

Research on Foreign Exchange Risks and Prevention Strategies in International Economic and Trade

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Abstract: With the increasing international influence of China, more and more enterprises have participated in international trade. Foreign exchange trading has also become an important part of economic growth in various countries. At the same time, the foreign exchange risk problem also affects the development of the country and enterprises to a great extent. International economy and trade are facing fierce market competition, and exchange rate plays an important role in the competition. If foreign trade enterprises want to effectively cope with market competition, they need to take foreign exchange risks seriously. In this context, if China wants to seize the opportunity in the international market, it must do a good job in preventing foreign exchange risks and effectively contain them. Finding out the causes of foreign exchange risks and solving them is the key to the stable and long-term development of countries and enterprises in international economy and trade. This paper analyzes the definition and causes of foreign exchange risk in international economy and trade, and discusses the impact of risk; On this basis, this paper puts forward specific suggestions on the prevention measures of foreign exchange risks in international economic and trade, hoping to effectively deal with foreign exchange risks.

1. Introduction

Under the background of economic globalization, the development direction of domestic enterprises has been greatly adjusted. While expanding the scale of enterprises, they have also carried out related economic activities in the international market, and more and more enterprises have participated in the ranks of international trade [1]. There are various opportunities in foreign trade, but on the other hand, under the background of increasing international economic and trade exchanges, it also brings challenges to the development of enterprises in China. Among them, the foreign exchange risk under international economic and trade conditions is particularly prominent [2]. The foreign exchange risks of China enterprises in international economic trade include many kinds, which seriously restrict the healthy development of enterprises and are not conducive to the stable operation of China's economy [3]. At the same time, the emergence of foreign exchange risks will cause serious losses to trading enterprises, which is not conducive to the long-term stable development of trading enterprises. Under various circumstances, it is particularly important to control and prevent foreign exchange risks in order to maintain the stable development of foreign trade [4]. This requires enterprises to treat it strictly and formulate comprehensive and systematic preventive measures, so as to ensure that enterprises can gain a firm foothold in the international market and enhance their influence. Foreign exchange risk in international trade is very common, involving a wide range, which can have a significant negative impact on the competitiveness and development of enterprises engaged in transnational trade [5]. In international economy and trade, the creditor's rights and debts owned by most enterprises are mainly expressed in dollars, but there are inevitably a lot of risks. Among them, exchange rate fluctuations are very common [6]. Foreign trade enterprises have to invest more manpower and material resources in the prevention and management of foreign exchange risks for their own vested interests. The foreign exchange risk under the unstable international economy is an important factor affecting the development of enterprises [7]. These risks require foreign trade enterprises to strengthen management and formulate comprehensive risk prevention measures under risk judgment, so that enterprises can effectively prevent and control foreign exchange risks when they occur [8]. In order to ensure the

healthy development of enterprises in China, studying the foreign exchange risks existing in international economic and trade and putting forward corresponding strategies according to the situation of enterprises can help enterprises effectively deal with various risks, promote the stable development of enterprises and promote the steady development of China's economy and trade [9]. This paper briefly introduces the risks of foreign exchange trade in international economic trade, and then analyzes the causes of the risks in detail. On this basis, this paper puts forward specific suggestions on the prevention measures of foreign exchange risks in international economic and trade, in order to help enterprises effectively deal with foreign exchange risks.

