

The US-China Trade War In The Digital Age From Past To Future, Comparative Economics Based On Historical Studies And Purchasing Power Parity Point Of View

Budi Sasongko, Suryaning Bawono

Abstract : This paper aims to examine the history of the USD in the US and the US-China trade war to gain an understanding of the comparative economy of America and China and the impact of the trade war between America and China on the world economy. The author examines the history of USD from the time of the Continental Congress in 1775 to the US-China trade war in 2018 using Quantitative-Qualitative Content using Autoregressive Threshold Model (TAR) analysis which focuses on examining American domination, USD history, and the impact of the US-China trade war on the world economy. This study finds that trade-based economies and real sector growth tend to be stronger than debt-based economies with a monetary sector growth approach from the era of the Continental Congress to the current digital economy era (2020).

Keywords: USA, China, Trade War, Digital Age, History, PPP .

1. INTRODUCTION

The large fluctuations that hit world markets from the start of 2015 to the second quarter of 2016 made the Federal Reserve worried about the possibility of a second Asian financial crisis (United Nations,2020). On August 24, 2016, China sent shock waves through equity markets in the United States by devaluing the Yuan against the USD (OECD,2018 ; Roberts,2016). This caused the Chinese economy to slow down, marked by lowering domestic interest rates and floating a large number of bonds. The low-interest rates imposed by China prompted other Asian countries to lower their domestic interest rates. The Fed responded to China's domestic interest rate cuts by raising its own interest rates three times in 2017 (Agarwal & Kimball,2019 ;Kose,et al.,2020). In the trade industry, technology plays an important role in boosting trade between the US and China. China led by Ali Baba continues to expand online-based commerce, as does America led by Amazon supported by Google. Alibaba, the Chinese retail giant, said there was no need to worry about the trade war triggered by President Donald Trump (Shan,2019). This statement is certainly a sign of a heated relationship between the United States and China. The three giant US companies (Facebook, Google and Amazon) are threatened in the internet industry due to the US-China trade war, even though each of these companies has unique competitiveness that is not owned by giant Chinese companies, such as Facebook, which has a competitive power in the network. Social where the world's people are in it. Social networks allow people all over the world to connect. The alphabet, as the parent company of Google, offers several services from search to e-mail and to shopping with the unique competitiveness of the search engines accessed by a large proportion of the earth's population (POLITICO,2020). Amazon, as the largest market in the world with millions of merchants around the world competing with Alibaba. The US-China trade war has accelerated America's decline as the holder of economic power and engine of innovation in the world. The United States has not experienced a trade war for the first time. Historically, the US has experienced trade wars. On April 6, 1776, the Continental Congress opened all US ports for international trade with any part of the world not associated with or under

British rule. It is considered by historians to be the first act of independence by the Continental Congress to publicly reject the Trade Act passed by the Parliament of Great Britain in December 1775. The American Revolutionary War affected the American economy. The British Navy destroyed most of the American ships on the high seas and paralyzed the flow of American trade. As a result, when the war ended in 1781, the United States economy collapsed (Mandell,2020). The economy deteriorated further when US exports to Britain were limited by the British government, whereas, on the other hand, a huge number of manufactured goods were imported from Britain to the United States at a lower price than products produced domestically in the United States. Thus, this resulted in the economic decline of the United States. The long history of the United States economy provides a clear picture of the current map of the strength of the United States economy (2020). Unlike America, China has also experienced an economic downturn in the Mao Zedong era and began to rise since 1979. The different historical backgrounds of the economic emergence of the two countries provide a map of economic strength and the colours of economic strength in the two countries. Based on this phenomenon, the author intends to examine the impact of US and Chinese monetary policy when facing an economic crisis in their respective countries which then leads to what is called the US-China trade war based on historical studies and current phenomena.

2 THEORY

The purchasing power parity theory (PPP) is one of the theories commonly used to compare the economic strength of two countries through a comparison of the prices of the same goods in the two countries being compared. However, to know purchasing power parity as a whole, of course, requires a variety of goods that create its own complexity. However, the exchange of currencies can be an illustration of the economic strength of the two countries being compared (Canto,2018). Gross domestic product (GDP) refers to the total value of goods and services produced in a country. The GDP comparison itself can also describe the level of the economic strength of the two countries being compared (Morris & Oldroyd,2020). Gross domestic product forecasting can also

be an indicator of a country's future economic potential.

