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RISKS OF FOREIGN ECONOMIC ACTIVITY

Уибү илмий мақолада ташқи иқтисодий фаолиятда рискларнинг вужудга келиши, унинг турлари, сабаб ва оқибатлари, олдини олиш чора – тадбирлари ёритилган.

Это научная статья привести к рискам внешнеэкономической деятельности, виды, причины и последствия, отраженные в мерах по предотвращению.

Key words: *risks in foreign economic activity, management of risks, risks associated with international transactions, force majeure, Incoterms, currency control.*

The activities of firms, companies, enterprises are associated in all aspects with many difficulties and critical conditions. These risks are disasters and technological accidents and mistakes, abuse of employees, lack of experience of leading specialists, breach of contract, and possible changes in legislation, etc.

There is no doubt that these risks are magnified and multiplied during the foreign economic activity (FEA), which incorporates not only the internal risks, but also the risks inherent in the global economic system.

The difficulties associated with the access to foreign markets include:

- additional costs for the study of geographic, demographic, political, legal, economic, scientific-technical, cultural, social and other features of the business environment of foreign countries;

- complex management of firm that provides the need for skilled workers who speak foreign languages and are familiar with the peculiarities of the markets of the countries concerned with the needs and preferences of foreign consumers, with the specifics of the negotiation;

- the need to modify and adapt products to the requirements of foreign markets;
- the complexity of the search for foreign partners.

At the same time, operating in a new business environment is accompanied by an unusual high risk.

Risks of foreign economic activity are the potential adverse events that may occur and result in losses for traders due to damage to property.

The risks are different in nature, scope and ways of preventing and reducing (Figure 1).

