European Research Studies Journal
Volume XXIV, Issue 4B, 2021

pp. 699-712

Risk Mitigation in Business Activities on Emerging Markets

Submitted 16/10/21, 1st revision 01/11/21, 2nd revision 25/11/21, accepted 07/12/21

Piotr Rubaj[1]

Abstract:

Purpose: *The aim of the publication is to present and classify forms of risk in foreign trade. Risk in international business is a common and objective phenomenon, but it is particularly intense on the emerging markets. Unpredictability is usually the main reason that restrains companies from doing business in developing countries. There is a significant demand for the business tools which can mitigate risk in foreign trade, particularly on emerging markets.*
Design/Methodology/Approach: *The methodology used in the publication is based on the analysis of business literature, empirical studies and international reports relating to the problem of risk in foreign trade.*
Findings: *Emerging countries are undoubtedly the most attractive places in the world to invest capital and to obtain above average rates of return. Their explosive economic and demographic development guarantees growing demand for goods and services, and thus virtually unlimited opportunities in business activities. However, the key problem for business in these markets is their high economic instability, political unpredictability and social immaturity. This constant volatility can be described as a state of permanent risk, which is an immanent feature of emerging markets. The most important scientific problem included in the paper concerns the effectiveness of particular forms of risk mitigation in business practice. The study also presents the major financial and trade tools to increase safeness of investments.*
Practical implications: *The present publication undoubtedly has a practical aspect and its conclusions may be applied in formulating business strategies of companies operating in emerging countries.*

Keywords: *Emerging markets, BRIC countries, business and financial risk, economic and demographic development.*

JEL Code: *F10, F34, G32, M21.*

Research type: *Research article.*

[1]*Ph.D., Assistant Professor, Department of International Economics, The John Paul II Catholic University of Lublin, E-mail: piotr.rubaj@kul.pl;*

1. Introduction

Emerging markets are usually the fastest growing economies in the world and in principle they are recognized as the most promising sites for a high rate of return on capital and other investments. There is no doubt about their increasing importance in global economy and various investors find exceptional opportunities to develop business in these significantly differentiated countries. The term of emerging markets is a very complex concept and there is no single coherent definition describing this group of countries Sometimes they are defined as fast growing economies which are progressing toward becoming advanced, sometimes as rapidly industrializing and adopting a free market rules countries.

Other sources underline that emerging markets are countries which are moving away from agriculture and raw material industries to technology and innovation driven economies. There are also descriptions which define emerging markets rather by what they are not than by what they are. These concepts draw attention to market regulations and political stability arguing that emerging markets have political and financial institutions which are less transparent and developed in comparison to liberal regimes, a lack of economic and political predictability and social standards far after the economies with a high value of GDP per capita. It means that the risk related to business development on emerging markets is relatively high and more unpredictable than in the developed economies.

The most recent literature concerning emerging markets is quite comprehensive and there is a variety of papers, books and reports describing different aspects of this group of countries. They concern different aspects of emerging countries – from economic through social and cultural to political ones. In some papers authors search for composite indicators to define the right criteria to distinguish emerging markets from the other economies (Fu-Chiang Yang *et al.*, 2017) while in others we find out attempts to study the market potential (Mona Sinha, 2018) and business opportunities (Poczter, 2018; Leite, 2018). Besides the rich literature it is important to study book references concerning different topics in emerging markets – from global trends (Biswas Rajiv, 2018) through characteristics of particular countries to the analysis of the investment potential in selected markets (Tiku, 2014).

Also, typical international business handbooks, which deliver comprehensive knowledge about global economy, very often relate to problems and opportunities coming from emerging markets (Collinson Simon *et. al.*, 2017). Finally, there are international reports and rankings which aim to organise and categorise countries and markets either according to the level of development or the financial importance and risk (Lourdes, 2018). As examples of well-known global rankings which also include emerging economies we can list Global Competitiveness Report (GCR, 2021) and World Competitiveness Yearbook (WCY, 2021).

