Chapter 7

FOREIGN TRADE AND HEDGING OF EXCHANGE RATE RISK: ANALYSIS OF TR33 REGION IN TURKEY[1]

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INTRODUCTION

The effects of the uncertainties in foreign exchange rates on international trade have been discussed for many years. The fixed exchange rate system, which began with the Bretton Woods negotiations in 1944, was replaced by the global oil crisis and monetarist policy practices in 1973 to the floating exchange rate system. Since then, fluctuations in exchange rates have started and all firms, especially those who have direct foreign trade transactions in different countries, have faced the exchange rate risk.

Exchange rate risk is defined as the probability of change in assets, resources and cash flows of the firms in good or bad value due to unexpected changes in exchange rates in the future (Glaum, 1990). Exchange rate risk occurs in foreign trade transactions in foreign currency, in international financial transactions and foreign investments (Yıldız & Çiftci, 2011). The main reason for the exchange rate risk occurring in such transactions is the fact that receivables and debts are formed on different currencies and the amount of these receivables and debts are different from each other. From a broad perspective, the uncertainty and fluctuations in the exchange rates are regarded as a factor that disrupts foreign trade by policymakers and the public (Straathof & Calio, 2012). However, the changes in the exchange rates may affect the firms that have foreign operations and thus foreign trade, but also all the activities of the domestic firms, positively or negatively. For example, the effects of exchange rate fluctuations on energy prices and complementary sector or firm costs indirectly expose these firms which do not have a direct foreign trade transaction to the foreign exchange risk.

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In this study, knowledge and usage levels of the firms which have foreign trade transactions can be used for the exchange rate risk management are determined by the survey method applied in 91 firms operating in TR33 Region. As a result of the analysis, it was seen that almost all of the firms followed the exchange rates continuously during the day, but few of them had knowledge about the techniques that could be used in avoiding the damages caused by the changes in exchange rates and used them. Most firms follow exchange rates in the context of accounting for receivables and debts denominated in foreign currency, regardless of risk management. Findings reflect the situation of a limited number of large-scale firms operating in a specific region. Although it cannot be generalized for all firms across the country, it is accepted by everyone that the changes in exchange rates affect almost all firms, especially those dealing with foreign trade and that the risks arising from this change should be managed. For this reason, firms should not only follow exchange rates but also realize the foreign trade transactions through expert and experienced persons and thus try to minimize the losses caused by changes in exchange rates. However, to achieve the expected benefits from the use of these techniques, it should be noted that macroeconomic indicators such as international developments, inflation and interest rates, the balance of payments deficits, foreign exchange supply and demand should be closely and carefully monitored.

It is thought that the study will contribute to similar empirical research in different scales, firms, countries, regions or sectors.

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