2. The concept of foreign exchange risk

Foreign exchange risk refers to the fluctuation of foreign exchange rate, which brings certain risks or economic losses to enterprises that use foreign exchange transactions. Foreign exchange risk greatly restricts the healthy development of enterprises in China. Foreign exchange risks can be divided into four categories: trading, accounting, economic and reserve risks [10]. The foreign exchange risk caused by the change of foreign exchange rate will be reflected in all the activities of an international enterprise organization, including its business activities, results and expected operating income. From an objective point of view, the inconsistency of currency exchange methods, settlement methods and trading methods among countries in the course of trade, as well as the adverse changes in exchange rates in the course of trade, will all lead to foreign exchange risks. From a subjective point of view, China's foreign trade enterprises' insufficient ability to cope with risks and imperfect corresponding management mechanisms have further aggravated foreign exchange risks. From the perspective of economic structure, compared with some more developed countries, China has some differences with it. In addition, the convertibility of RMB is often hindered, resulting in obvious exchange rate fluctuations. Under the influence of accelerating economic globalization, the share of large enterprises in China in import and export trade is gradually increasing, but the foreign exchange risk in international economic trade restricts the development of enterprises in China to a great extent. As far as the current international trade is concerned, enterprises should have a keen insight into the exchange rate changes involving their own benefits. However, most foreign trade enterprises lack the concept of foreign exchange risk management, and the application of prevention and control system is not perfect. Some enterprises do not use modern high-tech technology to help analyze and prevent, and they also lack professional talent teams to take charge.

3. The impact of foreign exchange risk

There are a large number of import and export trade activities in China. In the process of trade, most enterprises cannot do without the use of foreign exchange, and they have to earn or spend a lot of foreign exchange. Most enterprises will use local currency to keep accounts in foreign trade, while using foreign currency to settle accounts will most likely lead to foreign exchange risks. The exchange rate will constantly change with time. With the constant change of financial situation, the combination of these factors tends to be diversified, and the types of foreign exchange risks will also exist and affect the decision-making and operating conditions of enterprises in various new ways. Once the exchange rate fluctuates in a wide range, it will bring serious losses to enterprises, which will affect the healthy development and competitiveness of enterprises and affect economic benefits. The exchange rate rises, the cost increases, and the import benefits are damaged; The exchange rate declines, the export value decreases, and the export interests are damaged. The architecture of foreign exchange risk assessment system is shown in Figure 1.

This paper summarizes the main types of foreign exchange risks in international economy and trade as follows: Losses caused by currency exchange; Changes in business volume caused by exchange rate changes; Book losses of enterprises caused by exchange rate changes. By systematically studying foreign exchange risks, on the one hand, it can enhance enterprise leaders' understanding of the international trade situation and clarify the development direction; On the

other hand, it can scientifically control foreign exchange risks and minimize the risk rate.