3 RESEARCH METHOD

This study was a qualitative-quantitative research employing the method of content analysis with an approach of reviewing articles sourced from accredited and trusted media, both of the American and Chinese governments and the private sector, as well as historical book content and scientific articles as the basis of qualitative analysis, presented using the miles stone and TAR (Threshold Autoregressive) Model as the basis of quantitative analysis that comes from the quantitation of data sourced from trusted media and secondary data.

4 DISCUSSION

Independence is the main capital of a nation to rise from the economic downturn. This is evidenced in the history of America which began its economic revival to dominate the world, starting with its declaration of independence on July 4, 1776. However, building a strong economy, of course, takes a long time. America needed more than 100 years (1774 - 1871) to build its economic foundation with a variety of conflicts between agrarians, industries, and bankers so that it could finally form a strong economy in 1871. The strong economy, in fact, must be injured by war, usury and the 1971 pure fiat money policy which have been proven to damage the economy, especially monetary stability, until now in 2018. Interest or usury is evident in American history, for more than 200 years, weighing on the economy and trade. America and China have proven to play a role as drivers of economic growth to offset the pressure or burden of interest as capital costs. The impact of the debt interest on the economy has become very worrying when used in the consumption sector. Such a problem was proven in 2008 to have undermined the American economy that once dominated the world in 1871. This is because consumption does not generate profit as a balance of interest added to the credited commodity prices. The trump political ambition to restore America's glory to 1871 triggered the US-China trade war where China became a challenger to the domination of the American economy. The impact of trade wars in the digital era is currently spreading throughout the world including developing countries in Asia. Trade wars have an impact not only on politics and international trade but have touched on the digital industry which has the potential to trigger an information technology security war which in turn triggers third world war as happened in the history of world war and the American independence war that started from a trade or economic war. This study illustrated and compared American and Chinese GDP values by using the TAR Model, from 1995 to 2017. Considering the period of the resilience of the two countries in facing the three crises of 1997 – 2013 in America-China. The results of the TAR forecasting model are as follows:

The US's GDP in TAR Model Forecasting of 1995 – 2017

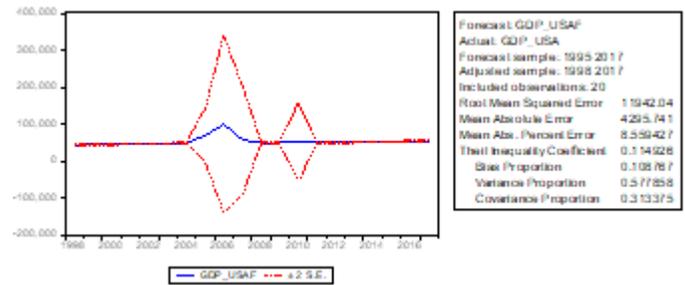


Figure 1. The US's GDP in TAR Model Forecasting of 1995 – 2017

Based on figure 1, the US's GDP reached its highest point in 2006 but fell down in 2008 and there was a shock in 2011.

Chinese GDP in TAR Model Forecasting of 1995 – 2017

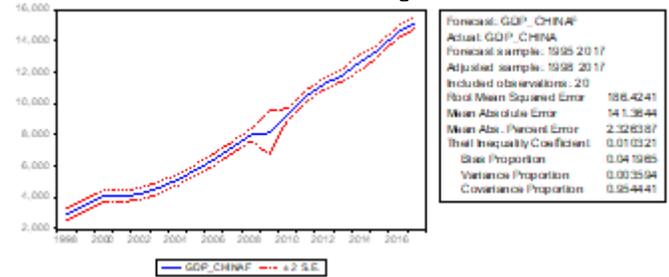


Figure 2. Chinese GDP in TAR Model Forecasting of 1995 – 2017

Based on Figure 2, Chinese growth continued to rise (Bullish) and there was a shock in 2008-2011, but its economy continued to increase. This proves that China became a potential challenger and capable of dominating the world economy.

GDP of NER of Yuan/USD in TAR Model Forecasting of 1995 – 2017

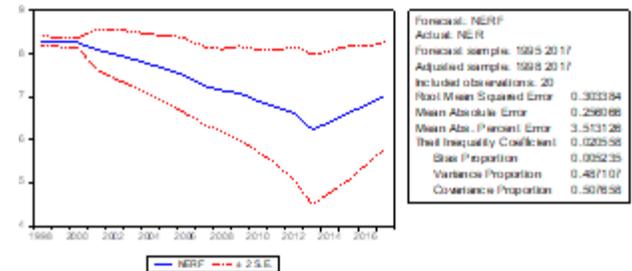
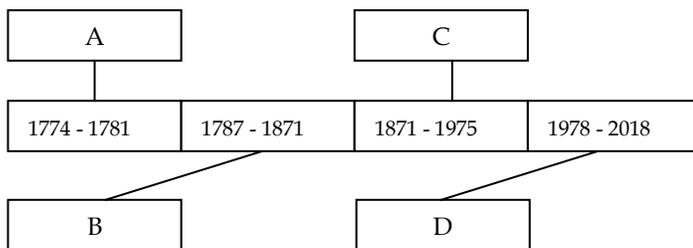


