

Research on Risk Management and Prevention in International Economy and Trade

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Abstract: *With the passage of time, the current world economic situation is not yet very clear. Therefore, in order to ensure the continued development of their economy, many countries have taken various measures; especially some countries have also introduced policies to save the market. Now, the economies of various countries are slowly recovering, and the unstable period of economic crisis is also slowly passing. Therefore, in the new situation, China should conduct in-depth research, timely understand the new characteristics and trends in the new situation, and formulate corresponding response measures, thereby playing a positive role in promoting China's economic development and international trade development. This article explored risk management in international economy and trade, and analysed the impact of fiscal and monetary policies on the national economy through experiments.*

Keywords: *Foreign Exchange Management, International Economy, Foreign Trade, Risk Prevention*

1. Introduction

International trade, as the main driving force for rapid growth in various countries, plays an important role. In recent years, with the rapid growth of China's economy, both imports and exports have increased, but China still lags behind developed countries in the world, so exports need to continue to improve. At present, in order to achieve the goal of national macroeconomic regulation and ensure stable and rapid domestic economic growth, it is necessary to further increase export volume while maintaining import stability. In the new era of socialism with Chinese characteristics, China's economic structure is constantly changing, and China's foreign trade structure is also constantly changing.

In international economic and trade, many professionals in the economic field have conducted specialized research on risk management. India holds a significant share of the world procurement market, reaching almost 55%. Shankar N analyzed the exchange rate risk faced by Indian IT companies listed on the Shanghai Stock Exchange, and conducted methods and management on it. By conducting research on the company's 2007-2017 annual report, the purpose is to understand its risk exposure rate and the external exchange rate risk management methods it has adopted, and evaluate them. Research has found that exchange risk management has a significant impact on the investment portfolio of small and medium-sized enterprises. Therefore, even in situations where there is no significant impact on small and medium-sized companies and some large companies, they still use an internal hedging method, which provides strong evidence that people can mine a trillion dollar business in a competitive and fully functional international financial center [1]. Foreign trade exports are influenced by political, economic, financial, and other factors. The research aims to identify and analyze the risks faced by Chinese logistics enterprises, and propose corresponding control and reduction strategies, in order to provide a basis for the development of risk management strategies for Chinese logistics enterprises in the process of conducting export business. Pozniak O adopted risk assessment and analysis, systematization, generalization, classification, and descriptive methods. Based on the characteristics of each link in export trade, the risks of logistics enterprises were identified and managed accordingly. This establishes a "roadmap" for logistics personnel to minimize or eliminate the destructive impact of risks. The negative outcomes of risks are systematically ranked and strategies executed by logistics operators are identified to improve the efficiency of risk management processes [2]. After analyzing the financial issues that caused the economic crisis from 2007 to 2008, Gaggi P concluded that part of the causes of this economic crisis can be attributed to excessive risk in banks. What is the reason for such

behavior? One possibility is that short-term interest rates remained relatively low in the mid-20th century. The project takes Austria from 2000 to 2008 as a sample to study the impact of the European Central Bank's low interest rate policy on economic growth from 2003 to 2005. Experimental analysis shows that this policy can make the loan portfolios held by Austrian banks more risky than those that do not accept this policy [3]. Although the above studies have conducted relevant research on risk management in the micro level of international economy and trade, there is little literature on the management of macro level risks in international economy and trade.

The risks of international economic and trade are not limited to foreign exchange, exports, and other aspects. There are also many risk factors. With China's expansion of opening up to the outside world and opening up to foreign exchange, there are now many available means to manage foreign economic risks. The article explores international economic and trade risk management from a macro perspective.

2. International Economy, Trade, and Risk Management

2.1 International Economy and Trade

International economy and trade, as an important driving force, play a very important role in promoting the rapid development of a country [4]. In recent years, with the rapid development of China's economy, the number of imports and exports has been continuously increasing. However, there is still a significant gap in foreign trade with other countries in the world, so it is necessary to continuously increase exports. In the current situation, in order to achieve the national macroeconomic control goals and achieve stable and rapid development of the national economy, it is necessary to continue to maintain the stability of imports while maintaining sustained growth in export volume [5]. In the new era of socialism with Chinese characteristics, China's economic structure is constantly changing, and China's foreign trade structure is also constantly undergoing transformation. Despite the sluggish global economic recovery, China has overcome a series of difficulties and continued to maintain a good growth momentum in foreign trade, which has played a crucial role in China's economic development [6]. According to official data released, the total import and export volume of China's goods trade in 2017 was 27.79 trillion yuan, an increase of 14.2% year-on-year. Among them, the total export volume was 15.33 trillion yuan, an increase of 10.8% year-on-year, and the total import volume was 12.46 trillion yuan, an increase of 18.7% year-on-year, a decrease of 14.2% year-on-year.

