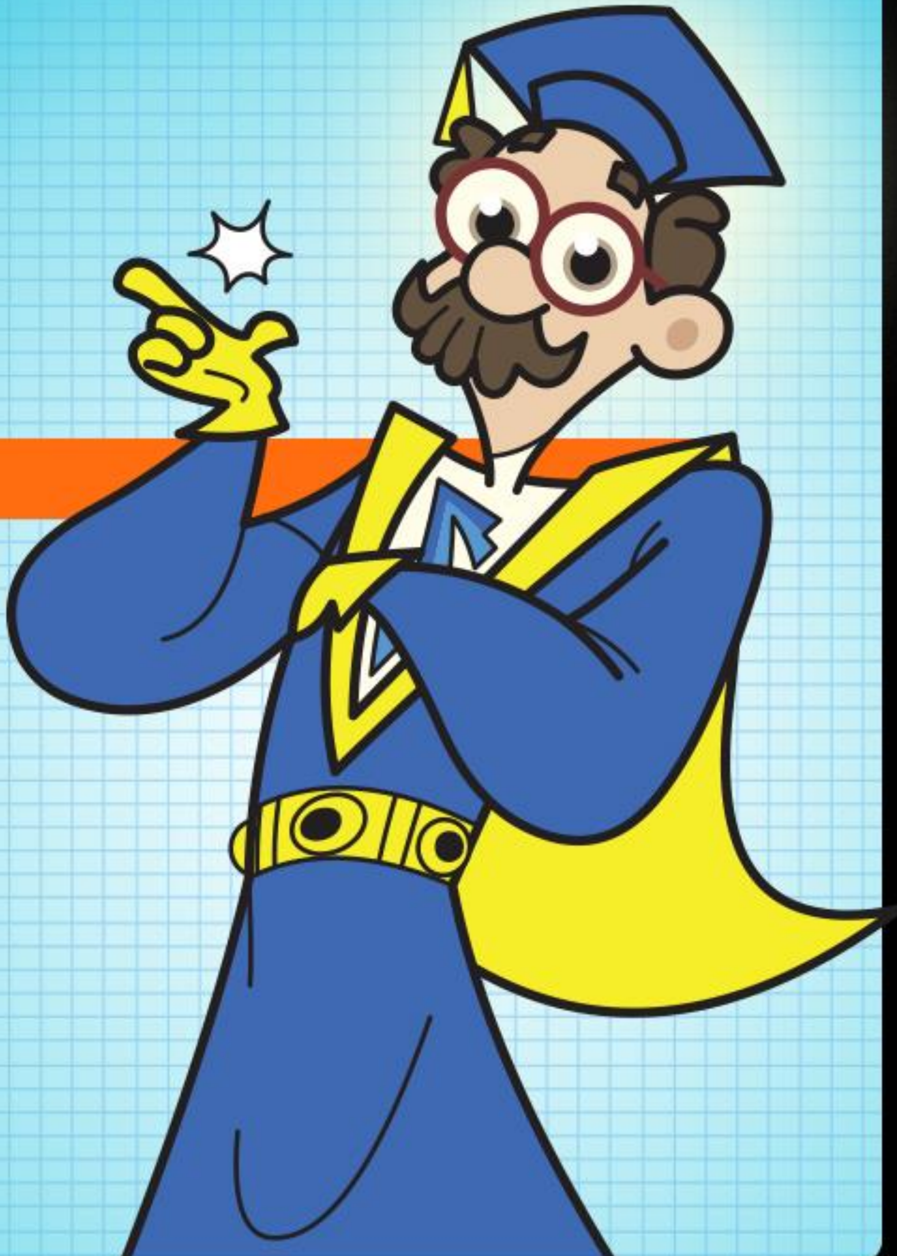
WHY JOBS ARE LOST



Lets understand the

connection between

a strong dollar and job losses

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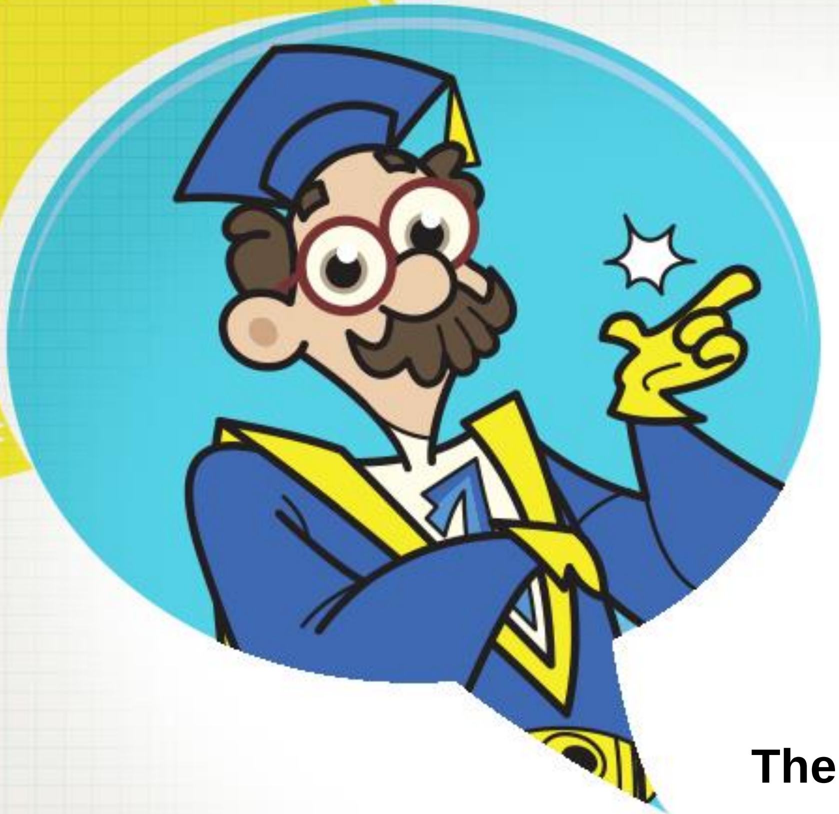
WHY JOBS ARE LOST

The US dollar is considered to be a stable currency.

Hence most countries invest in US Bonds (which is as good as investing in the US Dollar itself).

The dollar is also know as the world’s reserve currency.
Due to this demand for the US dollar on account of its stability, its value is strong relative to other currencies like the Chinese Yuan or the Indian Rupee

WHY JOBS ARE LOST



The outcome of a strong dollar

(or a weak Yuan for that matter)

has significant impact on both the

Chinese and the US economies

WHY JOBS ARE LOST

For the sake of understanding, let’s assume 1USD = 100 Yuan

This means that the US can buy a product costing 100 Yuan just for 1 dollar.

As long as the dollar gets stronger and stronger, the US will find it cheaper to import.

Let’s see how this happens.

WHY JOBS ARE LOST

Suppose the US dollar were to get stronger as follows:-

1USD = 200 Yuan.

This means the same product which was costing an American 1 dollar as seen in one of the previous slides would now cost only ½ USD

Or

Even if China were to raise the cost to 200 Yuan, the Americans would have to pay the same 1USD

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WHY JOBS ARE LOST

- This basically means that Chinese goods would be in demand in the US due to their cost advantage stemming from a strong USD against the Chinese Yuan
- Quite evidently this would bring down the demand for American goods which simply cannot be manufactured at the price of Chinese goods being sold there.

