



## THE ROLE OF INSURANCE IN INTERNATIONAL TRADE

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Article history:	Abstract:
<b>Received:</b> 28 <sup>th</sup> May 2024 <b>Accepted:</b> 26 <sup>th</sup> June 2024	Foreign trade insurance plays a pivotal role in mitigating the inherent risks associated with international business transactions. This paper explores the various types of foreign trade insurance, examining their mechanisms, benefits, and limitations. It analyzes the impact of such insurance on global trade, highlighting its contribution to economic growth and stability. Furthermore, this article discusses the challenges and future trends in the foreign trade insurance market, emphasizing the importance of innovation and adaptation in an increasingly interconnected world.

**Keywords:** Foreign Trade Insurance, Credit Insurance, Political Risk Insurance, Risk Management, Global Trade, Economic Growth, Digitalization.

### INTRODUCTION

Globalization has led to a significant increase in cross-border trade, creating new opportunities for businesses but also amplifying the risks associated with international transactions. Foreign trade insurance, a crucial risk management tool, offers protection against various uncertainties, such as political instability, non-payment by foreign buyers, and natural disasters. This paper explores the multifaceted nature of foreign trade insurance, analyzing its impact on global commerce and outlining its potential for further development. It offers coverage against non-payment or delayed payment by buyers, insolvency, political risks, and other commercial uncertainties that can arise during cross-border transactions. Trade between countries in the world now, has a close relation with insurance. Insurance is a means of economic compensation, plays an important role in international trade. The development of international trade not only promotes the progress of the insurance industry, which in turn requires the insurance industry to provide better service, in order to ensure the smooth development of international trade. The scale and scope of China's foreign economic and trade is large, the number of import and export trade enterprises is large, at the same time, the risk of the enterprises are also increases. Therefore, workers engaged in foreign economic and trade, not only to master the knowledge of international trade, but also to fully understand and learn to provide security services for international trade insurance knowledge, and apply it to the real business of international trade, in order to guarantee our international, the healthy development of trade career. In international trade, insurance and the prices of goods, freight has been integrally formed. To support the development of China's foreign trade, and to better carry out insurance

business, further clarifying the insurance status and role in international trade is essential.

### METADODOLOGY.

#### Research and analysis.

At present, there is still a serious shortage of international market demand, Our foreign trade still faces a severe contraction in the international market. In the current situation, it is important that we reasonably avoid the risk of foreign trade, so as to effectively promote foreign trade.

*A. Optimize the structure of export product, enhance product competitiveness*

In international competition, the competitiveness of exports of a country has a pivotal position, enhancing the competitiveness of export commodities is the core of optimizing the structure of export commodities.

China's current level of industrial structure is still very low, the problem of export dependency on the high side is very serious. The government should increase support for the export of Chinese products, The government should put the appropriate policies, Such as tax, finance, loans to support export companies, so that we can optimize the structure of export products, so as to gradually realize comparative advantages, Realize the transformation from the original labor-intensive products to capital and technology-intensive products.

