

International trade risk management under the impact of globalization

Mariia Nezhyva^{1*}, *Olha Zaremba*¹ and *Viktoriiia Mysiuk*¹

¹Kyiv National University of Trade and Economics, Financial analysis and audit department, 02156, 19, Kyoto str., Kyiv, Ukraine

Abstract. Doing business in condition of international trade, a stable and competitive business environment is vital to operate efficiently and attract inward investment. Businesses can assess these factors alongside challenges such as corruption, political instability and terrorism to understand the strengths and weaknesses of an operating environment and for strategic investment decisions. In terms of open economy and globalization trends, business faced a lot of different challenges with their specific risks, hence an effective risk assessment approach and management is extremely vital for economic security of business and especially for all country doing business with other countries trying to succeed. The article presents risk management plan content that helps to structure business risk management process and provide with the measures how to deal with risks.

1 Introduction

International trade and its impact on economic growth depend significantly on the globalization process. Economic success of any country in the world is based on foreign trade. No country has yet managed to create a healthy economy by isolating itself from the world economic system. The mechanism implementation of world economic relations is global the market as a sphere of established economic relations, based on the international division of labor and are manifested through such forms of international economic relations as international trade, international capital movements, international labor movement, international technology transfer, international settlements and currency and credit operations, international integration. However, the main and central link of the world economy.

Understanding the structure, health and potential risks of an economy are important for decision-making within an existing operating environment as well as for expansion strategies. Real GDP growth, inflation and exchange rate fluctuations will directly impact consumer market potential. Import and export trade profiles help gauge how open an economy is to trade and investment, while government finances can be used to explore macroeconomic stability and susceptibility to economic shocks.

* Corresponding author: marijka@ukr.net

2 Analysis of recent research and publications

Issues of international trade as a complex phenomenon studied by domestic scientists, including I. Dakhno, T. Tsygankova, L. Melnik, I. Tyvonchuk, M. Kovalchuk, V. Gorchakov and other. Berdar M., Kot L. [1] claim, that avoiding risk situations will mean rejection of profit-making, so management of risks is of particular relevance in a crisis. Crisis risk management is a comprehensive management system aimed at preventing risks and eliminating crises in the enterprise, as well as to minimize their negative consequences. Oleshko T., Boyko Yu., Rudyk M. [2] claim, that risk management, as well as the resolution of each crisis is individual and specific. It is associated with different circumstances, is performed in different conditions and is accompanied by different events. Such a process requires extensive practical experience and professional knowledge in various fields.

Currently, addressing risks and managing crisis situations is considered an important task for every manager. Suska A., Kharchenko T. [3] claim, that a prerequisite for an effective risk management system are the following components: awareness of risk-taking; personal responsibility of each participant of risk management; precise formulation of the purpose of risk management; reliability, objectivity, accuracy, reliability of information; coverage of risk management at all hierarchical levels of management; independence of individual risk management; minimization of the magnitude of possible risks and the degree of their impact. Sudomyr S. [4] claim, that economic security and risk are two interrelated and interdependent economic categories and processes. A high level of economic security will be determined by the level of effectiveness of the risk management system. Dergachova V., Rudnitska Yu. [5] claim, that improving the risk management system through their detection, timely assessment, analysis, monitoring, and minimization measures improves the company's performance and reduces the level of occurrence and the number of possible losses in the enterprise. The priority tasks of management are the assessment of possible risk, identification of risk factors, as well as the choice of risk management methods. Pylnova V. et al. [6] claim, that the need to form and develop a business risk management system is determined by the presence of threats or opportunities due to the impact on the presence of external and internal factors due to the nature of interaction between owners and top managers in the corporate governance system.

The existence of such an impact requires the creation and implementation of certain control mechanisms that will prevent or limit the consequences of the implementation of this impact in specific risk events. Gevrek Yu. [7] claim, that for the effective functioning of any enterprise one of the key factors is the formation of a clear and balanced risk management system in both theoretical and practical sense. At the same time, protection against risks for the company provides a number of advantages, including the ability to attract investment and development of the company, obtaining loans, increasing profitability, competitiveness and maintaining market positions. Nazarova K., Nezhyva M., Lositska T., Miniailo V., Novikova N. [8] claim, that topical issues of business protection through the prism of forensics (financial investigations). This new line of financial fraud and fraud investigation services is used to investigate and assist clients in identifying the facts and causes of fraud that may occur due to the absence or inadequate and ineffective system of internal control. Nazarova K., Zaremba O., Kopotienko T., Mysiuk V. [9] claim, that the European integrational vector of Ukraine's development significantly enhances the requirements for the quality of enterprises' financial reporting that are subjects of public interest, and obliges them to build an effective system of internal control due to the open economy conditions and business challenges, the availability of a reliable information environment, which would create unquestionable guarantees of investment preservation, becomes significant for the owners of invested capital.