The Development Trends of Modern International Economy and Trade

(1) The impact of globalization on international economy and trade. Currently, the international economic and trade system has become increasingly sound, and various regions around the world are beginning to attach importance to the further development trend of globalization. This requires every enterprise to abandon traditional enterprise management concepts and possess a modern global enterprise development concept [7-8]. At the same time, it is pointed out that in order to win a place in the process of globalization; one must constantly improve oneself and enable oneself to achieve development in the process of globalization [9-10]. In the new stage of development, international trade needs a new management and development approach, which can no longer be confined to the traditional development methods of the past, but must adapt to the needs of the times and continuously improve and perfect. Adjust the structure to better adapt to the trend of globalization [11-12].

(2) The trend of diversification, informatization, comprehensive network coverage, and rapid development of information technology are all key factors in promoting the development of international trade. Internet platforms have the characteristics of low entry barriers, multiple industry entry methods, and intertwined information dissemination, making modern international economic and trade information supported by the Internet diverse. Obviously, the diversification of trade is promoted by the development of network information for economic development. It can not only significantly reduce the operating costs of enterprises, but also increase the economic benefits obtained in international trade [13].

(3) To achieve sustainable development, the most crucial thing is to attach importance to the development and application of the knowledge economy. This is because in order to promote the development of international economy and trade, it is necessary to constantly innovate, improve and develop the existing knowledge system. The main body engaged in international trade is multinational corporations, so it is necessary to pay attention to the influence of multinational corporations, especially on international economic and trade activities [14]. At present, many Chinese enterprises have started to enter the international market, but compared to foreign countries, there are still many

problems. In such a situation, attention should be paid to adopting appropriate policies, stimulating the enthusiasm of enterprises, optimizing allocation in competition, and obtaining greater economic benefits.

2.1.1 Significance of International Economy and Trade for Economic Development

The foundation for a country to establish a stable and healthy economic development in the world is to promote international economic development. Against the backdrop of global economic integration, China's economy is gradually transitioning from domestic growth to diversified international growth. The expansion of China's foreign trade has greatly increased the scale of foreign trade, thus playing a certain role in the expansion of foreign trade scale [15].

Strengthening the international competitiveness awareness of enterprises and utilizing the development of foreign trade can promote enterprises or individuals to stimulate their innovation awareness and ability, thereby significantly enhancing their competitiveness in the process of economic globalization. In the process of global economic integration, enterprises can be aware of their shortcomings and the difficulties of survival in fierce competition. Therefore, after having a comprehensive understanding of the development of international economy and trade, corresponding adjustments can be made to the culture, operation, innovation, and other aspects of the enterprise, in order to maximize its development and increase its chances of survival in the international market [16].

2.1.2 Role of International Economy and Trade

In the context of new economic globalization, the traditional single mode of economic growth is clearly unable to meet the new requirements. In order to achieve global economic and trade development, multiple ways of economic and trade development must be carried out. To achieve this goal, it is necessary to optimize the means of economic and trade exchanges. After gaining a comprehensive understanding of the new forms of international economic and trade development, the direction of trade can be optimized. Only in this way can enterprises' trade be more closely aligned with international standards, thereby promoting the healthy development of both enterprises and countries' economies [17]. Since joining the World Trade Organization, China has been committed to developing towards the direction of the world economy. Through government macroeconomic regulation, Chinese enterprises have gained good profits in the world market, thereby promoting the healthy development of the Chinese economy [18].

