Chapter 9
An Analysis of Risk Transfer and Trust Nexus in International Trade With Reference to Turkish Data

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ABSTRACT

International trade introduces a range of risks, which causes uncertainty over the timing of delivery and payment between exporters and importers. This chapter is a first attempt in dissecting Turkey's trade data in terms of risk allocation and trust between the parties involved. Breaking down Turkish export and import data for the years 2000 to 2018 according to methods of payment and use of currencies, the chapter first finds the risk is distributed unevenly between the exporter and the importer. Then findings are evaluated to open a new avenue of future research, constructed on the inquiry whether emerging economies like Turkey can establish trust in their trade with developed economies by using blockchain technology.

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INTRODUCTION

In international trade, risk is commonly defined as the possibility of loss of or damage to the goods subject to trade. The transfer of risk, according to this definition, refers to bearing all risks associated with the goods traded. As exporters and importers from all over the world come together to carry out trade transactions despite not only geographical distances but economic, political and cultural differences, the transfer of risk and risk management gain more sensitivity.

Risks in international trade can be economic, country-specific, commercial or cultural. Economic risks are risks that contain economic loss to the sides engaged in trade activity. Country-specific risks imply risks of a wide range, from business to political climate in a specific country. Commercial risks are risks associated with the reliability of partners. Cultural risks are based on cultural differences which may be related with a variety of issues like decision making styles, language barriers or differing ethical concerns. Differences in terminology used, unclear or undefined terms of payment potentially lead future disputes between parties involved.

Estimating the transfer of risk is crucial when setting up the trade contract. Exporters need to receive payment as quickly as time permits, ideally when an order is placed or before the goods are sent to the importer. Importers on the other hand, need to receive the goods at the earliest opportunity, yet to defer payment to the extent that this would be possible, ideally until after the goods are resold to create enough revenue to pay the exporter.

Types of payment in international trade are developed with the intention to characterize and harmonize the methods for payments in return of delivery of goods sold across borders. As such, the payment methods are categorized to clear away disparities in national applications, which otherwise may be deterrent to the smooth functioning of international trade. Varying categories of payment ensure that the risk is moved in various routes between the seller and the buyer. Depending on whether the damage or loss is at the buyer or the seller’s risk, each side bears the costs.

This study attempts to diagnose whether Turkey bears a symmetric cost with its partners in bilateral trade in terms of risks undertaken. Assessing Turkish export and import data according to types of payment and use of currencies, the study intends to reveal whether there is a consistent pattern of undertaking risk in favor of the exporter or the importer. If international trade is unevenly structured according to these risk parameters favoring the exporter or the importer, and if the ongoing trade relationship does not at least converge over time to a state relatively even, it is worth examining whether there is an issue resulting from the way countries trade. This paper is a first in the sense that it anatomizes Turkey’s international trade as such and links the findings with the trust issue in international trade. The findings

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