2. Boosting Economic and Demographic Growth of Emerging Countries

Regardless of the adopted ways of classifying or comparing different countries included within the group of emerging markets, the strategic importance of these markets in the world economy should be emphasized. Showing a constantly high dynamics of economic growth, they drive the global economic growth and they increase their share in the GDP (World Economic Situation UNO, 2019). The available models of economic forecasts describing the anticipated changes in the period of the nearest three decades, i.e., until 2050, clearly point to a dynamic development of the emerging countries, which is confirmed in the information in Table 1 concerning the changes in the size of the most important world economies as measured in the units of purchasing power.

While in 2014 the group of 12 biggest world economies included 6 countries from North America and Europe, namely the USA, Germany, France, Great Britain and Italy, already in the perspective of 2050 all of them remarkably lower their positions in this ranking, or – like Italy – are placed outside it. Emerging countries considerably increase their economic potential, reaching higher positions in a symbolic ranking, e.g., India, Indonesia, Brazil and Mexico, or they appear in the ranking for the first time, e.g., Nigeria or Saudi Arabia. A distinct advance can also be seen even among the African countries, which are mostly regarded as the most poorly developed, but which in short-term forecasts display a clear increase of GDP per capita as well as stabilization of other macro-economic indexes (World Economic Prospects, 2019).

The analysis of these changes naturally cannot base exclusively on one popular macroeconomic index, which is GDP, but it requires in-depth analytical studies which can capture different aspects of the ongoing processes.[2] For instance, the methodology used in the report *"The World in 2050 Will the shift in global economic power continue"* (PWC, 2015*)* is based first of all on a very complex analysis of long-term macroeconomic processes, excluding non-cyclical short-term and individual economic events[3]. The basis of forecasts concerning economic increase is the Cobb-Douglas function, where potential production Y is determined by physical capital (K), employment (N) and technological progress (N), according to the equation below:

$$y = \alpha(n + e) + (1-\alpha)k$$

[2]*An example of such processes can be very fast liberalization in trade and consistent removal of barriers in trade. An example of such activities can be integration of South-East Asian countries within ASEAN (OECD (2019), "Business Insights on Emerging Markets 2019, pp. 26-27.)*

[3]*https://www.oecd-ilibrary.org/docserver/b4f4e03e-en.pdf?expires=1585220828&id=id&accname=guest&checksum=3EFB22C765F9E4B3791F68E90F0E30C5*

Values of particular variables are consistent with the current trends. Small letters in the equation mean logarithms, while α is the share of salaries assumed for all countries at the level of 0.67. Particular determinants are further analyzed in detail according to the accepted methodology considering the factors determining it.[4]

Based on the analysis conducted in this way we can formulate a clear hypothesis saying that the role and importance of emerging countries in the world economy will be growing significantly in the decades to come.

Table 1. *A comparison of GDP values in the purchasing power units (PPP) in the years 2014, 2030 and 2050*

No.	**2014**		**2030**		**2050**	
	Country	GDP	Country	GDP	Country	GDP
1	China	17 632	China	36 112	China	61 079
2	USA	17 416	USA	25 451	India	42 205
3	India	7277	India	17 138	USA	41 384
4	Japan	4788	Japan	6006	Indonesia	12 210
5	Germany	3621	Indonesia	5486	Brazil	9164
6	Russia	3559	Brazil	4996	Mexico	8014
7	Brazil	3073	Russia	4854	Japan	7914
8	France	2587	Germany	4590	Russia	7575
9	Indonesia	2554	Mexico	3985	Nigeria	7345
10	Great Britain	2435	Great Britain	3586	Germany	6338
11	Mexico	2143	France	3418	Great Britain	5744
12	Italy	2066	Saudi Arabia	3212	Saudi Arabia	5488

Source: *The World in 2050 Will the shift in global economic power continue?, PricewaterhouseCoopers 2015, https://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf.*

