

# ***The Foreign Exchange Rate Losses and Profits Problem of Multinational Corporations During the Post-Pandemic Period***

**Weibo Lin<sup>1,a,\*</sup>**

*<sup>1</sup>International Business School, Beijing Foreign Studies University, Beijing, 100089, China  
a. 202320102102@bfsu.edu.cn*

*\*corresponding author*

**Abstract:** In the global economic environment, multinational corporations are inevitably exposed to the foreign exchange rate losses and profits. Especially in this post-pandemic period, how the corporations handle with these issues caused by the foreign exchange rate fluctuation is vital to their development. Through the analysis of the current studies and the empirical cases, the importance of these problems and the main factors leading to it are concluded. Some of the risk management methods are put forward and some other traditional ways to deal with the risks have been improved so to fit in the special post-pandemic period. Research shows that companys have to adopt some flexible strategies to deal with the risks, for instance the flexible pricing strategy, enhancing the internal management, employing some unusual hedging strategy and the application of the digitalization and artificial intelligence etc. The proposals and the prospections are raised as well and the advices are mentioned in face with the volatility of the exchange rate fluctuations.

**Keywords:** Multinational corporations, Foreign exchange rate fluctuation, Risk management methods, Proposals and prospections.

## **1. Introduction**

Nowadays, there are more and more multinational corporations (MNCs) emerging in the global market. However, the world doesn't share the same currencies, which influences the MNCs a lot. With the rapid pace of the globalization, MNCs are increasing operating in multiple countries, directly facing the uncertainty and volatility in global markets and the risk related to foreign exchange gains and losses, which dramatically affects the revenue of the company. Additionally, the exchange rate fluctuations not only merely impact the income of the corporations, the gains and losses caused by it also influence the company's performance in capital market, thereby influencing its ability to secure financing. Just knowing the importance of it isn't enough, coming up with some ways to deal with and overcome the foreign exchange is much more vital. Under this circumstance, the measure company employs count. However, the complexity of policy and regulatory environment further complicates the management of foreign exchange gains and losses for MNCs. Therefore, how to make a good measure is difficult and crucial, which has already be integrated by some companies into their overall financial strategies.

A lot of previous researches have mentioned the similar topic as well. Zhang said in her essay that with the acceleration of the reform of the RMB exchange rate system and the steady advancement of the internationalization of RMB, the volatility of RMB exchange rate has been increasing, which makes the foreign exchange risk problem faced by the company prominent, and the fluctuations of exchange rate will bring challenges to the company's operating performance and financial position [1]. Bing and Jing claimed that the risk multinational enterprises are going to face is bigger and bigger, as the Chinese government has launched a new policy about currency, the floating exchange rate system based on the demand and need which they observed for a long time under Chinese special market economy and it use the basket of currencies for reference, which to be more clearly explained means that the volatility of the exchange rate of RMB will greatly increase, making the risk of the losses higher [2]. However, the risk brought by the foreign exchange is not merely about China, but a global problem. Yang pointed out in her article that early in the 2014, the world market has occurred the situation that the global currency policies have become increasingly clear as the US economy was rapidly recovered while other currency was facing different extent of devaluation, such as Russia and Brazil [3]. Issues such as foreign exchange losses and how to mitigate them have become critical topics for the multinational enterprises [3]. Additionally, Bistriceanu mentioned one relationship of potential losses of bank foreign currency portfolio by using the normal distribution assumption of daily change of exchange rate, which was mainly caused by the five most frequently used currencies from Europe [4]. According to what Jian said In her research, more and more multinational corporations have been suffered by the foreign exchange rate a lot and it has become much more critical since the currency reform around the world. However, she also mentioned that if the entrepreneurs have a well command of the ability to manage the risk caused by the foreign exchange rate, it sometimes could help the MNCs to make profit, even make contribution to bring the deadly company to live [5].

