Research and Analysis on the current situation of foreign exchange risk management of transnational corporations in China

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Abstract: In line with the principle of implementing the basic national policy of opening to the outside world, in recent years, the construction of China's open economic system has been steadily promoted. With the implementation of the policy of "one belt and one road", more and more enterprises in China begin to go abroad and become multinational corporations. Multinational enterprises will produce a large number of foreign exchange positions in the daily business operation of the company, and will inevitably face foreign exchange risks. The correct and effective management of foreign exchange risk is conducive to enhance the competitiveness of enterprises and enhance the profitability of the company. However, due to the lack of experience in foreign exchange management in China, enterprises cannot well assess and prevent foreign exchange risk and risk loss. This paper expounds the foreign exchange risks of multinational enterprises and the main types of foreign exchange risks, finds out the existing problems through analyzing the current situation of foreign exchange management of multinational enterprises, and puts forward constructive suggestions. It is expected that multinational enterprises can carry out effective foreign exchange risk management to prevent risks, reduce costs and maximize profits.

1. Introduction

Foreign exchange risk management is a very important part of the operation and management of multinational enterprises. Having a good foreign exchange risk management ability is conducive to enhancing the competitiveness of multinational enterprises in the international market. However, China's foreign exchange market is underdeveloped, the awareness of foreign exchange risk of enterprise personnel is not strong, and the internal foreign exchange risk management system of enterprises is backward, which makes China's multinational companies unable to judge, evaluate and deal with foreign exchange risk well. In view of these problems, this paper proposes to gradually open the foreign exchange market, establish and improve the foreign exchange risk management system from the perspectives of the state and enterprises and so on.

2. The connotation of foreign exchange risk of transnational corporations

Due to the occurrence of transnational business, multinational companies hold a large number of diversified foreign exchange positions. Due to the influence of balance of payments, inflation rate, interest rate, economic growth rate, fiscal deficit, foreign exchange reserves, investors' psychological expectations and foreign exchange policies of various countries, foreign exchange rate will inevitably fluctuate greatly from time to time, which makes the company face foreign exchange risk and affect the value of foreign exchange. However, the uncertain settlement time and trading environment of multinational enterprises increase the influence of foreign exchange rate fluctuation on foreign exchange position. The impact of exchange rate fluctuations makes the real income of

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multinational enterprises uncertain, which easily deviates from the expected income, leading to the possibility of economic losses for multinational enterprises.

3. An overview of the major foreign exchange risks faced by transnational corporations

The foreign exchange risks faced by multinational enterprises are various. A correct understanding and definition of foreign exchange risk is conducive to multinational enterprises to carry out timely risk positioning for the company's risk problems, find out the causes of the risks, and explore the existing problems in the company's foreign exchange risk management and control. It is beneficial for enterprises to formulate solutions for foreign exchange risk, improve the level of foreign exchange risk management and improve the international competitiveness of multinational companies.

3.1 Conversion risk

The financial statements of foreign subsidiaries of multinational enterprises are measured in foreign currency. When the parent company needs to consolidate financial statements, it needs to convert financial information such as assets and liabilities measured in foreign currency into financial information measured in local currency. Due to the fluctuation of exchange rate, multinational enterprises are faced with the risk of additional economic gains or losses caused by the translation of financial statements, which is called translation risk. The company needs to effectively forecast, evaluate and control the conversion risk by accurately predicting the market changes, selecting the appropriate conversion period, selecting the appropriate operation and management methods, etc

3.2 Transaction risk

In most cases, the business transaction time and the actual settlement time of transnational corporations are not consistent, resulting in many assets receivable and debts payable of transnational corporations, while the timeliness of exchange rate and the characteristics of large fluctuation make the value of assets receivable and debts payable face the risk of change, which is the so-called transaction risk. Transaction risk is a common risk. We can effectively reduce the occurrence of foreign exchange losses by accurately predicting market dynamics. Based on the principle of hard to collect and soft to pay, we can shorten the transaction time as much as possible, and reasonably arrange the return time of funds. For example: in import transactions denominated in foreign currency, if the currency to be paid will appreciate, the payment time should be shortened to reduce the rise of exchange rate; if the currency to be paid will depreciate, the payment time should be extended appropriately.

