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Foreign Exchange Market as a Determinant of International Marketing Decisions for a Dollarised Economy: A Structure, Game Rules, Strategic Options and Wayforward for Zimbabwe.

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Abstract: *Since the foreign exchange market is at the centre of global economic transactions, there is need for making Zimbabwean households, firms and government aware of some implications of transacting with the $US dollar as its domestic currency formally or by default(dollarization). The thrust is to analyse how the foreign exchange market influence international marketing decisions, the profitability and proceeds of international business transactions for a dollarized economy. The discussion provide the rules of the game in terms of foreign exchange rate determination and foreign currency flows, international finance theoretical concepts, types of currency risks, financial flows restrictions and limitations, and strategies for managing currency exchange risks. The businesses in various industries will use such knowledge to craft winning global marketing strategies in the area of inputs purchasing, promotion, segmentation, targeting, positioning, forming joint ventures, pricing, portfolio investment and the marketing control function. Zimbabwean economic stakeholders will be able to dominate global trade through exploiting their comparative advantages as companies, governments and individual households in relation to regional and global trading partners. The analyses recommend Zimbabwean firms and other economic stakeholders to negotiate for lower prices, avoiding risky global trading operations, currency diversification among hard currencies and trade using hard currencies.*

Key Terms: Foreign exchange market, global marketing strategies, currency risks, joint ventures, purchasing power parity, critical mass.

I. Background

The foreign exchange market covers all payments and flows across nations and across various currencies(Ball et al, 2004). Availability of credit and exchange rates is important to individual firms that sell goods and services in world markets(Ball and McCulloch,1993). The real impact of foreign exchange markets on international business become clear when multinational corporations are brought into the discussion as examples(Kotler, 2003). There is need to bring out some clarity on the negative and positive results of changes in value of international currencies on the decisions and economic performance of companies and other stakeholders. This discussion will enhance understanding of such dynamics by Zimbabwean economic participants. Any large global firms can be considered as competing in two different markets, namely the financial markets and the product markets for customers(Fitzroy and Hulberg, 2005). The global financial markets are backed by foreign currency flows and have also some hybrid instruments such as convertible preference shares, equity, debt and the derivatives(Davidson, 2009).

Capital market and money market investors target the trading blocs and specific countries for investing their foreign currencies. In some cases the USA may have surplus foreign currencies from other continents and countries. The foreign currency comes for purchasing equity, debt, preference shares, government bonds, foreign direct investments, bills of exchange, commercial papers and forward contracts(Sherlekar, 2010). Foreign currency going to USA comes through export financing in form of new sales branches, trade fairs and salesforce deployment by companies selling to USA firms. Related to this structural illustrations of the foreign market is the market for final goods and services. It contribute a large proportion of foreign movement across economic boundaries(Kapoor, 2007).

The world foreign exchange market is a decentralised multiple dealer-ship market comprising two segments- the spot and the derivatives market(Rugman and Hodgetts, 1995). In the spot market currencies are traded at the prevailing rates and the settlement or value date usually 2 days ahead. The derivatives market encompasses forwards, swaps and options. Majority of forward contracts are for one month, three months, or six months. Rugman and Hodgetts(1995) gave the three approaches of conducting foreign exchange business in United States as including banks, brokers and forward transactions. The interbank market for foreign exchange involves transactions between banks. The broker's market consist of a small group of foreign exchange brokerage companies that make markets in foreign currencies. The forward exchange market is where a customer 'lock-in' an exchange rate and protect it against unfavourable change in the value of the currency.

The participants in foreign exchange markets include the foreign exchange traders, namely; brokers, speculators, hedgers, arbitrageurs and governments. The Zimbabwean economic participants need to monitor movements, attitudes and perceptions of these foreign exchange players. Some foreign exchange traders work in commercial banks where they buy and sell foreign currency for their employer. This is done for meeting customer needs who purchase foreign currency for importing and other uses. This could be on spot rate or the forward rate and is done as part of a wide product mix offered by banks(Cateora and Graham, 2006). Brokers work in brokerage firms where they often deal both in spot rate and forward rate transactions. A speculator takes an open position. The individual could have foreign currency on hand or has promised to deliver foreign currency in the future and does not have it on hand. If the speculator believes the foreign rate will go up in the near future, he will buy that currency and sell it later at a profit (Wamsley, 1996). The foreign currency hedgers limit their potential losses by 'locking in' guaranteed foreign exchange positions. They may purchase the South African Rands(ZAR) in the futures market since it can be used to purchase the $US dollar for use in trading. Foreign exchange arbitrageurs are individuals who simultaneously buy and sell currency in two or more foreign exchange markets and profit from the exchange rate differences. Arbitrageurs do not incur much risk because the difference in the prices often guarantees a profit(Rugman and Hodgetts, 1995). Some currencies are allowed to float on the open market by the government. Governments usually intervene as buyers or sellers in order to create or maintain a particular price. Governments might maintain a fixed exchange rate or some managed floats. The world exchange rate arrangements include independently floating, managed floating, co-operative arrangements and pegged currencies. Ball et al(2004) said exchange controls on quantities or volume of actual foreign currency cash seems to be more prevalent in most economies. The three common exchange rate regimes that could be used in Zimbabwe include the independently floating rate, managed floating exchange rate and co-operative arrangements.