In the context of global economic integration, with the increasing frequency of international economic and trade exchanges, competition in the international market has also become more intense. In order to establish a foothold in the international market, enterprises must continuously innovate their corporate culture and business methods, with the aim of improving the overall quality of their employee team as the starting point, so as to maintain a good business environment for their company and enhance competitiveness [19-20]. After joining the WTO, governments around the world, under macro management, regarded China's economic development as the foundation for enterprise development, making the domestic market directly competitive and thus improving the competitiveness of enterprises. It is under such policy regulations that Chinese enterprises can win domestic competition and enter the world market.

2.2 Risk Management

2.2.1 Types of Foreign Exchange Risk

(1) Accounting risks

Accounting risk refers to the losses caused by changes in exchange rates when a company's finance department handles financial transactions in different currencies. When preparing financial statements, enterprises must consolidate their assets, liabilities, and owner's equity into a unified local currency account. During this process, unnecessary losses may occur due to changes in exchange rates.

(2) Trading risk

Trading risk refers to the financial losses incurred by traders during foreign exchange trading due to changes in exchange rates between different currencies, which affect the value of funds received and liabilities payable. Generally speaking, banks' buying and selling in foreign exchange transactions are imbalanced, which leads to currency risk. If foreign exchange banks buy excess funds, the exchange rate would fall, and if foreign exchange banks sell excess funds, the exchange rate would rise. Although the buying and selling of banks are equal, there are risks to being careless.

(3) Economic risks

The so-called economic risk refers to an unpredictable risk, where fluctuations in exchange rates can have an impact on production costs and sales prices. Finally, import and export enterprises would also face a certain degree of risk. For example, an import and export company in the United States originally relied on raw materials as its main raw material. However, when it encountered one thing, it would cause a sharp increase in the company's exports, leading to a series of economic risks that were unpredictable. However, there were still some potential risks that were not conducive to the company's development.

2.2.2 Risk Reduction Methods

(1) The combination of letter of credit and remittance means that some payments are settled through letter of credit, while others are settled through remittance. For actual export sales, payment is usually made through bank transfer, which is a relatively cheap payment method for the seller. The most common payment method is to pay 30% in advance, and the remaining 70% is settled through a letter of credit on the website. If the buyer is a reputable person or long-term customer, a standard letter of credit can also be used according to the situation.

(2) The combination of letter of credit and collection is a payment method, where one is settled by letter of credit and the other is settled by collection. In this way, for the buyer, it can reduce the deposit required for issuing the letter of credit, reduce the handling fees paid by the bank, and facilitate the flow of funds.

(3) The combination of remittance and bank guarantee or letter of credit generally refers to the payment of a portion of the currency in the form of remittance, while the remaining portion is paid in the form of letter of credit or bank guarantee. This method is mainly applicable to large machinery and equipment and longer delivery times. In order to reduce losses for sellers, importers are usually required to pay a portion of the payment in advance as a deposit, while the rest is settled through sight or usance letters of credit. In addition, a bank guarantee letter is also required to guarantee the payment. In actual international trade operations, in addition to the most common payment combinations of letters of credit and other settlement methods mentioned above, there are also many other types of cross combination payment methods. In foreign trade, in order to avoid and reduce risks, the specific combination method that should be chosen should be determined based on the specific situation.

To achieve a balance between the internal and external economy, the central bank needs to allocate money reasonably to achieve the goals of stabilizing prices, achieving full employment, promoting economic growth, and balancing international payments. Regarding this issue, referring to Friedman's theory of "currency needs" can solve the problem.

Friedman's money demand theory applies consumer choice theory in the economy to conduct more in-depth research on money demand. In Friedman's view, money is also a commodity. People can consider money from three aspects: utility, income level and opportunity cost [21].

$$\frac{M}{P} = f\left(Y, W, r_m, r_b, r_e, \frac{1}{p} \frac{dp}{dt}, U\right) \quad (1)$$

$$PC^e = \frac{1}{p} \frac{dp}{dt} \quad (2)$$

In the formula, Y actual permanent income; W - The ratio of non human wealth to personal wealth; r_m represents the expected return rate of currency; r_b represents the interest rate of fixed income securities; r_e represents the interest rate of non fixed income securities; PC^e represents the expected rate of price change; U represents other variable functions. Y, W is the total wealth level; r_m , r_b and r_e are the opportunity cost of holding money, and U is the other utility that holding money brings to people. Money demand mainly depends on total wealth, but total wealth is actually immeasurable.