International trade belongs crucial role among other forms of international economic relations at the present stage of development of the world economy. In the conditions of global economy transformation international trade is the most important mean state budget receipts. In this regard, it is necessary to consider modern features of international trade development and reveal the main factors of its growth under the impact of different risks that should be considered by risks management process.

3 The purpose of the article

The purpose of the article is to study the state of current trends in international trade development, determine all factors influencing the business international trade and develop procedures to international trade risk management with aim to provide stable business and country economic growth.

4 Main research

Understanding the structure, health and potential risks of an economy are important for decision-making within an existing operating environment as well as for expansion strategies. Real GDP growth, inflation and exchange rate fluctuations will directly impact consumer market potential. Import and export trade profiles help gauge how open an economy is to trade and investment, while government finances can be used to explore macroeconomic stability and susceptibility to economic shocks.

The economic landscape is a landscape that has been created by mankind, and is the physical expression of our varied economic activities: agriculture, mining, manufacturing, services of different types. The economic landscape is a system of market networks created by sales zones in a certain territory, and on which a given volume of demand is satisfied with the lowest cost. The economic landscape theory proposes a territorial organization that maximizes producers' profits. The economic landscape is a system of conjugated regular hexagonal grids with cells of various sizes, which are the base of the demand cones. Demand decreases from the center of the market area to its periphery as a result of a proportional increase in transport costs. Zone boundaries are consumer neutral preferences for different production centers. Market areas of products have different sizes, which means they form different spatial orientations of the networks. Rich and poor production centers (sectors) are formed. Economic Landscape of the world showed that GDP in PPP terms was 40 th in the world in 2020; GDP per capita was 95 th in the world in 2020 (Figure 1).

Gross Domestic Product (GDP) is a macroeconomic indicator reflecting the market value of all final goods and services produced per year in all sectors of the economy on the territory of the state for consumption, export and accumulation, regardless of the nationality of the factors of production used.

Nominal GDP is GDP calculated at current prices, in prices for a given year. The value of nominal GDP is influenced by two factors: a change in real output and a change in the price level. Real GDP is GDP measured in comparable (constant) prices, in prices of the base year. At the same time, any year can be selected as the base year, chronologically both earlier and later than the current one. Real GDP growth in world for the period 2010-2040 presented in Figure 2.

The current account surplus of the balance of payments in 2020 amounted to 6.2 billion dollars. US (4.0% of GDP) compared to a deficit of 4.1 billion dollars. USA (2.7% of GDP) in 2019. The COVID-19 pandemic had a significant impact on imports of goods and services, which decreased by 17.9% (increased by 7.8% in 2019), while exports of goods and services decreased by only 4.5% (increased by 7.4% in 2019) [10].

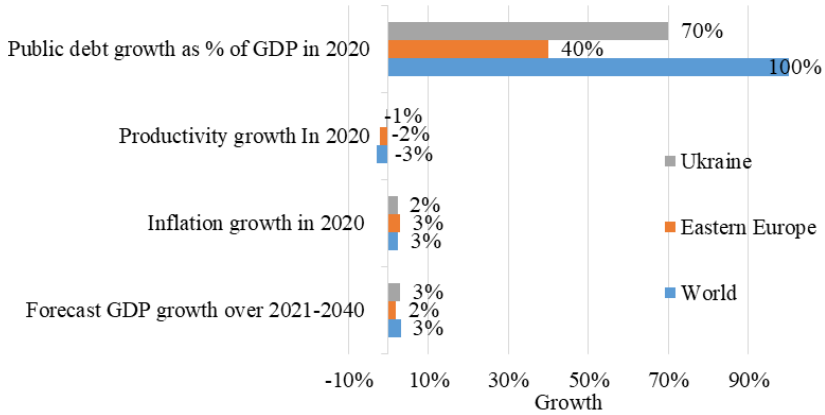


Fig. 1. Economic Landscape in 2020-2040 (Note: Data for 2021-2040 are forecasts).

