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Atul Sheel Ph.D.

University of Massachusetts - Amherst

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Editor's Note...

Does China need more Expensive Burgers?

In recent weeks, a McDonald's Big Mac hamburger has been selling for 14.5 Yuan in Beijing and Shenzhen, China¹. The Yuan based price for Big Macs translates to USD 2.18 at current market exchange rates. Surprisingly, the same burger averaged \$3.71 in the United States, suggesting that a Yuan should be really valued at USD 0.26 in the currency market. The current rate for one Chinese Yuan is USD 0.15 or 40% less than its PPP equivalent fair value. In other words, the Chinese Yuan is currently undervalued per the rules of burger economics.

In addition to providing cheap lunch, a weak Yuan certainly seems to be helping exporters and politicians in China. According to a recent IMF report, the Chinese economy has averaged a real growth of over 9% in recent past, sometimes over 13% in bullish years. Such performance compares favorably to the 7-8% annual economic growth rate of some "Asian Tiger" rivals such as Korea, Singapore and Taiwan Province of China.

A weak Yuan also seems to be helping the Chinese tourism and hospitality business. If the predictions of World Tourism Organization were to be true, China should become one of the most popular tourist destinations in the world by 2020². The lodging sector in China has shown remarkable growth in recent years, moving alongside other sectors of the nation's economy. The response of hoteliers to some strategic steps taken by the Chinese, including their economic stimulus money and relaxed property development restrictions is becoming clearer. Several international hotel operators including Marriott International Inc., Starwood Hotels & Resorts Worldwide Inc., Wyndham Worldwide Corp., Home Inns, Outrigger Hotels & Resorts, InterContinental Hotels Group, Shangri-La Hotels, and Hyatt Hotels Corp. have taken advantage of recent changes in China and have already started expanding in China's fast-growing market. International events such as Beijing's 2008 Olympic Games and Shanghai's 2010 World Expo have helped. To examine the recent trend of hotel expansion in China, and to study how international and domestic players can come together to create the most advanced hotels for fast growing Chinese upper and middle class markets, experts have organized a major Hotel Expansion Summit, in Hainan, China this year.

Considering such promising economic trends in recent years, does China really need to adjust its currency value to provide more expensive burgers? Rival world economies in other G20 nations may answer this conundrum with a resounding yes. However, it is quite evident that economists in China will think otherwise.

¹ The Big Mac Index - An Indigestible Problem. *The Economist* October 14th, 2010

² Hu, Z. and Khan, M. S. Khan (1997). Why Is China Growing So Fast? *Economic Issues, Number 8, International Monetary Fund*.