3. Experiment on the Impact of Exchange Rate Changes in International Economy and Trade

A small-scale, open, and floating exchange rate fiscal policy, as shown in Figure 1. In this situation, expanding economic policies shift the IS (Investment Saving) curve to the right, while keeping national income unchanged, that is, the LM (Liquidity Preference Money Supply) curve remains unchanged,

ultimately leading to an appreciation of the foreign exchange rate. From this, it can be seen that under the floating exchange rate system, fiscal policies have a certain effect on controlling exchange rate risks for smaller open economies [22].

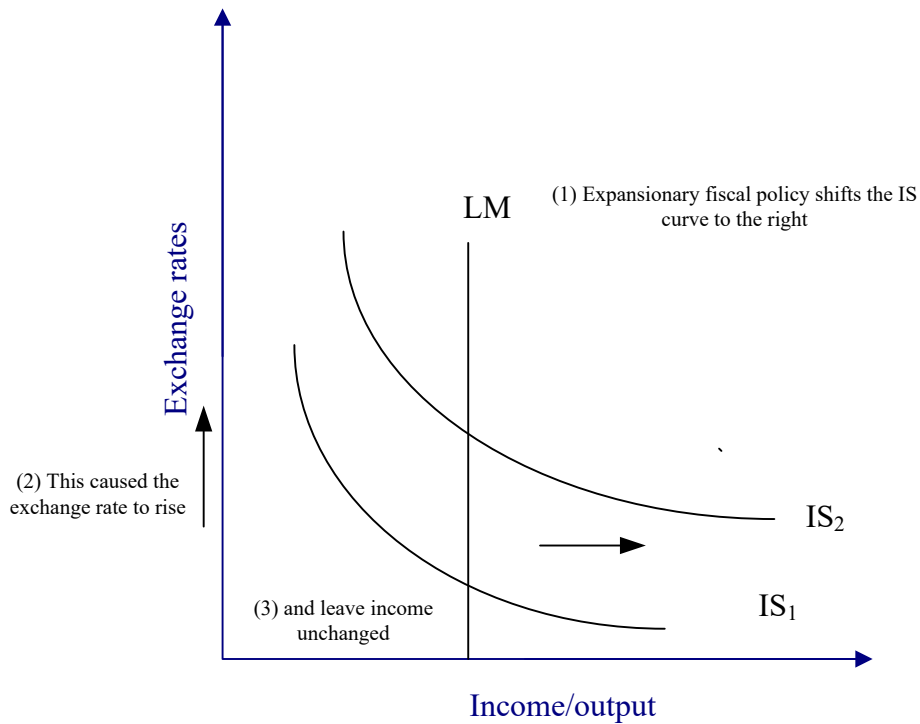


Figure 1: Fiscal policy for small open economies under floating exchange rates.

From Figure 2, it can be seen that under the condition of floating exchange rates, currency issuers in small countries implement an open monetary policy, which causes the LM curve to shift to the right. However, the IS curve remained unchanged, resulting in a decrease in the exchange rate, which increased production and national income. As can be seen in Figure 3, due to the increase in production, the IS curve shifts to the right, resulting in a replay of the route in Figure 1.

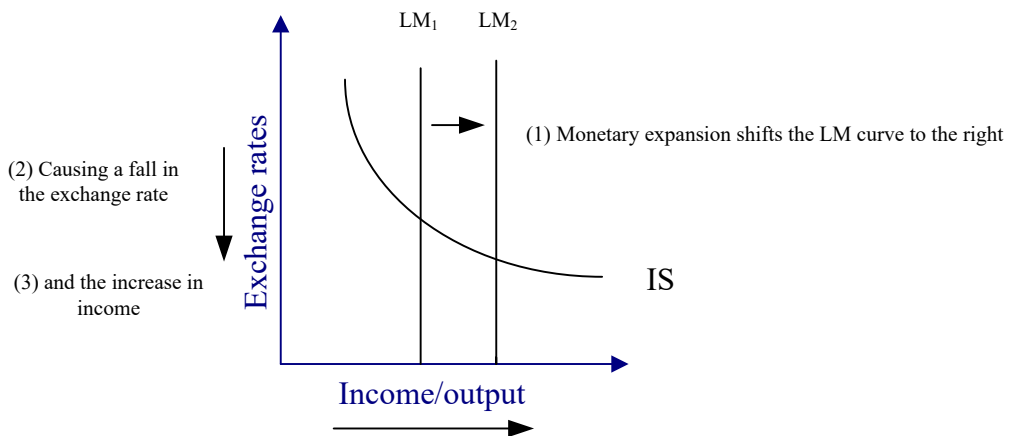


Figure 2: Monetary policy for small open economies under floating exchange rates (before).