In the independent floating regime, the exchange rate is allowed to fluctuate as influenced by market supply and demand of foreign currency. If Zimbabwe is earning more Rands (ZAR) from South Africa and its US dollar reserves remain the same, the US dollar exchange rate will rise in Zimbabwe. When the currency is over-supplied in the foreign exchange market its price falls. Zimbabwe is currently using the floating rate 'of its US dollar' with the global and neighbouring currencies.

Though Zimbabwe is using hard currency for its domestic and international trade there is need to analyse how the foreign exchange market operate in moderating financial gains and losses for firms, individuals and the government. In a managed float, the government allows the rate to fluctuate within a certain range above or below the expected rate(Donnelly, 1991). When there is excess local currency, the government buy back that currency to create shortage and raise up its price. The devaluation process is done by increasing supply of the local currency from the market. The rate established in the domestic market could be the same in the whole world. It is only beneficial if the country's exports are competitive and large in supply. The devaluation approach failed to assist Zimbabwe in the 2000 to 2008 period to move it out of its recession since the economy was not producing much output for the export market. The co-operative arrangements are done through forward contracts and regional agreements like the EURO value(Cateora and Graham, 2001). Such trading bloc agreements set the threshold for trading and involved procedures. Zimbabwe can make such agreements with SADC member countries, such as South Africa, Botswana and Namibia for trading in certain products. Popular Currency Profiles include USD –United States Dollar, EUR- Euro, GBP –Great Britain Pound, AUD-Australian Dollar, INR-Indian Rupee, CAD-Canadia Dollar, CHF-Swiss Franc, AED- Emirati Dirham, CNY- Chinese Yuan Renminbi' MYR- Malaysian Riggit, THB- Thai Baht, JPY- Japanese Yen, ZAR-South African Rand, and NZD-New Zealand Dollar. Since Zimbabwe had adopted the US dollar, though informally, it has achieved the status of these developed countries in terms of currency trustworthiness, integrity, reliability and stability. The interplay of various forces and conditions in domestic economies assisted to shape the various rates of major currencies in the economy(Boodie, Kane and Marcus, 2002). These are used as vehicle or reference currencies by many multinational firms in their global operational decisions. The major question is whether companies, the government, individuals and the general Zimbabwean society are aware of the opportunities and benefits of transacting using a hard currency. The discussion and concept analyses is focussed on bringing out the implications of the basis and platform for managing foreign currency flows by Zimbabwean firms for their growth and efficiency in local and foreign business transactions.

II. Foreign Exchange Market and The International Companies: Importance and Uses.

International financial management has become more and more different from domestic financial management. Much attention should be put on the key decision areas which include volatile floating currency and exchange rates, capitalisation and market exchange rates, inflation rates and financial decisions, electronic cash management, using derivative correctly, and assisting a weak currency subsidiary. The finance department of a company will take advantage of volatile and floating currency exchange rates to make money for the global company in many ways(Ball et al, 2004). It would be aware of which currencies are more susceptible to sudden weaknesses and avoid borrowing in undervalued currencies and maximize short-term assets in strong currencies. This is currency exposure management.

Capitalisation decisions are also important in the discussion of foreign exchange dynamics. Like any company, global firms need to raise large sums of funds as capital from time to time. This requires a wide choice of investors holding different currencies. Given the proliferation of capital exchange markets, the international finance centre should advise and direct the parent and affiliates/ subsidiaries of where to raise and exchange money at the lowest costs. On the inflation issue, the global marketer should be alert on inflation rates in various economies(Ball et al, 2004; Davidson, 2009). The global firm should then design approaches of protecting assets and profits from monetary erosion and other economic and political risks.