*B. Establish a diversified market*

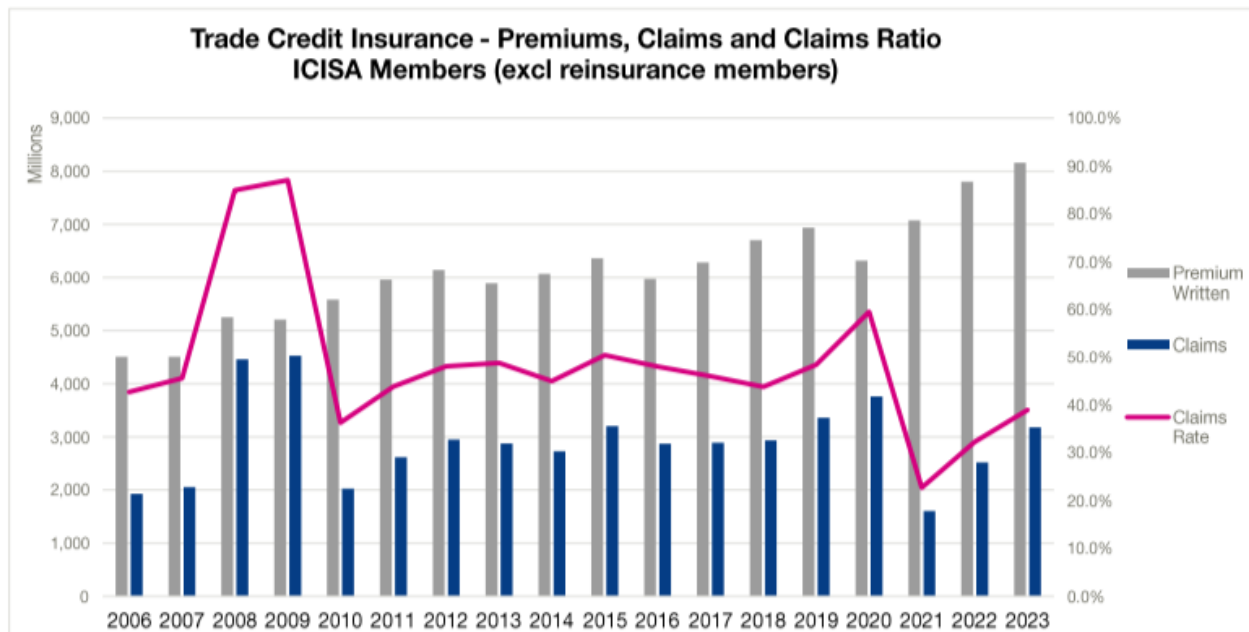
The future of China's export trade should be taken to increase domestic demand and expansion of exports strategy, Seek to break. Export enterprises should adjust the product marketing strategy, continue to explore the diversified international market. In addition to continuing to maintain and develop our traditional markets such as the US



market, the market outside the EU, should also be established to expand marketing channels in emerging markets, such as the Russian market, India, Vietnam and so on. China's accession to the WTO makes A wide range of our country enterprise to participate in global competition, Capital goods exports gradually speed up the pace, Compared with the general product output, capital output dependent on financial support more and more strict with risk

safeguard measures[1]. Chinese government reference to WTO rules and international practice, intensify policy support of foreign economic relations and trade. Through the international prevailing means of export credit insurance, In the process of enterprise actively explore overseas markets, providing export financing and foreign exchange risk guarantee, Support the survival and development of the internationalization of Chinese enterprises.

**Picture 1. Trade credit insurance<sup>1</sup>**



**Types of Foreign Trade Insurance:**

- Credit Insurance, it provides coverage against non-payment by foreign buyers due to insolvency, bankruptcy, or political risks. This insurance protects exporters from financial losses arising from bad debts.
- Political Risk Insurance, it covers losses caused by political events such as war, expropriation, or government restrictions on trade. It provides financial security against unexpected disruptions in the global market.
- Transportation Insurance, it protects goods in transit against damage or loss during transportation, encompassing risks from accidents, theft, or natural disasters.
- Marine Cargo Insurance, it pecifically covers marine risks associated with the transportation of goods by sea, including perils of the sea, fire, and pilferage.
- Trade Credit Insurance, it offers comprehensive coverage against various credit risks, including non-payment, insolvency, and political risks, providing protection for both exporters and importers.
- Increased financing opportunities, insurance coverage can enhance creditworthiness, enabling exporters to access financing more readily and facilitating larger-scale transactions.
- Stable supply chains, insurance protects against disruptions caused by unforeseen events, contributing to the stability and efficiency of global supply chains.
- Economic growth and development, by facilitating trade and promoting investment, insurance mechanisms contribute to economic growth and development in both developed and developing countries.

**Challenges and Future Directions:**

1. Growing Complexity: The increasing interconnectedness of global trade necessitates evolving insurance solutions to address emerging risks, such as cybercrime and climate change.

<sup>1</sup> <https://icisa.org/wp-content/uploads/2024/06/ICISA-TCI-Insured-Exposure-2006-2023.pdf>



2. Data and Technology: The use of big data, analytics, and artificial intelligence in risk assessment and pricing is crucial for innovation in the insurance sector.
3. Regulatory Harmonization: Streamlining regulations and promoting greater harmonization across different countries can simplify trade insurance processes and reduce costs.