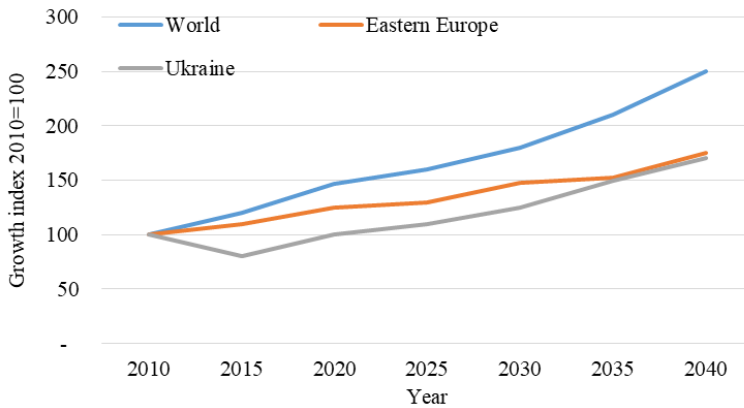


Fig. 2. Real GDP Growth in 2010-2040 (Note: Data for 2021-2040 are forecasts from the Euromonitor International Macro Model).

In general, in 2020 the consolidated balance of payments was formed with a surplus of \$ 2.0 billion. US (in 2019 - 6.0 billion US dollars). The formation of a consolidated balance sheet surplus together with net borrowings from the IMF (USD 975 million) led to an increase in international reserves to USD 29.1 billion. US, which provides financing for future imports for 4.8 months. Foreign Trade Landscape of Ukraine presented in Figure 3 [10].

Deployment of the COVID-19 pandemic in the world, which caused significant changes in the life of many countries (strengthened the role of public administration in emergencies; introduced sanitary and epidemiological measures; restrictions on the movement of citizens and their work; introduced distance forms of education and work).

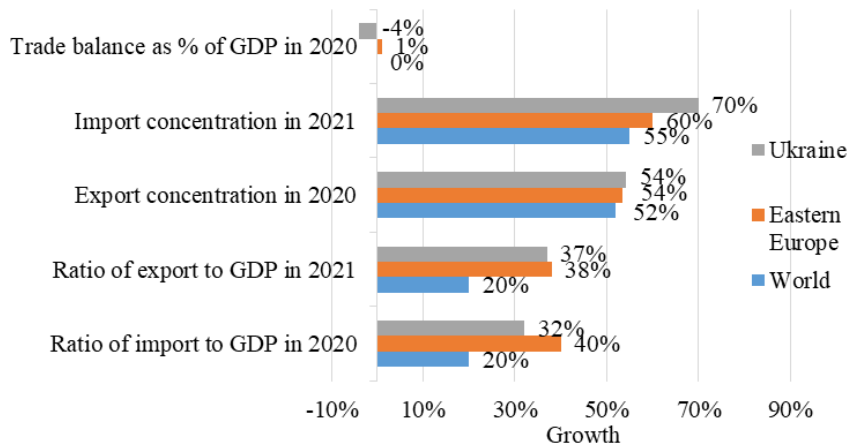


Fig. 3. Foreign Trade Landscape of Ukraine in 2020 (Note: Data for 2021 is forecasts).

Declining business activity of industrial enterprises and reduction of production in all countries where measures are taken against the spread of COVID-19, which led to a global decline in demand and, consequently, falling prices in world commodity markets.

Significant raw material orientation of Ukrainian exports and significant dependence of domestic enterprises on the foreign market, given the existing volatility of world markets, which determines the dependence of foreign exchange inflows on external price fluctuations. Exports of goods and services in 2020 decreased by 7.8% (by 5.0 billion dollars) compared to 2019 and amounted to 59.0 billion dollars (Fig. 4) [10].