Therefore, the train of thought that used to manage this kind of risk and the measure employed is vital to a multinational company. Some previous researches have already set some examples for us. Chi offered a system which could provide a foreign exchange risk analysis method that simulates and analyzes a company's profit and loss [6]. It was consisted by modules just like data manager, processor, and analyzer that receive and process foreign exchange data. The system ultimately outputs results like cash flow or value at risk (VaR), which set a good example for the follow scholars to manage the risk [6]. Xu used a novel measure to manage this risk [7]. Xu collected the historical data of one MCNs in China, mainly included by the panel data combining export ratio and total risk data [7]. By offering the data to the system, he utilized the BP neural network model to predict the exchange rate risks for that multinational corporation, which could provide a reliable tool for forecasting and mitigating exchange rate risks [7]. This model can help the company with the tactical methods to manage the risk so to minimize the loss and amplify the profit [7]. Plus, the well known Apple Inc also adopt some effective ways to help themselves when encounter with the foreign exchange rate risk, according to Gou and his research [8]. He mainly use two models to deal with the risk: the first one analyzes the sensitivity of Apple's stock returns to GDP-weighted exchange rate movements so to find out the relation between the two of them; the second one was built through analyzing the financial data in the Apple Inc., which could test their efficiency and help to mitigate the method such as the structure of hedging policies [8]. Michael provided some statistics on the use of financial derivatives instruments, including hedging tools and the employment of the VaR as well, which inspired many later scholars [9]. Laurent provided two main views of research: forecasting exchange rates and measuring exposure to exchange risk, which has great enlightening significance for the later research as well [10].

## 2. Foreign Exchange Profit and Loss Problem of Mncs After the Covid-19 Pandemic

After the COVID-19 pandemic, one huge havoc in human history, the world market environment have been impacted dramatically. Due to the unsymmetrical pace of the economic recovery in different countries, the central bank of nations launched various currency policy, leading to to significant exchange rate fluctuations. Multinational corporations have faced numerous challenges in the global market, especially the issue of exchange rate gains and losses. Because of the specialized period, some old ways to deal with these risks may lost their effect. Some new ways have to be come up with to handle the issue.

There are some empirical examples. The famous Apple Inc. also cannot escape from the intensive impact caused by the significant exchange rate fluctuations after pandemic. During the pandemic, the United States published some kind of loose policy, leading to great fluctuations in the exchange rate of the US dollar against other countries. During the 2020, the company got big sales and great revenue when converted to US dollar because of the weakening of the dollar in that period. However, while in 2021, the strengthening of the dollar no longer help the Apple, but cause some negative impact on it when the revenue in Europe or China converted into dollar, leading some losses during the foreign exchange.

The exchange rate fluctuations itself will cause the problem of gains and losses, there are another aspects that will have a deep impact on the profits and deficits.

The complexity of cross- border cash flows after the pandemic is much more complicated than before. Post-pandemic, many governments have adopted loose monetary policies to stimulate their country's economy, just like the USA policy mentioned before, adding the complexity of the capital flows, while other put some strict policy into use, trying to restrict the capital flows. Both two policies will influence the MNCs when they are going to manage the cross-border funds. It is much more difficult for the MNCs to freely bring their profit back to their home market.

Secondly, because of the volatility of the global economy after the pandemic, the new era poses challenges for MNCs in designing and executing effective hedging strategies. The problem will occur when the manager try to achieve the desired outcomes in highly volatile markets and could even result in additional financial costs as the pandemic has cost a big damage in the post-pandemic global economic market. Moreover, as the post-pandemic world economy environment is more unpredictable, some CEOs might fail in correctly foresee the variation of the market, therefore failed to choose the right hedging measures or tools leading to the big financial losses.

Additionally, the impact of currency translation on financial statement cannot be ignored as well. Exchange rate fluctuations directly affect the performance of financial statements, particularly in terms of net assets and profits, potentially raising concerns among investors and shareholders. For example, Unilever, a multinational consumer goods company, reported that during the pandemic, the devaluation of multiple market currencies against the British pound led to a significant reduction in its revenues from Africa and South America when converted to pounds, thereby affecting its overall financial performance.