The authors of the report mentioned above „*The World in 2050…”* draw attention to the most important processes anticipated by this agency to take place in the nearest three decades. Those which can be included within the clearest and the most predictable ones are 1) a double increase of the size of the world economy unless significant obstacles occur on the way to its development,[5] 2) dynamic development of emerging countries, which will become a meteor in the development of the whole

[4] *The Long View: Scenarios For The World Economy To 2060, OECD Economic Policy Papers, ISNN:2226583X, OECD 2018, p.10.*

[5] *The report was prepared before the coronavirus pandemic and therefore it is difficult to predict fully what long-term influence the negative changes in 2020 will have on the world economy. Obviously, on the one hand, that year indicated clearly negative decreases of the GDP growth rate, while on the other, already the next year of 2021 brought visible improvement, and in case of some countries a double figure of increase in the economic dynamics. More on subject is found in the following point of the present chapter.*

world economy[6], 3) increasing importance of emerging countries outside E7 group[7], 4) the share of the EU27 countries in the world GDP will drop to the level below 10%, which is less than for India, 5) in this period Vietnam, India and Bangladesh will be the three most developing economies in the world, 6) today's advanced economies will still have higher average incomes, but emerging economies should make considerable progress toward leveling this difference by 2050, 7)[8] This will create huge possibilities for enterprises prepared for long-term investment on those markets. This will, however, require patience in order to survive the upheavals recently observed in such economies as Brazil, Nigeria and Turkey, all of which – according to our analysis – still have a remarkable long-term economic potential.

The aforementioned tendencies in the world economy are also confirmed by other reports related to long-term economic prognoses. According to the report of the World Bank „The Road to 2050. Sustainable Development for the 21st Century", with assumed economic growth rates, developing countries, that is emerging markets, whose GDP will be twice as high as the contemporary industrialized countries will benefit.[9] This confirms the earlier formulated thesis that the 21st c. will become an age of domination of developing countries, which are at present on very differentiated levels of development. Also, the information contained in the report „The Long View: Scenarios For The World Economy To 2060", prepared by OECD experts, indicates that the role and importance of the largest economies from the group of emerging markets, which are China and India, will consistently grow.[10] As forecasted by the report's authors, the economic and business center of gravity will shift towards Asian countries. This is certainly another of the important indicators for the exporters in the field of searching for strategic directions of development in foreign trade.

Demographic analyses also confirm the hypothesis formulated before and concerning a constant increase in the importance of emerging countries in the world economy. In accordance with the forecasts of demographic reports, the population of our planet in 2050 will be close to 10 billion, which will be a truly huge challenge as for the achievement of goals of sustainable development in a global view. A

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[6]*By 2050 the economies of the E7 countries could increase their share in the world GDP from about 35% to almost 50%. China can be the largest economy in the world producing about 20% of the world GDP in 2050, the second being India and the fourth Indonesia (on the basis of GDP according to PPP).*

[7]*A number of other emerging markets will appear in the center of attention – by 2050 Mexico might be bigger than Great Britain and Germany considering PPP, while emerging markets might until then constitute six out of seven biggest world economies.*

[8]*The World in 2050 Will the shift in global economic power continue?, PricewaterhouseCoopers 2015, p.3. https://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf*

[9]*The Road to 2050. Sustainable Development for the 21st Century," The International Bank for Reconstruction and Development , The World Bank 2006, p.11.*

[10] *„The Long View: Scenarios For The World Economy To 2060", OECD 2018, p.5.*

permanent population growth is confirmed by the figures in Table 2, but this increase is not proportional to particular regions and countries. Population growth in some of them is far higher than in others, which thus changes the world proportions. It seems to be almost a rule that the countries considered rich and economically most developed lose their demographic potential to the advantage of emerging and developing countries. In the long run it is only African countries and those of West Asia which increase their share in the world population, while the other Asian countries keep or insignificantly lower it, with the European and North American countries clearly losing it.