Electronic cash management need to done effectively by Zimbabwean firms that participate in global trading activities. Ball et al (2004) said the global firms should take advantage of new technology that permits the creation of world wide networks that enable firms to transfer funds electronically. Some of them are Electronic Funds Transfer Network, Society For Worldwide Interbank Financial Telecommunications, Clearing House Automated Payment System, and Clearing House Interbank Payment Transfer.

Global marketing firms should make use of derivatives correctly to make financial decisions. The use of derivatives is multiplying rapidly in international business activities(Boodie, Kane and Marcus 2002). They can be used to protect against commodity price changes, currency exchange rate fluctuations and interest rate changes. Zimbabwean firms might need to hire experts to wisely use derivatives as they can be complex and cause losses if used without care.

Derivatives allows some wise handling of internal and external invoicing of products in the exporting processes. Finance departments should assist the global marketing function on which currencies should be used for invoicing the customers located in various parts of the world. A 'weak currency subsidiary' of a company need to be assisted for the whole group to realise long term corporate objectives. A branch or subsidiary operating in a weak currency economy can have difficulties in raising funds for needed inputs. By putting such a subsidiary in trade chain, they will be improve the financial performance of that subsidiary.

III. International Finance Concepts That Moderate Decisions On Foreign Exchange Flows.

The additional theoretical concepts that assists firms, individuals and governments to make informed international currency flow decisions include the Special Drawing Rights(SDRs), the Marshall-Lerner Condition, the Purchasing Power Parity(PPP), and the International Fisher Effect. Throughout the 1960s the growth of world liquidity lagged behind that of world trade. To alleviate this shortage SDRs for each member country were introduced in 1967. When a country needs to finance a balance of payment deficit or meet some other liquidity problem it may use its allocation of SDRs to obtain currencies from other countries subject to the limitation that it maintains an average of 30% of its allocation. The importance is that the SDR was created by IMF as a unit of value to replace the dollar as a reserve asset, and some countries are pegging their currencies against each unit of the SDR(Ball and Mc Culloch, 1993). The US dollar which Zimbabwe is currently using has a known trusted history for facilitating global trading transactions.

The other concept is the Marshall-Lerner condition which state that a currency devaluation will only lead to improvement in the balance of payments if the sum of demand elasticities for imports and exports is greater than 1(Begg, Fischer and Dorn, 2001). As devaluation of the exchange rate means a reduction in the price of exports-quantity demanded for these will increase(Davidson, 2009). At the same time price of imports will rise and their quantity will diminish. In the short term it means that a fall in the exchange of the Zimbabwean currency(now the $US Dollar or Rand) will not change the export sales levels of Zimbabwean firms. There is need for time of adjustment of contracts for full responsiveness to be measured. This led to the J-Curve effect on the net exports diagram of the balance of payments figures(Donnelly, 1991). Zimbabwean firms will benefit if they are flexible to invest their resources in industries that produce goods that are in high demand, and reducing resources of those industries in low demand.

The Purchasing Power Parity(PPP) holds that the exchange rate between two currencies will be determined by the relative purchasing power of these currencies. If a loaf bread is $US 1 in Zimbabwe and 50 Kwacha in Zambia then our exchange rate in purchasing power rate should be $US1:50 Kwacha. Donnelly(1991) said the purchasing power parity theory attempts to predict the exact and practical exchange rate between two currencies. The problems in using the PPP theory is that purchasing powers of currencies can deviate from their exchange rate values because of imperfections in foreign trade such as transport costs, trade barriers, production and supply conditions and currency restrictions by governments(Keegan and Green, 2006). The Zimbabwean economic participants sometimes look down by upon the Rand as a useless currency, when the same Rand buy more grocery and other consumer goods in its home country (RSA) than in Zimbabwe.

The International Fisher Effect(IFE) also need to be considered in international financing decisions. Rugman and Hodgetts (1995) said the Fisher Effect describes the relationship between inflation and interest rates in two countries. There are three elements in the Fisher Effect which include the nominal rate of interest, the real interest rate and the inflation rate in the country. The Nominal Rate(NR) of interest is the interest rate that is being charged to a borrower (the money rate of interest). The Real Rate(RR) of interest is given by the difference between the nominal rate and the inflation rate. The Inflation Rate(IR) in the country is the annual average rate at which average prices increases in the economy.