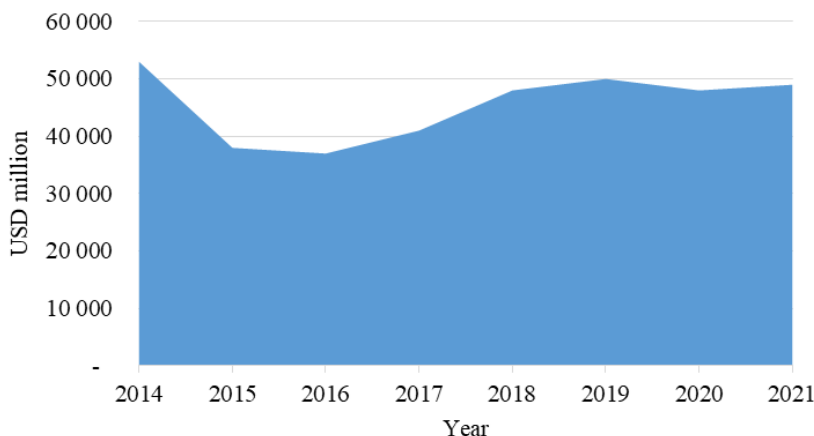


Fig. 4. Exports in Ukraine: 2014-2021 (Note: Data for 2021 is forecasts).

The decrease in exports of goods took place in the following product groups: products of the metallurgical complex - by 1.2 billion dollars (11.9%), engineering products - by 121.8 million dollars (2.2%), light industry products - by 106.3 million dollars (9.0%), wood, pulp and paper products - by USD 23.4 million (1.3%). At the same time, there was an increase in exports of goods by the following product groups: mineral products - by 465.5 million dollars (9.6%), various industrial goods - by 64.2 million dollars (4.1%), products of agro-industrial complex and food industry - by 55.0 million dollars (0.2%), products of the chemical and related industries - by \$ 50.5 million (1.9%).

The largest share in Ukrainian exports belongs to: agricultural products and food industry (45.1%); products of the metallurgical complex (18.3%); mechanical engineering products (11.0%); mineral products (10.8%); products of the chemical industry (5.5%) (Fig. 5) [10].

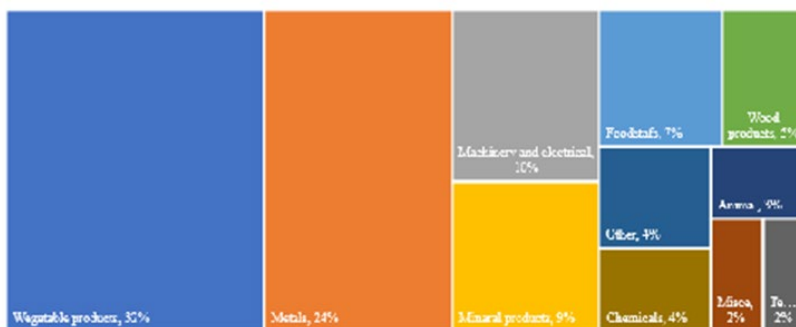


Fig. 5. Exports by Commodity in Ukraine, 2020

Exports of goods decreased to the following countries: Africa - by 18.6%; CIS - at 12.1%; Europe - by 10.4%. Exports of goods increased to the following countries: Asia - by 20.0%; Australia and Oceania - by 13.8%; America - by 5.5% (Fig. 6) [10].

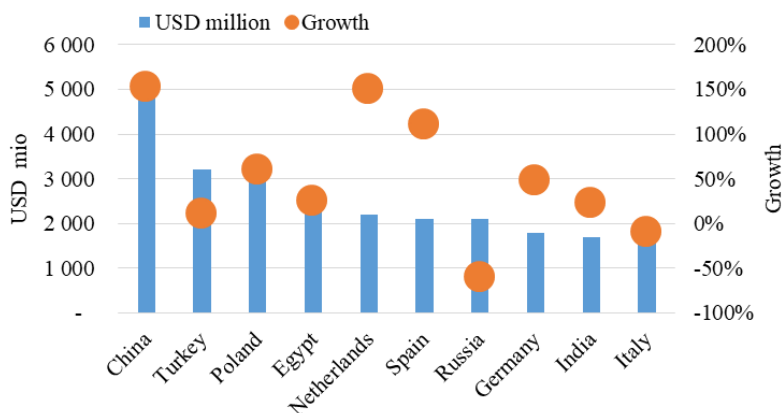


Fig. 6. Top 10 Export Destinations, 2020.

