Chapter 18
Evaluating Significant Risks in International Trade of E7 Economies With AHP Methodology

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ABSTRACT

The purpose of this study is to evaluate the risks encountered in the international trade process. E7 economies are included in the study. For this purpose, six criteria that should be taken into consideration are determined by considering similar studies in the literature. In the analysis process of the study, AHP method is used to identify which type of risk encountered in the international trade process is more important. In this process, opinions are received from three different experts on the subject. It is concluded that the exchange rate risk is the most important in this process. In addition to this situation, political risk and payment risk are other important factors for this situation. On the other side, it is also determined that documentary risk and carriage risk have lower role in comparison with others. Accordingly, it is essential for companies to take the necessary measures. In this context, it is possible to decrease the exchange rate volatility by using financial derivative products.

INTRODUCTION

One of the main goals of a country is its economic development. The main reason for this is that in economically developed countries, people's quality of life is higher (Kramarz et al., 2020). In this context, countries determine and try to implement some policies for the development of their economies.

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For example, it is accepted that increasing investments in a country will positively affect economic growth (Mandelman and Waddle, 2020). As a result of increasing investments, the trade volume in the country will improve. This will create new job opportunities. In this way, it will be possible to reduce unemployment in the country (Zengin et al., 2018). As can be understood from the issues mentioned above, international trade has a very important role in economic growth. Therefore, it is vital to take the necessary actions to increase international trade. However, there are some risks in the international trade process (Ersin, 2018). If these risks are not managed effectively, effectiveness in the international trade process will decrease. This situation will negatively affect the economic development of the country (Yüksel et al., 2019).

Trade refers to the purchase or sale of goods or services. Buying or selling goods or services abroad is called international trade. International trade meets the goods and services needed. However, material return is obtained in exchange for goods and services. Countries improve their living conditions by doing international trade. In this regard, international trade is important (Goldberg and Tille, 2016). There are two parties exporting and importing in international trade. Exporting countries produce more goods and services. It sells the produced goods and services in the world market. It needs employment while producing these products. Thus, employment increases in the exporting country. However, foreign exchange is provided to an exporting country and allows countries to improve their technology. In this regard, exports are important in the economic development of countries (Egbetunde and Obamuyi, 2018). However, importing countries mostly buy goods and services. The resources to be used in the production of goods and services are obtained through foreign purchase. This situation is quite important for the development of these countries. However, imports are made to purchase goods and services directly. Buying the final good directly is detrimental to the national economy. Domestic production is not possible. However, countries cannot develop technologically. When all these issues are evaluated, international trade is important in the economic development of countries (Rahman and Mamun, 2016).

International trade transactions take place in many different ways. Exporter, importer, transportation and customs procedures are important in the international trade process. It is necessary to pay attention to some issues before the trading process. The importer and exporter must conduct market research and have knowledge of foreign trade legislation. This situation affects the international trade process (Gani, 2017). At the core of the system, the exporting country produces goods or services. It sells to the importer country in need of final goods or raw materials. Payment methods and delivery methods are determined depending on the contract prepared in this process. According to these figures, the responsibilities of the exporter or importer are obvious. During this period, he takes part in intermediary institutions such as banks. The parties fulfill their responsibilities. In this way, foreign trade is realized (Hoekman and Shingal, 2017).

Risk refers to the dangers that may occur. There are risks in every activity. International trade is important in the economic development of countries (Yüksel, 2017). Therefore, it is necessary to increase international trade. However, there are some risks in the international trade process (Dinçer et al., 2018a,b,c). Especially the risks that may arise during the transfer of goods and money affect the international trade process (Feinberg, 2015). The properties of the commodity, the foreign trade legislation of the exporting and importing countries, cultural differences, geographical features and the currency used affect the international trade process (Niepmann and Schmidt-Eisenlohr, 2017). There are risks such as exchange rate, transportation, document, price in the international trade process. Depending on the currency used, fluctuations in the exchange rate affect the importer and exporter differently (Qi et al., 2020). However, property damage may occur during the transportation and transportation of the goods.