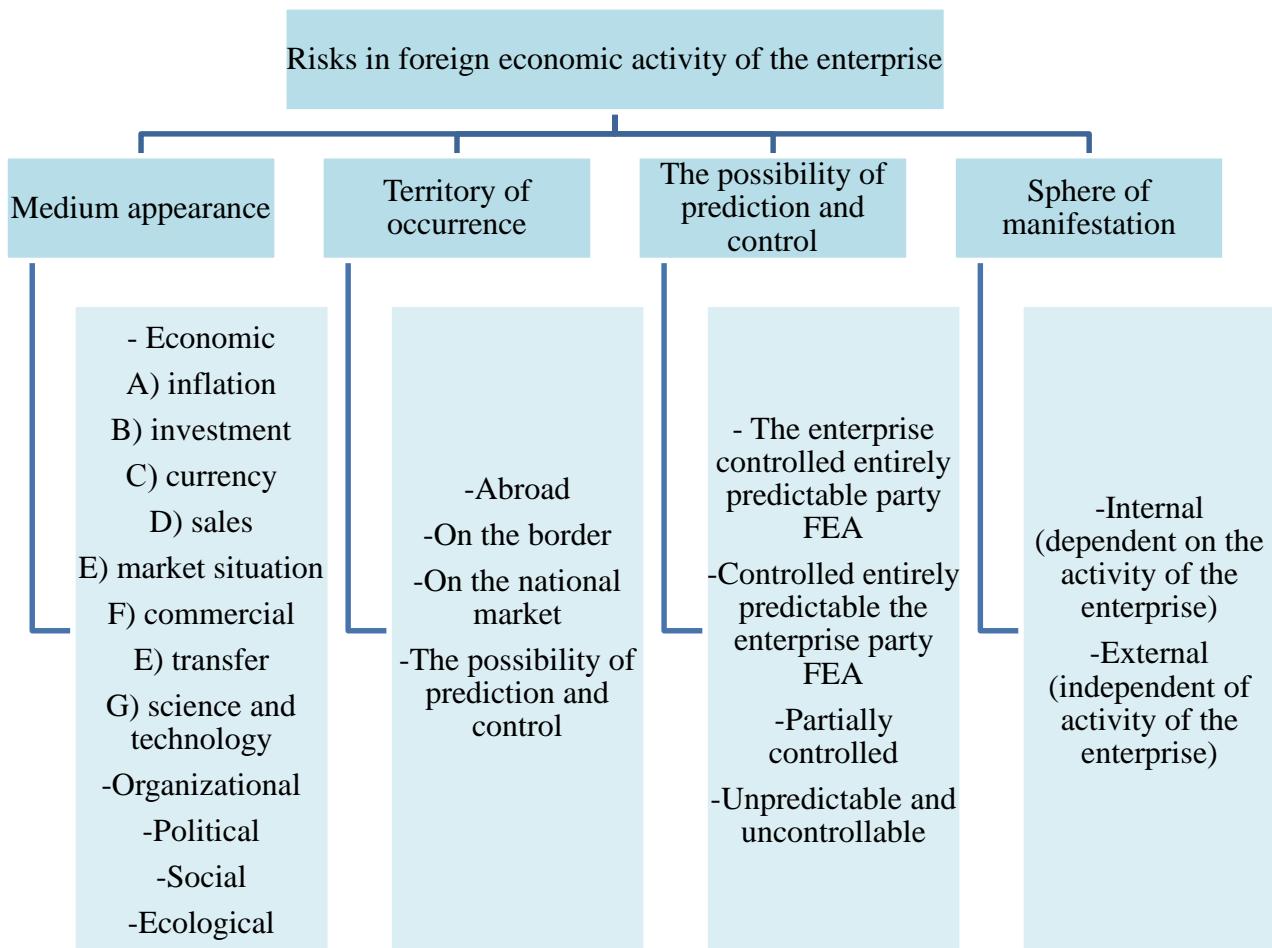


Figure 1. Risk classification scheme of FEA enterprises

The most important type of risks is internationalization:

- Market associated with a reduction in demand or prices on the world markets;
- political risks associated with changes in the socio-political situation in the host country, the reorientation of its economic policy, a complication of international relations, etc.;
- commercial, manifests by bad faith or insolvency of the buyer;
- production-related difficulties of the production;
- scientific-technical, arising from the insurmountable difficulties to achieve the desired result in the development of new technologies, license exchanges, joint research and development, etc.;
- financial risks (inflation, currency), not only related to the change in regime the transfer of capital and profits, but also to exchange rate fluctuations, rising interest rates on loans and credits, differences in inflation rates across countries, etc.

The structure of FEA risks are extensive. Based on the conclusion of contemporary risk management theorists, they are about 150 types. Let's look through a synthesis scheme risks FEA (Figure 2).

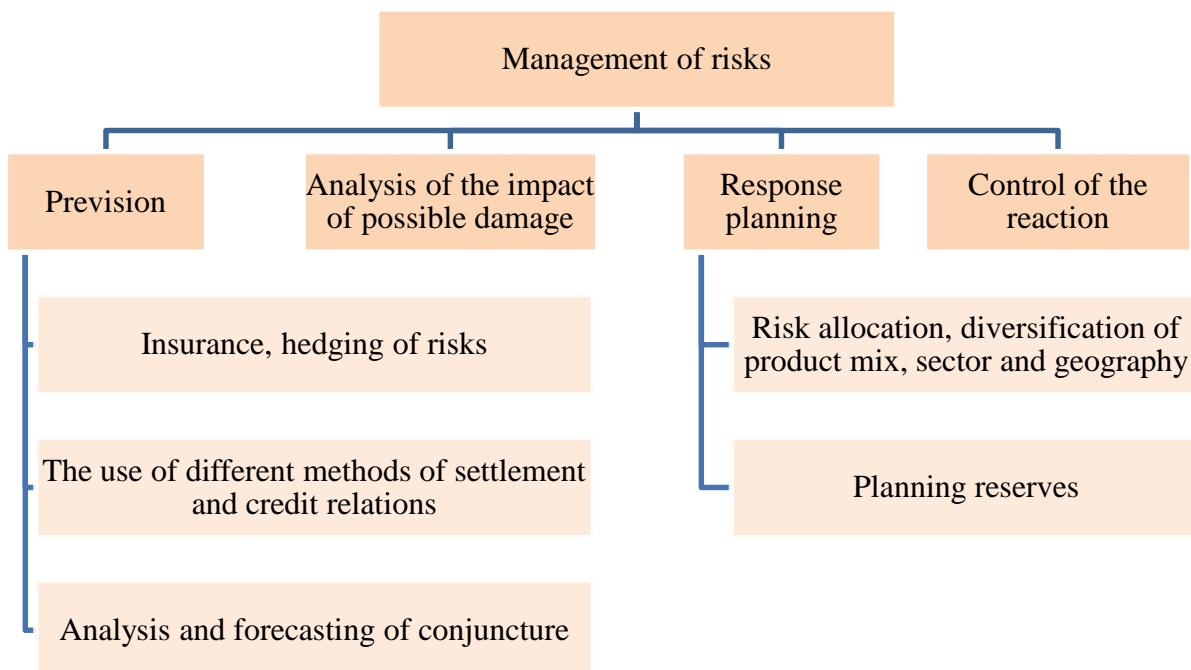


Figure 2. Chart of a method of risk management in foreign economic activity of the enterprise

The risks associated with the terms of the contract are the product, its quality, packaging, and price; terms of delivery; the choice of monetary and financial conditions of the contract; force majeure; breach of contract and liability for non-compliance, arbitration.

The risks related to the stage of the transaction are the risks associated with customs clearance, certification, investment, industrial, commercial, transport.