Imports of goods and services in 2020 decreased by 12.5% (\$ 8.4 billion) compared to 2019 and amounted to \$ 59.3 billion (Fig. 7). The decrease in import revenues in 2020 was due to the following product groups: mineral products - by 4.6 billion dollars (35.3%), engineering products - by \$ 2.0 billion (9.7%), products of the metallurgical complex - by 523.1 million dollars (14.3%), products of the chemical and related industries - by \$ 307.4 million (2.8%), light industry products - by USD 164.9 million (5.3%), various industrial goods - by \$ 0.2 million (0.01%). At the same time, there was an increase in imports of goods by the following product groups: agricultural products and food industry - by 759.4 million dollars (13.2%), wood, paper pulp and wood products - by USD 104.1 million (7.9%) [10].

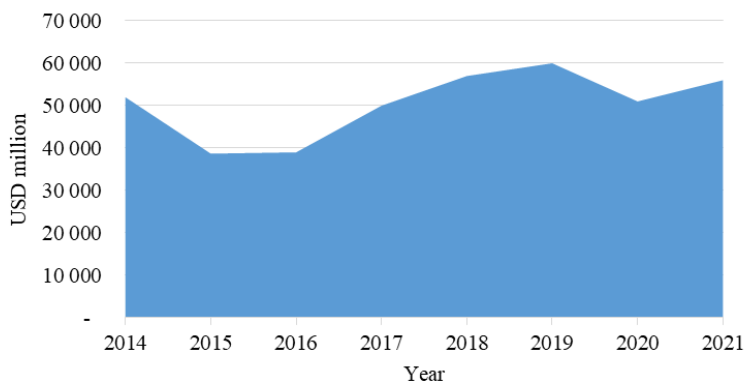


Fig. 7. Import in Ukraine: 2014-2021 (Note: Data for 2021 is forecasts).

The largest share in total imports falls on: engineering products (34.3%); products of the chemical industry (19.9%); mineral products (15.5%); products of agro-industrial complex and food industry (12.0%); products of the metallurgical complex (5.8%); light industry products (5.5%) (Fig. 8) [10].

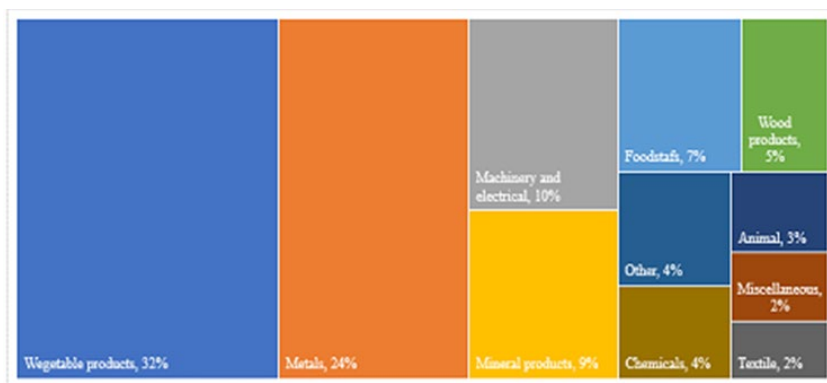


Fig. 8. Import by Commodity in Ukraine: 2020.

EU countries are Ukraine's largest trading partners. The share of these countries in the foreign trade turnover of goods and services of Ukraine in 2020 was 40.7%. Ukraine's main trading partners are also China, the United States and Turkey. They account for 13.3%, 4.9% and 4.6% of the foreign trade turnover of goods and services in 2020, respectively (Fig. 9) [10].

The foreign economic activity of the enterprise is associated with the need to make risky management decisions that can bring losses or additional profits. It is important to learn how to manage foreign economic activity risks, as almost 40% [11] of commercial transactions fail due to insufficient consideration and management of these risks.

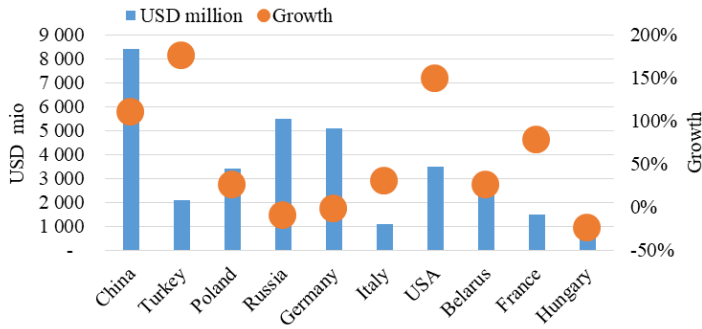


Fig. 9. Top 10 Import Destinations: 2020

To ensure business and economy stability under the impact of globalization, companies should follow internally developed International trade plan risk management. To gain the effective risks management, companies should follow lading world associations and instruction in this area. One of them is Project Management Institute (PMI) which is the world's leading association for those who consider project, program, or portfolio management important, provides a lot of instruction how effectively deal with the different business risks [12].