The Fisher Effect holds that as inflation rate rises, so will the nominal interest rate charged by lenders as they want to protect their real interest rate. The link between interest rates and exchange rates is explained by the International Fisher Effect which holds that the interest rate differential is an unbiased predictor of future changes in the spot exchange rate. If the nominal rate of interest in UK increases and is higher than that of USA, we expect the value of the British Pound(GBP) to fall by that interest rate differential in the future. Thus, the forward rate would allow investors to trade currencies for future delivery at no exchange risk and differential in income. So the Fisher Effect assist global firms by linking trends in interest rates and movements in foreign currency prices(Davidson, 2009). Though the Zimbabwean currency(now the US dollar) is generally stable, its dealings with other currencies is also influenced by the Fisher Effect.

IV. Financial Limitation and Currency Risk In International Business Decisions.

4.1 Limitations to Financial Flows

Foreign exchange controls act as key financial limitations on smooth operation of the foreign exchange market. This might reduce export effectiveness of Zimbabwean firms that are trading with countries who practice exchange controls. Exchange controls restrict the flow of currency. For example accredited and known 'net exporter' firms in Zimbabwe were only allowed to convert their US dollar earnings into Zimbabwean dollar currency in the pre- dollarization period. The financial authorities also placed restrictions on their access to US dollars when they wanted to import spare parts, material and components. The Zimbabwean firms and households are now enjoying freedom to use the US dollar or any currency of their choice. This is an opportunity for making money through global business deals and transactions for marketing firms.

The effect is limiting the amount of currency that can be taken out of the country(Begg, Fischer and Dornbusch, 2001). Like the Zimbabwe dollar was not allowed to be carried outside the economy- during its good days. Use of fixed exchange rate that is favourable only to the local economy is also a limitation to smooth operation of international foreign exchange flows. For example in Zimbabwe, we used to have an exchange rate case of USD1: $Zim 1 as our official exchange rate, while the parallel market was offering $USD1: $Zim 4. Zimbabwe was trying to gain from business travelers and tourists by using the high valued rate (1:1). If foreign markets like Zambia, Namibia, DRC, Malawi and Kenya put these restrictions, the Zimbabwean international marketers will have problems of making effective sales.

Foreign Investment Controls(FICs) in global target market also influence the operation of the foreign exchange markets in those countries and in the world at large. These are limits on foreign direct investment on the transfer or remittance of funds(Begg, Fischer and Dornbusch, 2001). These controls can take a number of different forms which include requiring foreign investors to take minority ownership position for example 49% or less, limiting profit remittance up to 15% of accumulated capital per year, and prohibiting royalty payments to parent companies- thus stopping the latter from taking out capital. This might affect foreign direct investments to other countries by Zimbabweans and also incoming foreign direct investment by foreign investors.

4.2 Currency Risk in International Business

There are three broad categories of analyzing currency risk, namely transaction exposure, translation exposure and economic exposure. Boodie ,Kane and Marcus (2002) said translation exposure is the foreign exchange risk that a firm faces when translating 'foreign currency financial statements' into the 'reporting currency' of the parent company. The risk arises where a subsidiary company like the Standard Chartered Zimbabwe converts its financial results from Zimbabwean dollars(US dollar) to British Pounds and South African Rand. The global company will also combine the major financial statements of subsidiaries into composite statements for the parent firm through a process known as consolidation. Transaction exposure arises where one party has a foreign commitment. The risk starts from the beginning of the transaction until when the transaction is paid for. The paying company may end up paying more in local currency terms due to depreciation or receives less in terms of its own currency due to appreciation. This is the worst risk that can possibly occur. This is the foreign exchange risk involved in pricing products, sourcing parts, or locating investments in order to develop a competitive position. Direct exposures relate to a fall in the bottom line due to higher costs of production. Indirect exposures bring up loss of competitiveness, as products became more expensive due to increased exchange costs(Jobanputra, 2009; Kapoor , 2007).

V. Exportation and Importation Activities and Foreign Exchange Market Dynamics

Global marketing operations involve purchasing inputs, marketing research, sales promotions, advertising, personal selling and even mounting an exhibition stand(Kapoor, 2007). For a company to be effective, enough foreign currency is needed to finance such operational activities. If the Kwacha appreciates against the US dollar, it becomes easier and less costly for a Zambian based multinational to meet the financial needs of exporting to surrounding countries like Zimbabwe, Malawi, South Africa and Namibia. When the Kwacha appreciates, the Zambian mining company will sell few Kwachas on the foreign exchange market and get more US dollars for meeting the financial needs of its export drive.