WHY JOBS ARE LOST

So what can a strong US brand do to sell in US but at a lower price?

WHY JOBS ARE LOST

One of the things the brand owner does is to move his manufacturing to China.

The dollar is a strong currency and can buy a large number of Yuan.

Hence the cost of buying land and setting up of the manufacturing plant seems low to the American industrialist

He can also employ Chinese workers at a much lower cost compared to American workers and make the same goods at a lower cost.

WHY JOBS ARE LOST

Thus

By moving his manufacturing away into China, the American industrialist can now compete with the Chinese goods in US. Therefore several big brands like Apple etc have their manufacturing plants in different countries.

WHY JOBS ARE LOST

But

- **By exporting their manufacturing to China, the US also exports away the jobs to China that would have otherwise got created for US workers.**
- **This causes unemployment in the US while enhances employment in China**
- **US workers who still have jobs in the US struggle to keep them. They work longer hours but do not demand more money as they are more concerned about holding on their jobs.**

WHY JOBS ARE LOST

This situation gives rise to pessimism about their future and they start saving more and spending less.

When this happens, the demand for goods and services further reduces and “recession” sets in.

Thus in this way having a strong currency can have a detrimental effect on jobs.

WHY JOBS ARE LOST

Hope this story has clarified the link between a strong currency and unemployment

Thinking of Investment

Contact

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