Last but not least, the mismatch between revenue and cost currencies. Normally, MNCs often generate revenue and incur costs in different countries, involving multiple currencies. However, after the pandemic, with the dramatic fluctuations between various currencies exchange rate, it cause the mismatch between revenue and cost currencies. To be more specific, supposing one multinational corporation produce their product in USA, which means they pay the raw materials in US dollar, but they sell their product in Europe market using the eruo. If the US dollar encounter its appreciation while the eruo meet its devaluation, the company's profit margins will be squeezed, even potentially leading to losses.

### 3. The Analysis for the Cause of the Problem

There are many reasons to cause these problems of foreign exchange profit and loss, especially after the devastating pandemic. In order to cope with these problems and find out some solutions, we have to clear up the causes of the problem in the post-pandemic period. After reading a series of paper, the problem can be concluded into these 4 parts: the changes in the global economic environment, the adjustments of the monetary policy, the market speculation behavior and the venture of the politics.

The changes in the global economic environment: The economic recession or rapid development in one region will cause the fluctuation of one specific currency corresponding to that area. In the post –pandemic time, this phenomenon seemed be more apparent and severe. Some emerging marketing economy country suffered a lot from recovering their economic environment, leading to the slow recovery, which made their currency devaluated compared with some stable currency such as US dollar and euro. If some of the MCNs conduct their business in those regions, they will face the risk of dramatic foreign exchange losses. One famous example is the Nestle Company. They did a large amount of their business in Latin America, which posed a gigantic loss in revenue in the post-pandemic period.

The adjustments of the monetary policy: Just as mentioned in the big 2 part, the different monetary policy among the various countries will lead to an enormous gap between two currencies in the foreign exchange rate after the pandemic. The monetary policy launched by the Central Bank of each nation always determines the exchange rate. During and after the pandemic, a lot of the countries adopted some loose monetary policies, which could stimulate the rapid speed of the economic increase. However, these kinds of policies will cause the devaluation of the currencies. Some other nations will try some tight policies, which would be contrary to the loose ones, forming a big ERD (exchange rate difference). The ERD will raise the venture of the foreign exchange rate that the multinational corporations cannot escape.

The market speculation: The speculation can be defined as the investors making decisions not so cautiously. In the financial market, the speculation behaviors will intensify the fluctuation of the foreign exchange rate. Especially in today's post-pandemic society, the volatility of the global economy reaches its peak. In order to cater this kind of economy environment, the speculator often earn their profits from buying one currency and selling it in bulk to form what is called “herd behavior”. By adopting this measure, the speculators can earn a lot through the exchange rate differential arbitrage. At the same time, these kinds of measures will cause the dramatic fluctuation of the foreign exchange rate, dramatically influence the chances of the risk that the multinational corporations have to face.

The ventures of politics: After the pandemic, the world's multipolarity trend were more and more conspicuous. Some geopolitics events and international trade disputes will impact the foreign exchange rate a lot as well. Raise one common and famous example: The Israel-Palestine conflict in the Middle East exacerbates risks for the MNCs operating there. As the result of the war, the economic instability leads to larger fluctuations in their own currency's foreign exchange rate, affecting corporate financial statements as companies face substantial losses. So the ventures of politics will mean a lot to MNCs.

### 4. Proposals and Prospections

In order to alleviate the risk brought by the fluctuating foreign exchange rate, MNCs can adopt the measures below, especially in today's special post-epidemic period.

One of the easiest ways is adopting a flexible pricing strategy. The managers should regularly and frequently grasp the newly trends of the foreign exchange rates between various currencies.

According to them, the corporations should promptly adjust the prices of their products. In this way, the influence caused by the exchange rates could be directly relieved, helping to reduce the losses.

