Revaluing the Chinese Yuan: Case Questions

1. Many Chinese critics had urged China to revalue the yuan by 20% or more. What would the Chinese yuan’s value be in U.S. dollars if it had indeed been devalued by 20%?

2. Do you believe the revaluation of the Chinese yuan was politically or economically motivated?

3. If the Chinese yuan were to change by the maximum allowed per day, 0.3% against the U.S. dollar, consistently over a 30 or 60 day period, what extreme values might it reach?

4. Chinese multinationals would now be facing the same exchange rate-related risks borne by U.S., Japanese, and European multinationals. What do you believe would be the impact of this rising risk will be on the strategy and operations of Chinese companies in the near-future?
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3. If the Chinese yuan were to change by the maximum allowed per day, 0.3% against the U.S. dollar, consistently over a 30 or 60 day period, what extreme values might it reach?
   • All the following outcomes follow the calculation as shown here for the 30 day revaluation:
   \[
   \text{Value at end of 30 days} = \frac{Yuan 8.11}{(1 + 0.003)^{30}} = Yuan 7.41/\$
   \]
   • If the yuan were to revalue by 0.3% per day for 30 days against the U.S. dollar, assuming an initial value of Yuan 8.11/$, its value at the end of 30 days would be Yuan 7.41/$.
   • If the yuan were to revalue by 0.3% per day for 60 days against the U.S. dollar, assuming an initial value of Yuan 8.11/$, its value at the end of 60 days would be Yuan 6.78/$.
   • If the yuan were to devalue by 0.3% per day for 30 days against the U.S. dollar, assuming an initial value of Yuan 8.11/$, its value at the end of 30 days would be Yuan 8.87/$.
   • If the yuan were to devalue by 0.3% per day for 60 days against the U.S. dollar, assuming an initial value of Yuan 8.11/$, its value at the end of 60 days would be Yuan 9.71/$.

4. Chinese multinationals would now be facing the same exchange rate-related risks borne by U.S., Japanese, and European multinationals. What do you believe would be the impact of this rising risk will be on the strategy and operations of Chinese companies in the near-future?
   • Chinese multinationals will now increasingly face the multitude of currency risks – transaction exposure, operating exposure, and translation exposure – faced by multinational firms resident in floating currency markets like that of the United States, Japanese yen, and European euro.
   • As the following chapters will describe, this rising currency risk will affect every dimension of their sales growth, profitability, and general competitiveness from this point onwards into the future. Life and business was certainly easier under the previous fixed exchange rate regime.

The Future Global Currency Landscape?

~ July 2005 restructing of the yuan is its first step towards becoming a stronger and stronger player
~ Chinese government will strive to maintain an equal footing/parity against the $ and the €