5.1 **Purchasing Inputs for Manufacturing by Zimbabwean Firms**

When Unilever, National Foods and Delta Beverages are producing the fast moving consumer goods for the world market, it relies much on cheaper inputs. It could be cheaper maize seed, oils and various chemicals. The company will buy these from economies with weaker currencies. It will use the US dollar to purchase inputs in some Asian markets and African markets where their monetary system is out of balance. Most suppliers of raw materials are agreeable to negotiate price reductions even below those dictated by exchange rates(Keegan and Green, 2007). Getting inputs at lower prices will make Unilever and other Zimbabwean global firms profitable and competitive due to streamlined value chain systems. In some countries like Malawi, Zambia and DRC, the local labour is paid less in US dollar terms but much in terms of local currencies.

5.2 **Pricing of Products and Foreign Exchange Market Flows**

When Zambia (country's) exchange rate falls in terms of the US dollar, it means its products are now competitive in the foreign markets, provided that competitors maintain their price levels. If the Kwacha price of products remain the same in the local market and a lower US dollar price is used for foreign customers, its total sales in Kwacha will go up.

Due to globalization and trade liberalizations, some companies are now quoting most of their products in US dollars(Jobanputra, 2009). This avoids confusion in terms of destinations and various target markets. Transfer pricing is also done where a subsidiary charges a lower price when selling some products to another subsidiary or parent company located in another country. This means that the receiving subsidiary will post positive profits and the selling subsidiary a loss or smaller profit. This strategy is applied where the tax rates in the exporting firm's economy are different and too high to bear than in the subsidiary. Price discrimination is more practiced in global operations since currency denominations and foreign exchange rates move differently. Example: The Dollar-Yen exchange rate used to be USD1:125Yen. In 1993 the Yen appreciated in value to USD1 : 100Yen. Sales of Japanese cars dropped as the manufacturers were forced to increase sharply the dollar prices of their exports to the United States in order to maintain their Yen profits. Given this analyses, Zimbabwean firms are better placed to price their products for selling to any target market. This, however, need some cost cutting measures to be implemented by our manufacturing sector and also adopting the going concern attitude to doing business. The companies should aim at building the critical mass that allows economies of scale, learning curve effects and economies of scope to be realised.

5.3 **Promotional Mix and Foreign Exchange Market**

Image of the country's currency also say a lot to world consumers(Thomas, 2008). If the inflation rate is too high and fluctuations of exchange rate difficult to follow, few customers will plan to purchase such products. When communicating through mass media, websites, magazines and even pamphlets, we might need to indicate the price of our products if quoted in US dollars (a stable currency). The price stability by Zimbabwean exports in terms of US dollars will give some perception of fairness by foreign customers unlike the days of a fluctuating and inflationary local currency. Sales promotions, personal selling, public relations and exhibitions are relatively cheap if done in an economy with a lower relative exchange rate value(Kotler, 2003). The promotion will convert few US dollars to get more funds for financing promotional mix in host countries. Ability to co-ordinate the promotional budgets across economies is made easy by US dollar based budgeting. Zimbabwean firms are encouraged to carry out heavy advertising, sales promotions and other supplier-customer communications so as to enter into foreign markets.

5.4 **Segmentation, Targeting and Positioning in Relation to Foreign Exchange Market Flows**

Multinational firms consider individual economies as sub-markets(Thomas, 2008). Economies with stable currencies that are popular in foreign market are classified as similar markets. Such markets include China (Yuan), Japan (Yen),France (franc) German(Deutch mark), South Africa (ZAR), USA (Dollar). Zimbabwe is also one of such markets by default of using the US dollar as its domestic currency and for quoting most of its government and private sector activities in the $US dollar. Zimbabwean firms should negotiate firmly with their foreign suppliers since they are less risky in terms of foreign currency volatility. When selling or buying from these markets, currency risk is generally low. Some currencies of developing countries are more volatile depending on their local monetary systems and even stability of their governments(Cateora and Graham, 2006).

Positioning comes in when negotiating export terms. Longer credit periods can be given to customers resident in hard currency markets like Zimbabwe. For customers who purchase using soft currencies and resident in economies with high political risk, the marketer can adopt the following strategies for effective global trade operations. These strategies include selling on cash basis only, shorter credit periods, arranging for barter exchange and the possibility of charging higher prices. They can sell only lower quality products. We have the example of China which used to sell sub-standard products to Zimbabwe when the Zim dollar foreign exchange value was falling on each second or minute in the 2003 to 2008 period. This was contrary to the high quality Chinese exports which were sold to Europe, United States and other hard currency economies.