Another easy way is to enhance the internal management of the company: The multinational corporations can better handle these risks by reinforcing the internal management. Establish one foreign exchange management team to monitor global currency trends can be direct and burden-free. The team should promptly preside over the adjustment of the hedging tactics and confirm the reasonable exchange rate range so to avoid the tremendous pressure brought by the unforeseen exceeding exchange rate risks.

Hedging strategy: Despite the special period facing at, the hedging measure is still useful after some slight adjustment. These hedging tools include forward contract, options, and swaps. The forward contract can be used as one example to explain how hedging tools work. Companies can enter into forward contracts with financial institutions to lock in future exchange rates, thus avoiding unpredictable rate fluctuations. For instance, if a European company expects payment from a U.S. client in three months, it can use a forward contract to lock in the EUR/USD exchange rate, shielding itself from potential losses if the dollar depreciates. The advantage of these financial instruments lies in their ability to offer tailored solutions for varying risk management needs. However, the managers have to weigh to costs, and make a balance so can make a great and effective way to hedge the exchange rate risks.

The application of digitalization and artificial intelligence: Although the post-pandemic period leaves lots of issues of economical recovery, the era have another specific feature, the advancing technology. By using the FinTech(financial technology) and AI(artificial intelligence) the management of the foreign exchange rate risk can be optimized. AI algorithms can help firms more accurately predict exchange rate trends and adjust hedging strategies based on the real-time market data. Moreover, other newly advanced technology, such as the blockchain technology, could enhance the transparency and security of cross-border transactions, reducing risks associated with currency conversions.

This section provides strategies for mitigating foreign exchange rate risks and by adopting these measures can some MCNs reduce their risks especially in this post-pandemic period.

## 5. Conclusion

The article analyses the profits and losses problem of multinational corporations caused by the fluctuation of the foreign exchange rate. The factors which lead to the fluctuation of it has be mentioned as well. Through the analysis of the current researches, this paper emphasizes the importance of the exchange rate issues and put forward some solutions which fit in the special period—the post-pandemic time to alleviate the influences that the fluctuation of the exchange rate brings to the MNCs. In the future, the volatility of the global economic environment caused by the epidemic will still exist. MNCs have to manage their exchange rate risk more flexibly and innovatively so to ensure their financial stability in the complicated global economic environment.

## References

- [1] Zhang Yangchun. (2019). *Research on the Foreign Exchange Risk of Chinese Companies and Its Influencing Factors* (Doctoral dissertation, Southwestern University of Finance and Economics).
- [2] Guan, B. , & Xie, J. . *Research on Foreign Exchange Risk Management of China's Enterprises*. 2011 *International Conference on Management and Service Science*. IEEE.
- [3] Yang Yan. (2014). *Analysis and Response Strategies for Foreign Exchange Risk in Chinese Enterprises*. *Higher education*(42), 2.
- [4] Bistriceanu, G. . (2014). *Measuring the foreign exchange risk loss of the bank*. *International Journal of Economics & Research*, 05(03).

- [5] Jian, N. N. L. . (2019). *Exchange rate risk management in foreign trade businesses in the context of market-oriented exchange rate. Research on the Economic Transformation of Contemporary China(English version)*, 2(3), 8.
- [6] Chi, H. J. . (2001). *Foreign exchange risk analysis method and its analysis system*. KR20010000786A.
- [7] Xu B. (2011). *Research on Risk Prevention Methods for Chinese Companies in Foreign Trade Based on BP neural Network*. (Doctoral dissertation, Jiang Su University).
- [8] Gou, D. . (2011). *Empirical Test On Apple's Hedge Against Foreign Exchange Rate Risk*. IEEE international conference on information management and engineering.
- [9] Papaioannou, M. G. (2006). *Exchange rate risk measurement and management: Issues and approaches for firms*.
- [10] Jacque, L. L. (1983). *Management of foreign exchange risk: a review article*. *International Accounting and Transnational Decisions*, 361-384.