

HONGKONG WILL BENEFIT FROM THE RENMINBI REVALUATION

Many multinationals, producing goods in the People's Republic of China (PRC), will stand to benefit greatly by the decision of the Government of the PRC to revalue the renminbi against the US dollar by about 2.10 percent.

How the new managed float exchange rate system, to be managed by the People's Bank of China, exclusively, will work will depend, completely, on the competency of those officers within this PRC-Government bank to act in accordance with the requirements (a) of the country and (b) of market forces.

This duty, to act in accordance with the requirements of the PRC, first, and market forces, second, may, from time to time, be an alien concept for many people in the rigid communistic political system of the PRC where the divulging of medical records and suggested methods of treating such diseases as Severe Acute Respiratory Syndrome (SARS) may be considered as the illegal unauthorised dissemination of State secrets.

The idea of the managed float exchange rate system for the renminbi is to permit market forces to dictate the level of the renminbi against another currency.

Presumably, the People's Bank of China will be standing in the market in order to defend the renminbi within a narrow bandwidth by various means, including, but not limited to, the purchase of US dollars on foreign exchange markets.

How much intervention one may expect from the People's Bank of China is an unknown factor – because there has never been a requirement for it in the past ... at least, not officially because that would, certainly, be divulging PRC State secrets without lawful permission.

A careful testing of the temperature of foreign-exchange waters is likely to be the way that the officials at the People's Bank of China would prefer, but they may be thrown in at the deep end of this raging ocean even before they have changed into their wet suits.

And therein lies a very real potential problem in the event that the officials at the People's Bank of China are not up to their task of fidelity.

It is not too often that petty officials of important institutions of the PRC make decisions because it is taken for granted that the decision-making process is the bailiwick of their superiors: The job of the petty official is to carry out the orders of those who utter them and sign official directives.

Such a situation does stymie personal initiative of those lower grade officials, especially in PRC Governmental institutions, such as the People's Bank of China.

That being the case, one may expect rigid lines to be drawn at the highest levels of the Central Bank of the PRC; and, the mermithid will walk the lines as they are drawn, exactly.

Due to the fact that, on Thursday, July 21, 2005, the revaluation of the renminbi vis-à-vis the US dollar was only 2.10 percent, it may well transpire that market forces will attempt to bid up the currency of the PRC to higher levels against the US dollar.

Given the significant build-up of US dollars in the coffers of the PRC Government over the past few years, a larger than 2.10-percent revaluation of the renminbi against the US dollar could have had a significant effect on the financial sector of the PRC.

For countries, such as the US, wanting to sell their goods and services to the world's most-populous country, the revaluation of the renminbi is good for business because, now, imports into the PRC have become that much cheaper.

It stands to reason that imports into the PRC of raw materials will, also, be cheaper.

This is very good for businesses in the Hongkong Special Administrative Region (HKSAR) of the PRC, Japan, Taiwan, and all other countries, which have well-established production facilities in the PRC, proper.

With their manufacturing bases, being located in the PRC, proper, Management of foreign-controlled production facilities is looking at an increase in profit margins due to the decision of the People's Bank of China to revalue the renminbi against the US dollar.

For manufacturing entities, producing goods only for consumption in the PRC, proper, they will benefit, also, because the imported cost of the raw materials, needed in the manufacturing process, will be at least 2.10 percent lower than in the past, while the prices of goods, sold to the PRC consumer, will be virtually unchanged.

It is highly unlikely, therefore, that the PRC Government will suffer adversely from its decision to unpeg the renminbi from the US dollar at 8.28 renminbi, and the **Gross Domestic Product (GDP)** – the total value of all goods and services, produced within a country in a year, minus net income from investments in other countries – will be almost unchanged at a growth rate of about 9.50 percent.

So, while the US Government has been badgering the Government of the PRC to revalue its currency for one reason or another for some months, now, actually that which the PRC Government determined on July 21 was in the country's best interests, after all.

What is certain is that the revaluation of the renminbi will have little impact, if any at all, on the imbalance of trade between the US and the PRC.

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