3.3 Settlement risk

Due to the characteristics of large and frequent fluctuation of foreign exchange rate and the current situation that most transactions are denominated in foreign currency, multinational enterprises are faced with the risk of using different currencies to produce unpredictable impact on the earnings of enterprises in transaction settlement. Therefore, multinational enterprises must always pay attention to the market dynamics, predict and plan currencies that may depreciate or appreciate, and select appropriate currencies for pricing and settlement. For example, a multinational company intends to export a batch of air conditioners. According to the current foreign exchange rate, 1 US dollar is equal to 6.94 yuan. If the price of this refrigerator is 3000 yuan, it is about 432.50 US dollars. When the exchange rate of the U.S. dollar rises to 7.00, that is, 1 U.S. dollar is equal to 7.00 yuan, and the price of this refrigerator is still 3000 yuan, but at this time, it's only equivalent to 428.57 U.S. dollars, a whole difference of 3.93 U.S. dollars. If it is denominated in RMB, no matter whether the currency of the country rises or falls, it has no great impact on Chinese enterprises. What benefits is the United States, which is equivalent to buying goods of the same value with less money. But if it's priced in US dollars, it's equivalent to a refrigerator priced at US $432.50. When the exchange rate goes up, the price is still US $432.50, so the export enterprise is the profit maker of foreign exchange risk, with each refrigerator priced at US $3.93 more. On the contrary, if the exchange rate of the US dollar becomes lower, the result will be exactly the opposite. Therefore, choosing the currency with the price tag has a great impact on the foreign trade of the enterprise.

3.4 Business risk

The change of the unexpected real exchange rate of MNCs has an impact on the present value of the future cash flow of MNCs, which makes MNCs face the risk of value fluctuation. The production of operational risk is mainly the change of real exchange rate caused by the relative change of economic factors of the two countries, which affects the overall value of the company and the international competitiveness of the company. Therefore, the degree of operational risk a company bears is to measure the degree to which the change of real exchange rate will affect the real value of the company. Economic risks include natural factors, social factors, sales factors and many other aspects, including the large economic environment, which is difficult to avoid to some extent. Enterprises should take risk management measures and strengthen risk control.

4. An analysis of the current situation of foreign exchange risk management of transnational enterprises in China

With the support of national policy and the development of economy, more and more multinational enterprises appear in our country. The foreign exchange risk has a great impact on the profitability, management level and operation of enterprises. Due to the late start of China's foreign exchange market, the internal foreign exchange management system of multinational enterprises is not perfect and so on, compared with the developed countries, China's multinational enterprises do not have strong control ability of foreign exchange risk. This paper mainly analyzes the current situation of China's foreign exchange management from the following aspects.

4.1 Staff members of multinational enterprises lack awareness of foreign exchange risk.

At present, the management of multinational companies in China is lack of the awareness of foreign exchange risk for the staff of various departments. Each link of multinational business is closely related to foreign exchange and foreign exchange risk. No matter the management, or the staff engaged in sales, procurement, finance and other links, if they do not have enough foreign exchange related knowledge reserve and foreign exchange risk sensitivity, it is difficult to make the correct prediction, management and avoidance of foreign exchange risk decision in the work, which is not conducive to the continuous operation and management of the enterprise. For example, when conducting foreign exchange transactions and foreign exchange management, the staff of the enterprise pay too much attention to the immediate interests due to the lack of foreign exchange risk awareness, and ignore the risk of cost control and the possible loss of profits due to exchange rate changes.

4.2 There is no advanced and perfect foreign exchange risk management system in the enterprise

At present, most multinational companies in China have not formed a perfect foreign exchange risk management system. Many companies continue to use the traditional management concepts and methods for foreign exchange management, lack of innovation and reform spirit, which makes it difficult for companies to quickly and accurately resist foreign exchange risk. On the one hand, the traditional concept is too conservative, lacks the ability to solve practical problems, and is not closely integrated with the company's business strategy and daily work, which makes it difficult to implement the foreign exchange management. On the other hand, at present, the single and backward management methods, lack of technical content, lack of clarity and other shortcomings lead to the failure of effective foreign exchange risk management. The company should introduce advanced technical analysis methods, formulate clear management strategies, and conduct foreign exchange risk management correctly and effectively. For example, some enterprises' foreign exchange risk management system is not perfect, and the financial department is responsible for the whole foreign exchange management work. Because the financial department only pays attention to and deals with it from the perspective of "capital", it lacks sufficient handling skills and experience, and other departments lack enthusiasm and participation, which makes the enterprise's foreign exchange risk management lack of comprehensiveness.