Growing tendency to open economy and increasing volumes of international business means that business face a lot of risks that should be managed effectively to perform economy growth. Below is investigation of risk categories, that could be faced and are extremely important especially doing integrational business (Table 1) [13].

Table 1. Business risk categorization.

Risk group			
Technical risk	Management risk	Commercial risk	External risk
Contract content developmentn in terms of technical issues	International project management	Agreed conditions and statements	Legislation
Define requirements	International program or portfolio management	Internal and external logistics	Currency exchange rates
Assessments and assumption	Operational activity management	Suppliers and sellers	Production facilities
Discovering of technical process	Provision of resources	Counterparties	Weather and ecology
Discovering of alternative technology	Communication	Stability of client or customer	Competition
Technical interfaces	Organization of international business	Partnership and common business	Region

Each of pointed above risks have direct impact on business success. Each of them could have quantitative and qualitative assessment. Quantitative assessment require special programming, could assess only risk in the exact date and could help managing schedule and project cost. To provide quantitative assessment we could use decision tree analyzing that represents possible scenarios analysis to compare. Qualitative risk assessment is the process of risks prioritization for further analysis of the impact on business. For qualitative analysis it could be developed probability and impact matrix that shows the level of risk impact and it probability to arise. Based on this information it could be developed risk

register depending on the level of business impact and should be identified measures to prevent and overcome it. To control business risk, it should be developed trade risk management plan which have to cover a wide list of issues referred to dealing business in open economy (Fig.10).

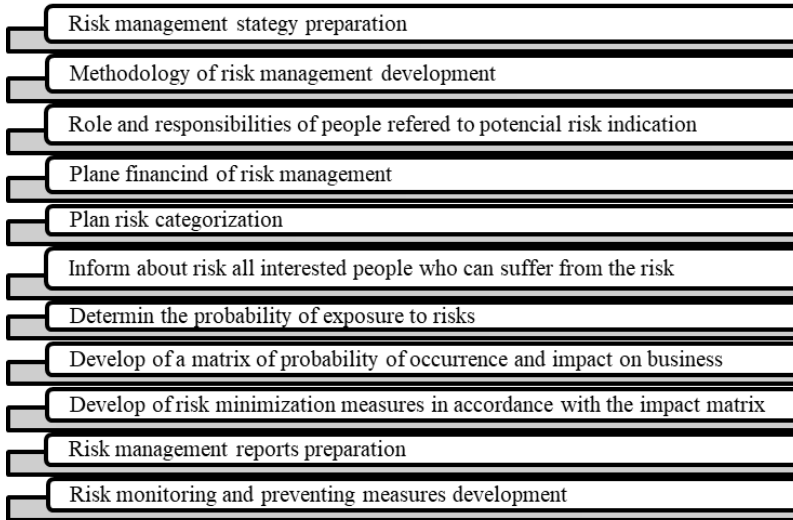


Fig. 10. Risk management plan content

After identifying and assessing risk impact on business, there are several ways to deal with:

- avoid risk – stop activity risk referred to, change plan and goal review;
- mitigate risk – use measures that help reduce the probability of risk;
- transfer risk – means distribution or full risk transfer for this party that is specialized on such kind of risks;
- accept risk – there is no any measures for risk management, we accept risk and its impact on our business;
- escalate risk – could be used in case risk is going to affect not only exact project (deal) but full business, economy and its management should be escalated on top level.

5 Conclusions

Doing business in condition of international trade, a stable and competitive business environment is vital to operate efficiently and attract inward investment. International trade business is rising in the world as well as in Ukraine. Sure, some slowing effect had COVID crisis, but open economy and international business – it is future of each country economy growth. Doing business in open economy is risky and such companies should have developed policies how to manage these risks to ensure economic stability of business and the country. Managing international trade risks means to identify them, assess the impact on business and its probability to arise, priorities risks, consider how to deal with it and develop measures how to overcome it to minimize negative impact on business and prevent it in future. In the article was developed risk management plan content that could serve as instrument to structure business risk management process.

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