5.5 **Joint Ventures and Foreign Exchange Markets Flows**

A joint venture involves two or more global firms putting together their financial assets and form a new project. In global operations, a Zimbabwean firm like Econet Wireless Zimbabwe might want to make joint investments with an Indian firm to distribute technology products in Tanzania. The foreign exchange market is of assistance since both firms will raise such capital by converting their existing funds into those needed in Tanzania (Shillings). When the project make some profits, dividends need to be remitted from Tanzania to Zimbabwe and India. There is need to consider the best cross rates that maintain the value of such profits(Ball et al, 2004).

5.6 **Portfolio Investment Decisions and Foreign Exchange Market Flows**

Global firms like Unilever, Colgate Palmolive, and Proctor and Gamble put their additional funds in financial assets like shares, unit trusts, preference shares, bonds, debentures and even in derivatives(Alexander, 1993, Boodie et al, 2002). They can also purchase majority shares so as to control some companies in various economies. Movement in exchange rates have a bearing on which counter to purchase or sell the investments. Although these decisions could be made by making reference to interest rates, the trends in exchange rate fluctuations give a stronger indicator of possible returns(Wamsley, 1996). Since multinational firms are highly influenced by exchange rates in their operations, more decisions on mergers, takeovers, acquisitions and expansions are influenced by availability of foreign currency and the exchange rates offered in such markets.

5.7 **Market Control Function and Global Operations**

The global firms make use of the foreign exchange market to evaluate its operational performance. The subsidiary firms are evaluated basing on the position and movements of the foreign exchange market. Hard working firms might be rated poorly if we don't consider impact of exchange rates on their operations. Inherent differences among subsidiaries are exacerbated by volatile exchange rates, different inflation rates, varying tax laws and accounting rules, transfer price policies and a host of environmental factors(Begg, Fischer and Dornbusch, 2001). The global company's decisions about transfer pricing, choosing of a subsidiary over another to compete for a contract or adding capital to one subsidiary rather than another also complicate performance evaluations with which the finance department can assist(Sherlekar, 2010).

For example, since 1985 the values of the Japanese Yen and the German Mark have increased significantly over the value of the US dollar. As a result, many Japenese and German businesses have found their products becoming less competitive in the US market and their profit margins have dropped significantly. Conversely, the dollar's decline has made US imports more attractive to Europeans with strong currencies and by 1990 for the first time in years, the United States had a trade surplus with Europe (Rugman and Hodgetts, 1995).

VI. Conclusions

It can be concluded that foreign exchange markets for individual economies assist to build the overall cross rates used in world markets. The foreign exchange market is by far the most liquid in the world. The discussion conclude that foreign exchange market transactions greatly influence processes in global marketing and other business operations by governments, private firms, listed companies and multinational firms. The flows of funds in international foreign exchange market are covered by the purchase and sale of goods and services; investment income like rentals, interest rates and profits; direct investment which include purchase of machinery and raw materials; portifolio investment through purchase of shares, debentures and bonds; donations by governments for charity to other countries; gifts by private individuals to relatives and friends; foreign purchases by governments; and money market investments through automated dealers. Given this scenario it can be concluded that Zimbabwean firms, households and the government will benefit much in the US dollar currency regime through dominating other weaker currency economies.

VII. Recommendations for Managing Currencies' Exchange Rate Risk

Since it is difficult to pass along exchange rate increases in the form of higher prices, Zimbabwean businesses need to develop strategies for managing currency exchange rate risk. One of the approaches is negotiating for a lower price or higher price with your suppliers or customers, respectively, after currency depreciation. The firm can absorb price increases and pass along the rest. Exchange risk can be managed by avoiding doing business internationally and concentration on local operations. The concept paper recommend exchange risk adaptation which involves the use of hedging to provide protection against exchange rate fluctuations. One method is the purchase of a forward contract. We can also negotiate a fixed US dollar price such as $500 per unit for a period of 24 months. Zimbabwean firms can alternatively use currency diversification strategy among hard currencies, which involves the spreading of financial assets across several or more currencies. The global Zimbabwean firms are recommended to trade in Deutch Marks, Japanese Yen, the US dollar (its local currency by default) and even the Chinese Yuan.

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