

CURRENCY VS. REAL PRODUCTIVITY

By Benjamin Wey

DESPITE CURRENCY WARS, BUSINESS GLOBALIZATION WILL LEVEL THE PLAYING FIELDS

Few things have been more current lately than the topic of currency. Instead of zooming into microscopic speculation of various currencies' isolated impacts onto employment or trade, I would like to first take a step back. In fact, I'd like to step back to the days of bartering, before hard currencies existed. Civilization traded services and aimed to capture economic surplus through specialization of skills and fierce competition. Blacksmiths could trade a well-crafted knife for a pair of finely tailored leather boots. Of course, his neighbor could produce a sharper knife, just like someone else could produce a better pair of boots.



Essentially, the world has not changed very much. But we have added the convenience of currency, which then gave birth to the coining of this “currency war” phrase. If we could think in friendlier terms, the current situation of global trade may be better described as an arm wrestling contest. The judges want to know which nation is strongest, though any victory would be a celebration of human progress and strength. Whether their strengths are measured by lifting dumbbells, an intermediary object much like currency, the final deciding stage is an arm wrestling match of direct hand-to-hand combat.

In the dumbbell lifting stage, when one player sees the other taking weights off the bar, the others will simply follow. Similarly, currency value fluctuations are simply a tit-for-tat procedure through fiscal policy and cycles of inflation and deflation. Printing money out of thin air is just as artificial as any other maneuver. Money is simply used to buy productivity, whether from a person, idea, or machine. The short term benefits of currency valuation will adjust rather quickly whether for exports, labor costs, or trade balance. Over the long run, the true results depend on the real growth and productivity of nations.

Moreover, we should recognize that every nation is working hard and experiencing their respective difficulties. For every unemployed American there are several underpaid migrant workers operating under very harsh conditions either voluntarily or involuntarily, and for very little amounts of money. A major competitive strength of such emerging markets and their cheap labor force is simply their willingness to undergo such hardships. Often times it may be their only strength and means to survive. Resources are scarce, and those who choose to sacrifice the most will earn them. The bottom line is that no one has invented the free lunch yet.

The emerging nations are far off from America's leadership in engineering talent, management skills, innovation, infrastructure and natural resources. America also happens to offer great political stability, democracy, and the luxury of freedom and rights. With such admirable qualities we embody as a nation, it is hard to imagine that other much less developed

markets could pose any threat to us. In addition, we are the veterans of capitalism as demonstrated through our rich history of entrepreneurship and contribution to society. We truly have a wide range of advantages that are in place for further success as long as we continue to focus on our own strengths instead of criticizing others'.

China has been the most noted challenger of America's competitive strength through their last three decades of explosive growth, fueled largely by their stride towards a more capitalistic environment. The unleashing of many years of suppression and struggle is finally taking place. Never has the playing field been more leveled with goods and services flowing both ways, albeit requiring continual rebalancing. The valuation of the Chinese currency, the RMB, is a non-issue if we consider that the Chinese people are producing goods and willing to work for less relative to their purchasing power, which is already rather weak.

The last place Americans want to end up is in a price war if we just remind ourselves of our many areas of excellence.

More and more U.S. businesses are realizing that there is great opportunity to make profits from China's booming economy by introducing truly innovative products. The Apple Store in Beijing is very busy. Dell is making a \$100 billion push into China. These real economic profits will trickle down much faster than uncontrolled government spending. As businesses continue to globalize and earn money in multiple currencies, the exposure to currency risk will likely diminish over the years. Going forward, we can expect many other great nations to undergo their golden age as well. The world as a whole will benefit from reduction in poverty, elevated competition, and the resulting progress in science, technology, medicine, healthcare, and universal friendship. Many parts of the world can still only dream of buying American products. The least we can do is give them and ourselves the chance.



ABOUT THE AUTHOR

Benjamin Wey is a bilingual expert on China and the President of New York Global Group ("NYGG"), one of the largest middle market advisory firms on Wall Street specialized in China related transactions. With access to over US\$500 million of investment capital and a large staff between New York City and Beijing, NYGG has been advising China based corporate clients with their strategic growth in the past 16 years. NYGG is a leading source of high quality deal flow for investment banks and institutional investors worldwide. A Chinese American, Mr. Wey possesses extensive international business experience, broad business contacts, and cultural understanding as an expert on China. www.nyggroup.com



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