Table 2. *Prognosis of demographic growth in selected regions of the world in the years 2019, 2030, 2050, 2100.*

Region	2019	2030	2050	2100
World	**7713**	**8548**	**9735**	**10 875**
Sub-Saharan Africa	1066	1400	2118	3775
North Africa and West Asia	517	609	754	924
Central and South Asia	1991	2227	2496	2334
East and South-East Asia	2335	2427	2411	1967
Latin America and the Caribbean	648	706	762	680
Australia and New Zealand	30	33	38	49
Oceania	12	15	19	26
Europe and North America	1114	1132	1136	1120

Source: *World Population Prospects 2019, United Nations, Department of Economic and Social Affairs, Population Division, 2019, United Nations 2019, https://population.un.org/wpp/Publications/Files/WPP2019_Highlights.pdf.*

Significant changes in the population till 2050, and in a broader analysis even until 2100, can also be observed analyzing the biggest economies of the world as well as the countries of West Europe and the United States presented as one group of western countries (Table 3). One can of course wonder how apt the prognoses until more than 80 years forward are; however, the analyses till 2050 have a high likelihood of reliability. The share of the biggest countries of the world in the total population of our globe in the medium and the long term will decrease. An exception is India, which as soon as in the perspective of the nearest several years will become the most populated country in the world (the present share in the world population – 15.9%, and the forecasted share in 2050 – 16.8%). Like in earlier regional analyses, a clear percentage decrease of the population of western countries and China, which is now the most populated country in the world, can be clearly observed.

Table 3. *Prognosis of demographic growth in selected countries of the world in the years 2019, 2030, 2050, 2100.*

Region	2019		2050		2100	
World	**8548**		**9735**		**10 875**	
	Wartość	Udział %	Wartość	Udział %	Wartość	Udział %
China	1434	16.7	1402	14.4	1065	
India	1366	15.9	1639	16.8	1450	

Brazil	211	2.4	229	2.3	181	
Russia	146	1.7	136	1.3	-	-
Europe and North America	1114	12.9	1136	11.6	1120	

Source: *Own analysis based on: World Population Prospects 2019… (https://population.un.org/wpp/)*

Demographic prognoses presented here clearly confirm the earlier formulated hypothesis saying that in the nearest decades both economic and demographic domination will belong mainly to the economies of emerging countries. This fact also has an important practical dimension making global business start to concentrate its investments, capital and activities in the countries of emerging markets.

3. Risk Related to Business Activity on Emerging Markets

Risk in the conditions of market economy is a common and objective phenomenon. It accompanies most economic transactions; however, its intensity and scope are varied and frequently dependent on the specific character of business activities. In case of foreign trade the number of potential unknowns and threats grows very fast and comprises both the forms of risk which must be limited and those on which the exporter has no influence. There is differentiated typology of the forms of risk in international trade but it is quite frequently classified with a division into the following groups: 1/ market risk, 2/ economic risk, 3/ political risk, 4/ social risk, and 5/ risk of force majeure (Kaczmarek, 2012). Another division of risk forms includes 1/ credit risk, 2/ intellectual property risk, 3/ foreign exchange risk, 4/ ethical risk, 5/ shipping risk, 6/ country and political risk.[11]

Regardless of the adopted classifications of the forms of risk occurring in international trade, the division into the most basic two forms is certainly important: the risk that exporters have no influence on, and market risk, in case of which there are different mechanisms and instruments making it possible to reduce it. We can include the following within the first form, i.e. the one that we have no influence on: 1/ political risk, including the risk of suspending or cancelling a transaction for political reasons (riots, war), the risk of different restrictions after concluding the transactions, the risk of the state administration suspending international payments, the risk of requisition or confiscation of goods by state authorities, 2/ social risk connected with unpredictability of such actions as strikes, riots, unrest, or a lack of properly qualified staffs, and 3/ the risk of force majeure, including for example the losses resulting from the effect of natural forces, e.g. fog, storm, earthquake, or lightning. Table 4 presents the authors' own analysis comprising the most frequently

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[11]*(https://www.universalcargo.com/6-risks-in-international-trade-how-to-manage-them/).*

classified forms of risk in international trade, the influence of exporters on the possibilities of preventing the former and the potential forms of limiting it.

