profit remittance: no restrictions on current account

## 5. TARIFF BENEFIT (vs. China):

CPTPP member – 0% duty to Japan, Canada, Australia

GSP benefits for US imports – most goods 0-3.5%

vs. China Section 301: 25% on same product categories

**Annual tariff saving (on \$65M imports): ~\$14,850,000**

## 6. INVESTMENT COST:

**Factory construction: \$28,000,000**

**Equipment transfer/qualification: \$4,200,000**

**Working capital funding: \$6,800,000**

**Total investment: \$39,000,000**

## 7. NPV AT 12.3% WACC:

**Annual benefit (tariff + labor savings): \$17,200,000**

**5-year NPV:  $\$17.2\text{M} \times \text{PV annuity}(12.3\%, 5\text{yr}) = \$61,800,000$**

**Less investment: (\$39,000,000)**

**NET 5-YEAR NPV: \$22,800,000 – STRONG POSITIVE**