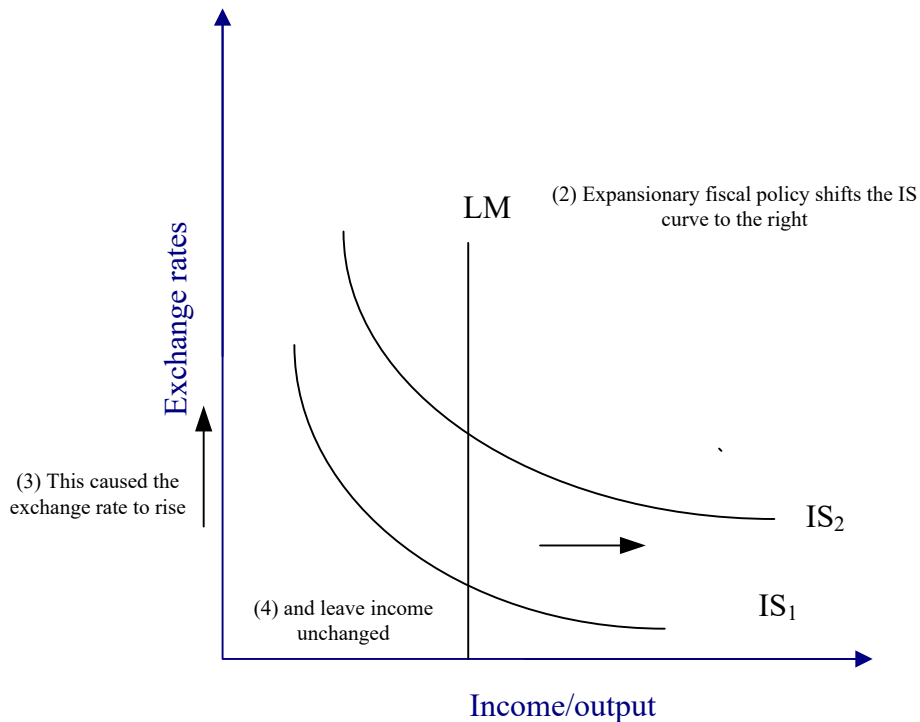


Figure 3: Monetary policy for small open economies under floating exchange rates (post).

As shown in Figure 4, trade protection restricts imports, and the exchange rate rises while the net exports (NX) remain unchanged.

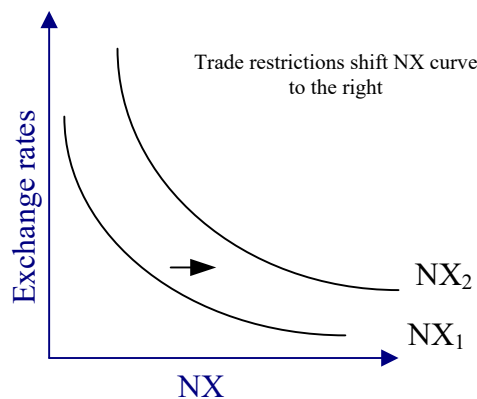


Figure 4: Retention protection policy under floating exchange rates (import restrictions).

4. Conclusions

Although communication between countries continues to deepen, there are still various risks. In order to maintain the stable development of international trade, enterprises should closely monitor the development trends of the international market. Firstly, it is necessary to grasp the increasing exchange time of international trade, correctly select trade projects in the market, and communicate with different countries. In addition to understanding policies, one should actively participate in healthy competition and always maintain risk awareness. In addition to internal rectification, enterprises should also actively participate in healthy competition, maintain risk awareness at all times, strengthen internal risk control, and achieve sustained, stable, and healthy development. Only in this way can the enterprise consolidate its position in international market competition.

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