Table 4. *Selected forms of risk in international trade, exporter's influence and ways of minimizing it.*

Form of risk	**Impact of exporter**	**Forecasting capability**	**Risk mitigation tools**	**Interaction over time**
Political risk	Lack of impact	Low	Lack of tools	Long time
Macroeconomic risk	Lack of impact	Medium	Lack of tools	Long time
Microeconomic risk	Limited impact	Medium	Market research	Long/ transitional
Social and ethical risk	Limited impact	Low	Market research	Long/ transitional
Force majeure	Lack of impact	Lack	Clauses in the contract	Variables
Market activities	High impact	High	Clauses, insurance, derivatives, risk transfer,	High Variables
Financial credit	High impact	High	Clauses in the contract, insurance, factoring, business intelligence assessments	High Variables
Loss of intellectual property	Limited impact	Lack	Contracts, clauses, litigation	High Variables
Foreign exchange	Limited impact	High	Derivatives, high margins to compensate potential loss	High Variables
Transport and logistics	High impact	High	Insurance, proper conditions,	Ad hoc

Source: *Own elaboration.*

The forms of risk presented above naturally do not exhaust the subject and they do not cover all potential threats including activities on foreign markets. Different authors give different forms and examples of it. Xian Ha (Risk management, 2021) draws attention to very important contemporary threats in the activities on foreign markets, for instance political turbulence, natural disasters or terrorism and at the same time he emphasizes that the issue of risk management in contemporary business is one of the most significant operating activities.

The authors of *International trade risks* (Hoke *et al.*. 2019) see a very important problem, which in international trade is the issue of intellectual property and protection of consumer rights. They give a long list of threats that in this area can be posed by international exchange the examples of which are fake products, dangerous food and pharmaceuticals, as well as other forms of breaking intellectual property right in the field of trade marks, legally protected patents and know-how. They emphasize that it is frequently the markets of emerging countries which are the source of export of large scale fake products.

Risk in international trade is often associated with the specific character of the branch and the commodities. Threats in one branch do not automatically means similar threats in other areas of economic activity. A example of such a risk can be trade in agricultural goods. Baranauskait. L (Import Risks of Agricultural Products in Foreign Trade. Economies 9: 102, 2021) conducts a detailed analysis of the forms of risk accompanying the activity on the food market: supply risks, demand risks, production risks, management plus operational risks, logistical plus infrastructural risks, political risks, policy plus regulatory risks and financial risks. Some of the enumerated threats are certainly common to different activities but certain selected ones, such as the issues of safe supplies in controlled temperature conditions, are without any doubts of key importance in case of food.

While noticing the complex character of the phenomenon of risk in foreign trade and a big number of its forms occurring in business activity on international markets, emphasis should be placed on the fact that there are no uniform models or standards of conduct making it possible to reduce the potential losses systemically. The intensity of the occurrence of risk is very often connected with the specific character of the markets and business activities.

Nevertheless, the threats related to such activities in emerging and developing countries are considerably larger than in highly developed countries which have well-established systems of law and which rigorously observe business rules. The stability of legal regulations, respect for intellectual and non-material property rights, the protection of registered marks and utility models, patents, licenses and know-how are only a few of the features that clearly distinguish democratic market systems from those at the stage of transformation.