4.3 China's foreign exchange market is not developed enough, and enterprises' foreign exchange risk prevention tools are relatively single

China's foreign exchange market starts late, is not fully open and develops slowly. Compared with the fully open and developed foreign exchange market, there is still a big gap. The underdeveloped foreign exchange market restricts the innovation and introduction of foreign exchange risk prevention tools, as well as the training and introduction of relevant talents. At present, the foreign exchange risk prevention tools used in China are relatively single, and NDF, a general financial transaction tool in the international trading market, is often used to prevent foreign exchange risk. Although this method is simple in structure and easy to use, it is not universally applicable and has poor liquidity. Multinational enterprises should learn and introduce more advanced experience and technology of international foreign exchange management, introduce and innovate foreign exchange management tools, and guard against foreign exchange management risks in a diversified and more effective way.

4.4 When domestic multinational enterprises import and export, they often face double exchange rate floating pressure.

When cross company purchases imports, it usually uses US dollar as settlement currency, so it needs to face the pressure of floating US dollar exchange rate. In addition, due to the limitation of the trade status of Chinese multinational enterprises in the international market and the current situation that most countries are willing to pay in their own currencies, in order to improve the competitiveness of export goods, in most cases, Chinese multinational companies accept foreign currency payments from other enterprises. Therefore, enterprises are facing the pressure of foreign currency exchange rate fluctuation. This kind of practical problems make multinational enterprises face a wider range of settlement risks and transaction risks.

5. Measures to improve the foreign exchange risk management of transnational enterprises in China

In view of the common risks in foreign exchange management and the problems encountered in the foreign exchange management of transnational enterprises in China, the following is a specific analysis from the national and enterprise levels, including enterprise system, personnel management, position management and foreign exchange instruments.

5.1 Enhance staff's awareness of foreign exchange risk management

The management of an enterprise should first realize the importance of foreign exchange risk management to the cross enterprise operation, and realize that all business links of the enterprise, including procurement, production, finance, management and sales, are closely related to foreign exchange management, and then take measures to regularly train the relevant personnel in foreign exchange knowledge, which can be conducted by purchasing online courses or online training At the same time of cultivating their awareness of foreign exchange risk and sensitivity to foreign exchange risk, we should pay attention to the cost saving of the enterprise, and regularly carry out relevant examinations, so that the staff of the enterprise realize that the fluctuation of exchange rate has a significant impact on the income of the enterprise, so as to implement the concept of foreign exchange risk management in the actual work and achieve the purpose of risk prevention and control.

5.2 Establish and improve the foreign exchange risk management system of enterprises

An enterprise shall form a set of foreign exchange risk management system that is in line with its own actual development, including the measurement and assessment of foreign exchange risk, the response measures for different foreign exchange risks, and the understanding and use of foreign exchange hedging tools. On the one hand, enterprises should learn and innovate foreign exchange management technologies and concepts in time, effectively use big data, cloud computing and other technical means to conduct foreign exchange risk analysis, and introduce and innovate foreign exchange hedging tools. On the other hand, a foreign exchange risk management team should be set up to carry out special foreign exchange risk management and timely introduce and cultivate technical and management talents. When there is foreign exchange risk in an enterprise, the risk shall be accurately defined and evaluated in time, and the overall economic benefits of the enterprise shall be put in the first place, and effective countermeasures shall be formulated in combination with the actual situation.

5.3 Gradually opening up China's foreign exchange market

The open foreign exchange management and trading environment provides a precondition for the use of more hedging tools, which is conducive to the innovation and introduction of more advanced foreign exchange management tools, as well as the cultivation and introduction of foreign exchange management talents. Therefore, the state should gradually open the foreign exchange market, establish a more safe, reliable, complete and sound foreign exchange management system and keep pace with the times, try to provide a more open foreign exchange management and trading environment for multinational enterprises, and effectively serve the masses of China.