There are a lot of risks, so the traders should focus on the development of risk management policies:

- First, to analyze the situation and identify possible risks (foresight);
- Secondly, to assess the likely damage and the decision, aimed at its reduction;
- Thirdly, to implement the decisions and monitor their implementation (Figure 2).

Consequently, the diversity and complexity of the risk assessment and management in foreign economic activity of the enterprise lead to the need for prior analysis and assessment of how the features of the host country as a whole and the activities of individual foreign entrepreneurs will be potential partners, as well as their own production and marketing opportunities.

Scholars and practitioners tend to comprehensively disclose the risks from the perspective of participants in operations to remove fundamental differences in the various interpretations of risk management, the definition of areas to improve risk management as a condition for the stabilization of the economic development organizations.

The practice has developed the following approach to the selection of strategies to protect against the risks associated with international transactions:

- deciding on the special measures for risk insurance;

- the allocation of the contract or loan agreement, the open currency position, which will be insured;
- the choice of method and the method of insurance risk.

According to experts, the system of protection against the risks of foreign economic activities must consist of three elements:

- mechanisms for monitoring risks;
- action plans for emergency situations to minimize damage;
- measures to cover losses.

The ability to manage the foreign exchange risk is a guarantee of protection of the interests of the parties involved in foreign trade. The deal related to the export values, work or services is performed in accordance with the export of foreign economic contracts which is concluded between the parties prior to the transaction. The content of a specific export contract depends on several factors, and its text is often the subject of lengthy negotiations in which both sides are forced to make certain compromises before the contract is signed.

The export contract is the basis for decision-making related to the order of reflection in the accounting (financial) reporting and taxation of export transactions. Three aspects of the matter, which should be reflected in the contract: 1) the terms of delivery; 2) the time of transfer from ownership to the foreign buyer; 3) the procedure, form and terms of payment under the contract.

Delivery terms of the goods determine the responsibilities of the parties associated with the transport, insurance and customs clearance of goods both in terms of their organization, and payment of these expenses. In international practice, a set of basic terms of delivery Incoterms is used for this purpose. In the price list, price is usually showed on the basis of specific terms of Incoterms, or the choice of the buyer offered several options for delivery and therefore several options prices. Therefore, when setting prices, the performance of the contract and the determination of the costs incurred by the exporter (and which are recognized for tax purposes as an economically feasible), you must take into account the obligations imposed on the exporter (supplier) on the basis of supply conditions agreed by the parties, prescribed in the contract.

The problem is that, in Incoterms the concept of "transfer of ownership" is not mentioned - there it is only about the transfer of risk of damage to the goods. This is due to the fact that, in accordance with international practice, the time of ownership transfer is associated with the transition of the risk of accidental loss or damage to the goods from the seller to the buyer. In the Russian legislation, the Civil Code of the Russian Federation, the time of transfer of ownership is given special attention, while the use of Incoterms at the conclusion of foreign trade contracts, according to the Civil Code, is voluntary. Therefore, in order to avoid the problems associated with the definition of the receipt date of proceeds, during the definition of the moment of occurrence of tax liabilities, at the conclusion of the foreign trade contract it is necessary to register separately and point the ownership transfer of the goods.

The presence of significant differences in the content and interpretation of sale contracts, as well as in the trade of the existing legal systems of different countries, is one of the major problems of legal regulation of international trade. In 1936 the

international rules for the interpretation of trade terms, known as Incoterms were developed to solve this problem at the international level. Subsequently - 1953, 1967, 1976, 1980, 1990, 2000, 2010. - The adoption of each new Incoterms does not mean automatic cancellation of the previous ones. In other words, the parties of the contract may use any of the editions, but in the contract it should be described what particular edition of Incoterms is used to prevent subsequently misunderstandings. The Russian foreign practice is the most common version of Incoterms 1990 (ICC publication number 460 in 1990).

The main purpose of Incoterms is to provide a set of international rules for the interpretation of the most commonly used foreign trade terms of trade. Thus, the misunderstandings of different interpretations of such terms in different countries can be substantially reduced. Therefore, the main advantage of Incoterms is that contracting parties do not need to register separately in the contract a full list of their rights and obligations under the contract, as a unified interpretation of the terms allows to achieve such understanding, in which the parties of a foreign trade contract disputes will not arise.

Section VI of the Civil Code provides the use of Incoterms in contracts concluded by Russian companies with foreign firms and institutions. Thus, according to Art. 1211 of the Civil Code, if in the contract, internationally accepted trade terms are used unless otherwise something specified in the agreement, it is considered that the parties have agreed to use their relationship business practice, referred to the relevant trade terms. While in Russia the use of Incoterms is not mandatory, but in other countries, such as Spain and the Ukraine, applying Incoterms is mandatory. although the usage of the Russian are voluntary in nature, if in the contract reference to Incoterms are made, compliance with the basic conditions of delivery becomes mandatory.