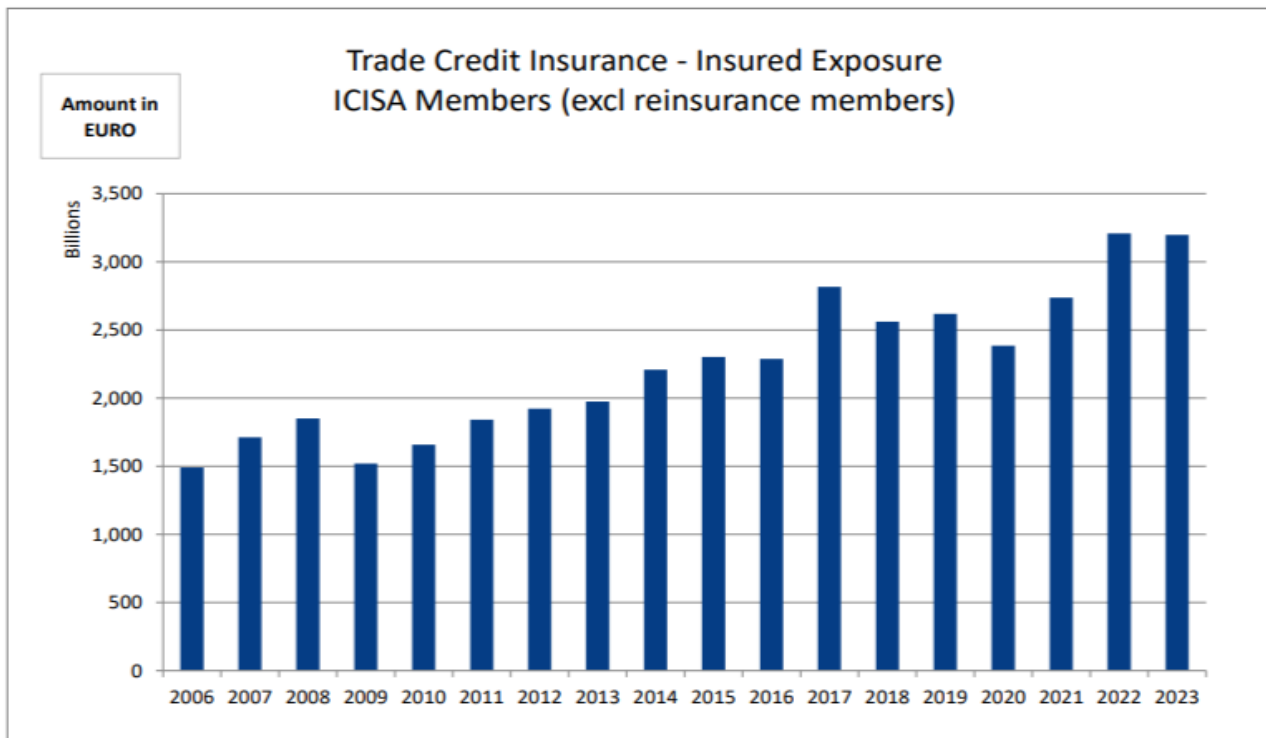
Benefits of Foreign Trade Insurance:

Reduced Financial Risk: Foreign trade insurance helps businesses mitigate financial losses associated with unpredictable events, allowing for better planning and risk management.

Enhanced Access to Finance: Insurance policies can serve as collateral, providing access to credit and financing for exporters and importers.

Increased Trade Volume: By reducing risk and promoting confidence, foreign trade insurance facilitates increased trade volume, boosting economic growth.

Picture 2. Trade credit insurance<sup>2</sup>



**RESULT.** Insurance has an important position in international trade. Foreign trade usually go through long-distance transport, whether by sea, land, air, or land and sea transport all have a certain amount of risk, due to natural disasters and accidents, transport and cargo may have caused the loss. In order to guarantee safe transport of goods, the importer and the exporter, and the urgent need for both sides are willing to participate in the insurance, which is the fundamental reasons that insurance has become one of the fundamental prerequisites for foreign trade. First, there must be a country's foreign trade, then need import and export insurance. If there is no foreign trade, insurance will lose clients.