A number of authors draw attention to the specific character of risk in emerging countries. In their studies, Solomon and Ruiz (Political Risk, Macroeconomic Uncertainty, and the Patterns of Foreign Direct Investment, 2012) focus on the issue of political and macro-economic risk in direct investments in emerging and developing countries. They arrange the potential variables describing uncertainty on markets in a few groups, and next they make use of the GARCH[12] model in an attempt to estimate the uncertainty. Using the method of Generalized Auto-Regressive Conditional Heteroskedasticity model they create instruments to measure the risk of direct foreign investments in the conditions of uncertain political, macro-economic conditions and in the conditions of changeability of currency rates.

Another author Rodriguez (Country risk in foreign direct investment: Similarities and differences with country risk in Exports, 2016), on the other hand, conducts a comparative analysis of the risk forms in direct foreign investments and in direct export activity. In his reflections he draws attention to such threats as restrictions in payment and convertibility of currencies, property confiscation, expropriation and

[12] *Generalized Auto-Regressive Conditional Heteroskedasticity model.*

nationalization, wars, strikes and arbitrary decisions of administrative authorities. Attempts at estimating the risk associated with macroeconomic uncertainty can also be found in other studies. Adams *et al.* (2021) claim that macro-economic risk is variable in time, asymmetric and partly predictable. They build the corresponding econometric model on the basis of the prognoses of the real increase of GDP, unemployment and inflation (Forecasting Macroeconomic Risks, 2021).

The present classification of risk forms accompanying business activities on international markets, also including the markets of emerging countries, certainly does not exhaust the complexity of the subject. New threats are constantly appearing and they are often connected with technological and digital advance such as cybercrime, extortion and theft of funds from bank accounts, abuse connected with the administration of personal data or illegal trade of fake designer goods which is common in emerging and developing countries.

4. Tools for Risk Mitigation on Emerging Markets

As mentioned earlier, there are a number of risk forms which exporters have no influence on or where their influence is very limited. These include political changes, social conflicts, terrorism or force majeure. In international trade, however, there is a whole set of effective methods which make it possible to effectively mitigate the market risk. We can include here derivative instruments, hedging, insurances, external financing (grants from the institutions of enterprise development). One of the issues of key importance is the company's choice of proper strategies of activity.

The literature provides here a few possibilities of potential activities, starting with risk avoidance through no activity undertaken or bearing the risk with all its consequences, through the creation of special reserves to cover the potential losses, and finishing with more sophisticated activities like risk diversification at various stages of its appearance, the use of fully specialized instruments such as derivatives, insurance or hedging transactions. Propositions of such protections are presented in Table 5, which arranges the strategies aimed to minimize the risk, and the related definite activities.

Table 5. *Possible activities to mitigate risk*

Possible strategies	**Risk level**	**Risk mitigating activities**
Risk avoidance	Lack of risk	Own risk coverage
Bearing the risk	Very high	Own risk coverage
Own risk coverage	High	- Creation of reserves from own capital; - proper price calculation; - financial tools, such as LOC, CAD
Diversification of risk	Intermediate	- dispersion of risks across products, customers and markets
Risk compensation (hedging)	Intermediate	- use of derivatives (futures); - parallel hedging transactions

Transfer of risk	Low	-insurer -partner or partners - others

Source: *Own elaboration.*

Bashynska *et al.* (Modelling the Risks of International Trade Contracts, 2019) present the following stages of the analysis of risk in international trade: 1/risk identification, 2/analysis of the risk and its potential consequences, 3/qualitative, mixed or quantitative attempt to estimate the risk, 4/analysis of the effectiveness of potential activities. In their considerations, the authors of this study present a long list of potential ways of estimating the risk, starting with common brainstorm, through control cards to fully professional analytical methods such as „Impact and probability matrix", Cost-benefit analysis, or „Multicriteria Decision analysis". All these analytical instruments allow identification of threats in international trade, an attempt to estimate its consequences and next adequate activities.

