Foreign Direct Investment in High-risk Environments: An Historical Perspective

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Abstract
Since the Banking Crisis of 2008 the global economy is perceived as riskier than before. Flows of foreign direct investment have contracted. Firms that cannot manage risks have withdrawn from countries in which they previously invested. These problems are not new. For centuries firms have invested in risky foreign environments, and many of them have succeeded. This paper reviews the risk management strategies of foreign investors. Using archival evidence and secondary sources it distinguishes the different types of risks that investors face and the different strategies by which risks can be managed. It investigates which strategies are used to manage which types of risk. It shows that strategies to prevent and mitigate risk are key to survival, and examines the specific measures that can be used. While drawing on the theory of international business it shows that, in the light of historical evidence, the theory is too narrow in the range of risks it discusses and in the range of strategies it recommends.