The transaction related to the import of values, work or services performed in accordance with the import of foreign economic contracts, is concluded between the parties prior to the transaction.

Risks can also arise as a result of non-compliance with the conditions of the import contract. Knowledge of these conditions will allow management personnel to correctly formulate the conditions of the contract and get the maximum benefit from the contract. In accordance with Art. 163 of the Customs Code, the importation of goods into the territory of the Russian Federation with a view to their use in productive activities or resale on the territory of Russia (in other words, if the imported goods are in the customs territory of Russia without any obligation on their export from this territory) is carried out under the customs regime of release for domestic consumption. Thus, according to Art. 164 of the Customs Code of the Russian Federation, the goods bought for customs purposes obtains the status of free circulation in the customs territory of the Russian Federation after the payment of customs duties, taxes complying with all restrictions established in accordance with Russian legislation on state regulation of foreign trade activity. When these terms are not completely fulfilled, goods are conditionally released in accordance with Art. 151 of the Customs Code.

With the arrival of the goods and vehicles into the customs territory of the Russian Federation, according to para. 1, Art. 72 of the Customs Code, the carrier is obliged to submit to customs authorities the relevant documents and information, depending on the type of transport. After that, the goods may be unloaded or reloaded, placed on the temporary storage, declared for a certain customs regime or to internal customs transit. Since the presentation of the goods at the point of arrival of such goods acquire the status of temporary storage. In accordance with Art. 123 of the Customs Code, the movement of goods across the customs border must be declared to customs authorities. The price actually paid is the total of all payments made or to be implemented directly by the buyer to the seller or a third party for the benefit of the seller, and these payments may be made directly or indirectly in any form to the seller or a third person in favor of the seller.

Additional charges to the price actually paid will be made on the basis of documented and quantifiable information with the accounting data of the buyer. In the absence of documented and quantifiable information, for additional charges method of the transaction value of imported goods does not apply. At the conclusion of the contract the exporter and the importer provides some means of insuring against unfair counterparty. These measures include a bank guarantee, the use of financial, insurance instruments, making special provisions in contracts, corporate guarantees. Based on the analysis of the essence of exchange control, the forms and methods of foreign exchange control, approaches to risk identification, methods of control and security, can be defined as the risk of currency control on the likelihood of the organization of financial losses due to non-fulfillment or improper fulfillment of the terms of contracts and agreements are concluded within the framework of foreign trade activities.

№	Stage exchange control	Risks of currency control
1	2	3
1. M	Consulting the client	discrepancy of income from the real costs of activities distortion of information employee
2.	Formalization of transaction passport	discrepancy of income from the real costs of activities distortion of information employee
3.	Receiving instructions from the client to conduct foreign exchange operations	discrepancy of income from the real costs of activities distortion of information employee violation of currency legislation
4.	Realization of calculations on foreign currency transactions	discrepancy of income from the real costs of activities lack of coordination between departments of the bank loss of information on currency transactions losses associated with fraud
5.	Adding the documents	discrepancy of income from the real costs of

	of currency exchange to the dossier	activities loss of information on currency transactions losses associated with fraud
6.	Supervising the inverse operation of foreign trade activities	discrepancy of income from the real costs of activities losses associated with fraud
7.	Transmission of information to the bodies of currency control	discrepancy of income from the real costs of activities loss of information on currency transactions spread false information on the system

Risks of foreign exchange controls can be divided into two groups - internal and external. Internal risks are the scope of the analysis and management, in which the organization can bring a real improvement of conducting foreign exchange controls. With regard to the external risks of currency controls, they are manifested in the difficulties of functioning of the exchange control mechanism. The greatest risk in the number of transactions is estimated. Often there are risks: failure of revenues from foreign trade real costs; distortion and loss of information on currency transactions. Therefore, the organization of exchange control these aspects need to pay attention (Table 1).

Recommendations to reduce the foreign exchange risk include:

1. The use of special measures:

• to strengthen the internal control systems of the currency units;

• functionally separation of responsibilities and work between organizational units dealing, currency dealing, service transactions, accounting;

• the introduction of specific requirements for the conclusion and processing of foreign exchange transactions (special forms of accounting, daily reporting, tracking futures contracts with trading partners and risks on those contracts);

• the establishment of limits for the counterparties, i.e. the total amount, for which a certain period may be currency transactions with a partner;

2. The presence of internal regulations, instructions, system requirements reflect the risk identification and assessment;

3. The implementation of a set of measures to reduce the likelihood of risky situations and in the case occur , cover the losses, i.e. systematic monitoring.

Banking Regulatory currency risk continues to be one of the most important tasks of foreign economic activities of businesses.

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