Before the liberation, China's economic dependence imperialism, import and export trade volume is very small, then the insurance is useless. After the liberation, the development of China's foreign trade each year, import and export transportation insurance for foreign trade has increased year by year. Therefore, we can say that the development of foreign trade is a prerequisite for the development of insurance, in turn, the development of insurance has provided a guarantee for the foreign trade business, help to further engage in foreign trade. Participated in the foreign trade department of insurance in favor of improving the management level. This is because the insurance company through a

<sup>2</sup> <https://icisa.org/wp-content/uploads/2024/06/ICISA-TCI-Insured-Exposure-2006-2023.pdf>



large number of business activities, especially in the inspection damage, claims handling process, can accumulate information, to understand the reasons for the damaged goods, to detect the presence of transport, handling, packaging, and other aspects of the problem[4], to the authorities comments and suggestions conducive to prevention, loss prevention, to reduce the loss of state property, maintaining merchandise credit, foreign trade sector will help improve the management of goods, improve economic efficiency[5].

Insurance companies foreign institutions, but also to provide information for the foreign trade sector and economic intelligence, providing customers with credit terms of management style and materials for foreign trade departments. International trade is the lifeblood of the global economy, connecting nations and facilitating the exchange of goods, services, and ideas. However, this complex web of transactions is inherently fraught with risks. From natural disasters and political instability to currency fluctuations and contract breaches, a myriad of uncertainties can disrupt supply chains, derail transactions, and inflict significant financial losses on businesses. This is where insurance steps in, playing a crucial role in mitigating these risks and enabling the smooth functioning of international trade. Insurance mechanisms act as a vital safety net for businesses involved in international trade. They provide financial protection against a range of potential perils, offering peace of mind and enabling businesses to confidently engage in cross-border transactions. By mitigating risk and fostering confidence, insurance enables businesses to:

- **Expand Markets:** Insurance reduces risk aversion, allowing businesses to venture into new markets without fear of crippling financial losses.
- **Secure Funding:** Lenders and investors are more willing to finance transactions when businesses have robust insurance coverage, making it easier to access capital for expansion and growth.
- **Stabilize Supply Chains:** Insurance protects against disruptions caused by unforeseen events, ensuring the reliability and stability of global supply chains.
- **Mitigate Political Risks:** Insurance can cover losses stemming from political instability, government interference, or expropriation, offering crucial protection against unpredictable geopolitical events.

The foreign trade department of the insurance company losses due to natural disasters and accidents

caused by the Organization for Economic compensation in a timely manner, can guarantee the normal operation of the foreign trade sector and the difficulties uninterrupted cash flow does not occur, help strengthen trade and economic accounting and there are plans to conduct business[6]. A example is the Iran-Iraq war 24 Vessels total loss, the insurance company claims \$ 14.3 million. Timely processing of foreign trade insurance company's compensation case, make reasonable financial security of the foreign trade sector, which is conducive to the normal national foreign economic and trade activities[7]. Insurance promotion of foreign trade has become increasingly valued by the people in many countries to conduct international insurance business as an important means for foreign exchange earnings[8], balance of international payments. Intense competition in the international insurance situation, we need to strengthen the theoretical study on the insurance status and role in international trade and improve the insurance awareness and promote the development of foreign insurance undertakings. Since liberation, our insurance business several ups and downs, the domestic insurance closed over two decades, foreign insurance are not properly developed, net premium income accounted for only 3% of non-trade foreign exchange earnings of the country, international and China status is not commensurate, we should intensify work in this area. First of all, we have to play our insurance advantages, adhere to the unified leadership unanimously principle. Second, we must strengthen the foreign trade sector support for insurance in foreign trade sector negotiations, whether import, export, must fight for insurance in the country. Third, to enhance its services to simplify the insurance procedures, conduct timely and reasonable rationale stickers, and establish the credibility of China's insurance. Fourth, in terms of the provisions of the insurance types, rates, terms, etc., the insurance company should refer to national convention, to adopt a flexible approach, try to meet the needs of foreign trade, in order to facilitate business and improve the ability to compete with foreign investors, thus insurance can play a better role in international trade.

**CONCLUSION.** Foreign trade insurance plays a vital role in fostering global commerce by mitigating risks and facilitating access to international markets. Its contribution to economic growth and stability is undeniable, and its future development will be shaped by the ongoing need for innovative and comprehensive solutions to address emerging global challenges. As the world becomes increasingly interconnected, foreign trade insurance will continue to play a crucial role in supporting businesses and facilitating a more stable and prosperous global economy.



We should take some measures to avoid risks in foreign trade activities, In order to effectively promote the foreign trade. For status and role of insurance in the international trade is very important, Insurance can not only promote the development of China's foreign trade industry, but also can support the national economic development, in addition, the insurance can also conducive to the foreign trade departments to carry out the work.

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