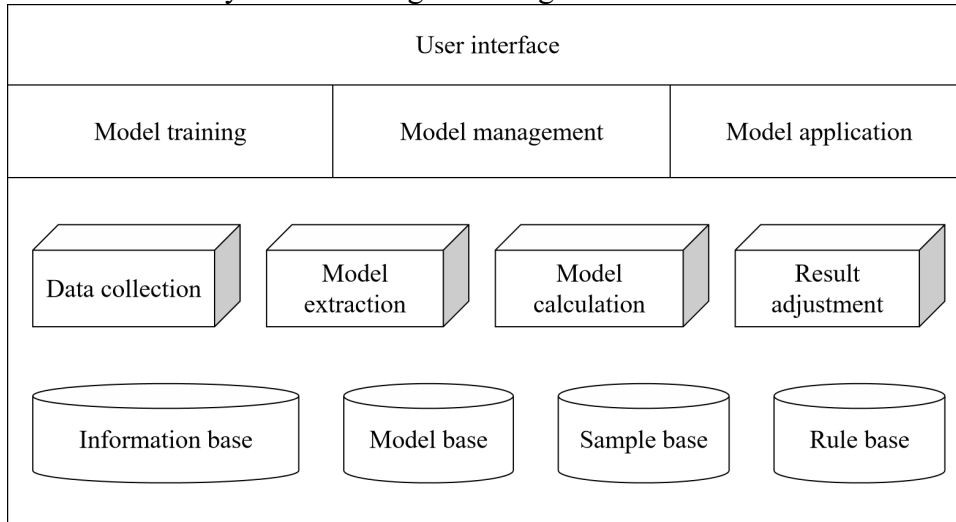


Figure 1 Framework of foreign exchange risk assessment system

4. Precautionary measures against foreign exchange risks in international trade

4.1. Cultivate senior management talents

In the development of economic globalization, investment is being liberalized, and the reasons for exchange rate fluctuations are more complicated, which also requires enterprise financial management workers to have excellent comprehensive literacy. This is a part of the enterprise's development plan that can't be ignored. We should pay attention to the cultivation and utilization of professional talents, formally include this expense in the financial scope of the enterprise, and use more scientific methods to avoid foreign exchange risks in international trade. At the national level, we can increase the professional setting of foreign exchange risk prevention in China's education system, and then continuously send high-quality foreign exchange risk prevention talents to the society. Enterprises can introduce professionals with keen insight into market economy risks and help enterprises establish foreign exchange risk management teams with rich experience; Strengthen the education and training of enterprise employees' risk knowledge and awareness, and constantly improve employees' foreign exchange risk knowledge level and risk prevention management ability under the internal assessment system. Figure 2 shows the training model of senior management talents in the era of big data.

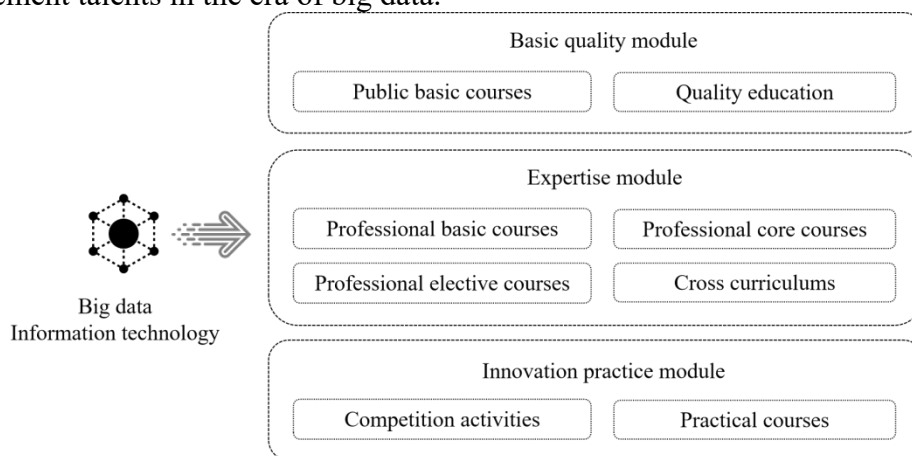


Figure 2 Senior management personnel training mode diagram

At present, there is a serious shortage of high-quality professionals in foreign exchange risk management of enterprises in China, and the gap of high-quality professionals will continue to increase in a certain period of time in the future. Therefore, strengthening the training of

high-quality talents with foreign exchange risks can help enterprises effectively cope with foreign exchange risks and make the development of China enterprises in line with international standards. If foreign trade companies want to grow and develop, they need to cultivate outstanding talents related to foreign exchange risk management and give full play to their own values.

4.2. Establish risk management system and raise awareness of risk prevention

The wave of globalization has begun to hit various countries, which has prompted the international trade pattern to face certain changes. While promoting the continuous progress of society, it has also exposed enterprises to foreign exchange risks. According to the existing situation, the foreign exchange risk in the international trade market has become more and more obvious, and gradually presents a multi-polarization development trend. For the development of enterprises, in order to effectively reduce the foreign exchange risk in the process of international economic trade, foreign trade enterprises need to establish a risk management system suitable for their own enterprises according to the development of their own companies, so as to improve the foreign exchange risk management mechanism. First of all, enterprises can actively learn from well-known foreign trade enterprises, actively innovate under the exchange, learn more from other enterprises' foreign exchange risk prevention experience, and constantly improve their foreign exchange risk control and management mechanism. Secondly, enterprises should help employees establish correct values and ensure that enterprise staff constantly improve their awareness of foreign exchange risks. Finally, the risk management implements the responsibility system, and once the enterprise faces the foreign exchange risk, it can properly deal with it. This mechanism may not be perfect in the early stage, but through continuous improvement, it will eventually provide a strong guarantee for enterprises to avoid foreign exchange risks. At the same time, enterprises should actively use technology to conduct in-depth analysis, find out the causes of currency risks and formulate specific solutions to minimize risk losses. In addition, choosing a reasonable settlement method is also one of the measures to reduce the foreign exchange risk of enterprises in the current international economy and trade. In the process of trade, enterprises need to track and forecast the exchange rate, and then choose the most appropriate settlement method to reduce the impact of foreign exchange risks. After signing a trade contract with a foreign trade customer, an enterprise should always keep a close track of currency receipts and payments, always pay attention to exchange rate changes, and timely predict the exchange rate changes, and adopt a reasonable and effective foreign currency settlement method according to the actual situation, so as to reduce the economic losses, business losses and other adverse effects caused by exchange rate risks on the enterprise.