Figure 3. GDP of NER of Yuan/USD in TAR Model Forecasting of

1995 – 2017

Based on Figure 3, it is known that the Chinese Yuan continued to strengthen and experienced devaluation in 2013 and then continued to weaken. This devaluation was deliberately carried out by China to encourage its exports worldwide. Based on the triangulation of sources, we find that the United States has been the strongest economy in the world since 1871. However, in 2018 China rose to become a strong contender for the United States. China has achieved a very high acceleration of economic growth since initiating market reforms in 1978. In the process of market reform, at least 600 million Chinese people emerged from poverty. The 2008 crisis in America became China's momentum to soar to become

America's competitor in controlling the world economy. The crisis in 2008 occurred in America due to the failure of credit payments in the housing sector. The 2008 financial crisis in America was caused by the involvement of the Bank in trading hedge funds with derivatives. The crisis started in 2004 when the Federal Reserve raised interest rates. The real sector inflated through housing loans boosted the supply of housing to Americans using a credit sales system. Too much housing supply results in excess housing supply which results in a fall in property values. However, on the other hand, home buyers with low economic capacity experienced massive defaults which resulted in massive bank losses. The massive failure to pay housing buyers led to the 2008 crisis. During the crisis that occurred in 2008, China sought various economic incentives, including pouring billions of USD to stimulate the economy and reduce taxes and boost exports. China's expertise in exports has fueled a large trade surplus and, consequently. During the crisis period in 2008, America experienced an economic downturn. However, China has actually managed to rise and become an economic challenger to be reckoned with by the world in 2018. The US-China trade war began on January 22, 2018, the United States and China trade war began since the imposition of tariffs and quotas for solar panels and washing machines in the United States imported by the United States from China. Based on the results of content analysis, this research was researched from various sources ranging from magazines, books, US government websites, well-known news and forum sites, as well as scientific articles, summarizing the milestone as follows:



Caption:

- A = Independence Struggle, declaration of independence and formation of the American state
 B = American economic development
 C = The domination of the American economy, the Great Depression, Bretton Woods and world war, Nixon shock
 D = China's Economic Revolution, 3 Financial crisis, China's economic rise and US-China trade war

5 CONCLUSION

The nominal exchange rate of money affects international trade. Country productivity and international trade are the main backbones of the Chinese and American economies. This is related to their ability to produce commodities and sell them worldwide. The trade war has a bad impact on both countries, both America and China and also has an impact on the world economy.

REFERENCES

- [1] Agarwal,R., Kimball,M.(2019).Enabling Deep Negative Rates to Fight Recessions: A Guide.IMF Working Paper. WP/19/84
 [2] Canto,V.A.(2018).Economic Disturbances and Equilibrium

- in an Integrated Global Economy.London : Academic Press
 [3] Kose,M.A., Nagle,P., Sugawara,N., Ohnsorge,F.(2020).Global Waves of Debt: Causes and Consequences. Washington DC :World Bank Publications
 [4] Mandell,D.R.(2020).The Lost Tradition of Economic Equality in America, 1600–1870. Baltimore : John Hopkins University Press
 [5] Morris,S., Oldroyd,J.2020.International Business.Hoboken : John Wiley and Sons
 [6] OECD.(2018).Economic Outlook for Southeast Asia, China and India 2018 Fostering Growth Through Digitalisation. Paris : OECD Publishing. DOI : <http://dx.doi.org/10.1787/9789264286184-en>
 [7] Shan.W.(2019).Out of the Gobi: My Story of China and America.Hoboken : John Wiley and Sons
 [8] POLITICO.(2020).The US is hurtling toward another trade war – but this time it isn't with China. from : South China Morning Post.Source :<https://www.scmp.com/news/world/united-states-canada/article/3089688/us-hurling-toward-another-trade-war-time-it-isnt>
 [9] Roberts,P.(2016).The Power of Culture: Encounters between China and the United States.Newcastel : Cambridge Scholars Publishing
 [10] United Nations.(2020).World Economic Situation and Prospects 2020. New York : United Nations