5.4 Choose the right currency

When multinational companies conduct import and export trade with other countries, using local currency for settlement and valuation can effectively avoid the risk of foreign exchange rate when the fluctuation of foreign exchange rate is difficult to predict. Chinese multinational companies are more inclined to use RMB for valuation. However, in most cases, China's import and export trade uses foreign currencies for pricing and settlement. Because using different foreign currencies will bring different degrees of foreign exchange risks to enterprises, multinational enterprises should select appropriate currencies for pricing in line with the principle of "hard to pay soft". In the daily operation of an enterprise, if the enterprise exports goods or services, the currency with the exchange rate rising shall be selected at the time of valuation or settlement. If the enterprise imports goods or services, the currency with the exchange rate falling shall be used as much as possible.

5.5 Reasonable arrangement of foreign exchange revenue and expenditure time

In the daily operation of multinational companies, the signing time of contracts and the actual payment time are often inconsistent. In order to effectively avoid the impact of exchange rate risk, enterprises can adjust the amount of foreign exchange positions by adjusting the time of receipt and payment or by using foreign exchange hedging tools. For example: when the enterprise needs to pay foreign currency in the future, when the staff predict that a certain foreign currency will increase in value, they should take measures to pay in advance. On the contrary, when predicting the depreciation of foreign currency, they should try to delay the payment or form the enterprise's deferred debt.

5.6 Familiar with various foreign exchange trading tools

When the settlement date of the business contract of the multinational enterprise cannot be changed or the enterprise actively or passively generates foreign exchange position due to other reasons, in order to achieve the purpose of effective exchange or avoiding foreign exchange risk, the enterprise needs to be familiar with and effectively use various foreign exchange trading tools, and timely introduce and innovate foreign exchange trading tools. The following is a comparative analysis of several commonly used foreign exchange trading instruments (as shown in Table 1)

Table 1. Comparison of several commonly used foreign exchange trading instruments

Forex tools		Definition	Merits and Demerits	Target
Spot trading		Settlement and sale of foreign exchange of settlement funds within two days handled by the enterprise to the bank	**Advantages**: Convenient and quick, locking in current cost； **Disadvantages:** greatly affected by exchange rate fluctuations	Exchange; Risk free management
Forward trading		The enterprise and the bank sign a forward settlement and sale agreement to stipulate the foreign exchange currency, amount, term and exchange rate of the future settlement and sale of foreign exchange	**Advantages:** fully lock in future delivery exchange rate; simple product structure. **Disadvantages:** Deposit required; Inflexible transaction; Poor liquidity	Risk management, mainly to maintain value
Swap transaction	**Foreign exchange swap**	The enterprise and the bank sign a contract on the agreed term, exchange rate, currency, amount and direction, and the two parties exchange different currencies in reverse at the specified exchange rate at the beginning and end of the period	**Advantages**: Effective allocation of funds, low cost **Disadvantages:** Over-the-counter trading, inflexible	Risk management, mainly to maintain value
	Currency swap	It refers to the transaction in which the agreed amount of RMB and foreign currency principal are exchanged within the agreed period, and the interest of two currencies is exchanged regularly	**Advantages:** Retains US dollar assets and gains RMB liquidity; it improves US dollar deposit yield; **Disadvantage:** Poor liquidity in floor trading	Risk management for value preservation and appreciation
	Interest rate swap	According to the international market interest rate trend, the debtor converts its own floating (fixed) interest rate debt into fixed (floating) interest rate debt and locks in interest rate cost	**Advantages:** Reduce the borrowing cost of customers and avoid the risk of interest rate fluctuation; **Disadvantages:** Affected by the interest rate, the poor liquidity	Risk management, mainly to maintain value

6. Conclusions

With China's booming economy and increasing international status, going abroad has become the development trend and goal of Chinese enterprises. However, the lack of experience in foreign exchange risk management has become one of the obstacles for Chinese enterprises to go abroad. In the face of difficulties, multinational enterprises should actively respond to challenges, establish national and enterprise self-confidence, learn and innovate foreign exchange risk management methods, so as to improve the foreign exchange risk management ability of enterprises, correctly locate and deal with the foreign exchange risk encountered, and realize the maximization of enterprise profits under the dual measurement of cost and benefit.

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