4.3. Follow market guidance and strengthen risk prevention

When dealing with foreign exchange risks in international economy and trade, it is a basic work and a necessary prerequisite for enterprises to improve their awareness of prevention and control of foreign exchange risks. It plays an active role in ensuring the smooth implementation of relevant foreign exchange risk prevention and control work. At present, in order to promote the development of small and medium-sized foreign trade enterprises and reduce foreign exchange risks, China government has established a relatively perfect foreign exchange market, and provided enterprises with financial support, tax reduction policies, infrastructure facilities and other support in dealing with foreign exchange risks. Enterprises should actively respond to the call of the government and make full use of the favorable policies brought by the government to enterprises. Enterprises actively take precautions against foreign exchange risks, actively analyze and study all the details, and constantly evaluate and predict, so as to help enterprises effectively reduce the losses caused by foreign exchange risks and help enterprises develop healthily. With the rapid development of science and technology, the internal management methods of enterprises are constantly updated, which can be applied to foreign exchange risk management. In the process of dealing with various measures, enterprises should ensure that they must be carried out within the scope of laws, regulations and accounting systems. Enterprises should optimize production based on the actual situation of the enterprise, which can not only ensure the accuracy of factoring decision, but also effectively control the occurrence of risks. At the same time, foreign trade enterprises should

actively strengthen the effective construction of corporate culture, actively strengthen employees' effective awareness of foreign exchange risks in the process of cultural construction, organically combine corporate values with risk education, and enhance employees' sensitivity and sense of responsibility in the face of risks, thus enhancing their awareness of foreign exchange risks. In addition, enterprises should have a deep understanding of the floating exchange rate system, grasp the general fluctuation of RMB exchange rate, and formulate measures to avoid risks and achieve the goal of benign development.

5. Conclusions

Global integration is an inevitable trend, with increasingly fierce competition and risks everywhere. The development of global economy has accelerated the economic and trade exchanges among countries, and China enterprises are also in a high-speed and critical development period, facing various challenges and opportunities. In recent years, China has been engaged in international economic and trade activities frequently, and the trade between countries has been strengthened, which has continuously enhanced China's comprehensive strength. Foreign currency is an inevitable factor in international economy and trade, so foreign exchange risks run through the whole transaction process, such as the fluctuation of exchange rate, the exchange of local currency and foreign currency, and the irregular development of foreign exchange market, which will bring certain foreign exchange risks to the production and operation of enterprises. If enterprises are not fully prepared for risk management, they will be easily hit hard. Therefore, it is very important for enterprises to deal with foreign exchange risks well. Based on the characteristics and causes of foreign exchange risks, this paper puts forward some preventive measures against foreign exchange risks. The economic and trade market environment is becoming more and more complex, and the foreign exchange risk is increasing. Therefore, relevant personnel should establish a sense of prevention and improve their judgment on foreign exchange risks, so as to reduce the occurrence of foreign exchange risks. At the same time, all enterprises should pay attention to it, and try their best to prevent risks in foreign trade by accurately predicting and standardizing disposal. This can not only effectively resolve foreign exchange risks, but also enable enterprises to develop rapidly.

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