Other examples of potentially effective activities include hedging, which is a strategy to choose such a portfolio of investments which will remove the risk of loss following from the fluctuations of prices of given financial and commodity instruments. This problem is discussed by many authors, e.g., Broll *et al.* (Export, Exchange Rate Risk and Hedging: The Duopoly Case, 2011), emphasizing at the same time that none of the hedging strategies is able to completely eliminate risk and protect investments from unpredictable events and activities on financial markets.

Their aim is only to minimize the risk of transactions. The typical instruments applied in hedging strategies include forward and futures contracts, swaps and options. Conditional payment forms such as letter of credit and documentary collection are certainly a significant way to mitigate risk in trade. Both of the aforementioned ways of settlements between the exporter and the importer considerably limit the level of risk in payment because of the participation of banks in settling the accounts and effective control of trade document flow.

Concerning macroeconomic, and in part also microeconomic and social risk, reports referring to trade and investment risk in selected emerging countries prepared by rating agency Fitch, reports Fitch Solutions can be helpful. The examples can be such reports as „Brazil Country Risk Report. Includes 10-year forecasts to 2029", „China Country Risk Report. Includes 10-year forecasts to 2029", or "India Country Risk Report. Includes 10-year forecasts to 2029".

These reports categorize various risk forms in a clear manner by referring to macroeconomic indexes assessing the condition of the economy, a review of the basic data connected with investment and trade conditions as well as a presentation of monetary and fiscal policies. This analysis is broadened with the issues pertaining to the stability of the national currency rate.

Dedicated services appearing in recent years and categorizing the countries and the risk of running business and investment activity there can also be of importance in assessing the level of business risk in selected countries. An example can be CountryRisk.io platform[13], whose aim is a fully objective analysis of trade and investment risk in selected countries of the world. It offers such features as "country risk dashboard", "transparent credit rating models" , "risk scores" and "searchable country risk research & news". It can certainly be a very important analytical instrument making it possible to monitor and reduce the risk of operating activities on foreign markets.

5. Summary and Key Findings

As mentioned earlier, risk in international trade is a common and objective phenomenon, but it occurs with particular intensity in business activity on the markets of emerging countries. The basic, though very general (and justified) classification includes a division into the risk which can be influenced by the exporter or investor, and the risk which is completely beyond their control. On the one hand, this division is fairly general and does not fully illustrate the complexity of the problem while on the other, it makes it possible to exclude all those potential events which are completely beyond the exporters' control in quite a clear manner. These include political and social threats as well as completely unpredictable events related to force majeure. They include natural disasters, climate changes or the consequences of the natural elements.

There are, however, certain forms of risk that the exporter can influence, where they can monitor their course, foresee the potential consequences and undertake adequate activities to reduce them. These threats together are called market risk and they include different stages in the process of carrying out transactions in foreign trade, starting with the issues concerning contracts, through production, logistics, exchange rates and financial matters. The effectiveness of some of these methods is connected with the specific character of a definite risk and it is common to all export activities, for example exchange rate risk or payment risk, while some are closely related to the specific character of the market, e.g. commodity or transport risk.

Although risk in foreign trade is an element of all activities, significant differences in its intensity in different countries and in different political systems should be emphasized. These differences in relation to the same form of risk can be considerable and result from the level of development of law and market institutions, the stability of financial systems or the quality of the technical infrastructure. Stability of the state institutions, their effectiveness in executing the law and counteracting corruptive practices can also be a problem. Corruptive practices are an especially big problem in emerging and developing countries, where it is frequently a common phenomenon which effectively hinders honest free market competition.

[13] *https://www.countryrisk.io/about*

This thesis is confirmed in the ranking „Corruption perceptions Index 2020”[14], comprising 180 countries, where it is emerging and developing countries which occupy the furthest places. Summing up, it can be stated that on the one hand, emerging countries – due to their dynamic economic and demographic development – can make very attractive export and investment markets with a potentially high activity efficiency ratio. On the other hand, however, the list of potential threats and the intensity of their occurrence is very long.

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[14]*The ranking is prepared by an international institution „Transparency International” and it is published annually.*

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