

USA

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Comparison of USA's and China's Economy

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Introduction

Despite its largest economy, the United States is currently battling to maintain its performance as well as outdo the rising competitors like China. The impacts of the rapid growth of the Chinese economy include the economic war that has resulted in increased tariff and more economic threats from both sides. However, all these points to one thing on the United States' economy; that, unlike decades ago that China was perceived to be an underdeveloped nation with small GDP, today, China has ¹⁰ one of the largest economies in the world and with increasing growth that may see it become the world economic leader in the near future. But, as portrayed in this discussion, even though some economists forecast that China will become the world economic leader and overtake the United States' economy, but its ability to maintain the rapidly growing economy will depend on the policymakers to create comprehensive economic policy reforms that will fasten its transition to overtake the free market.

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Background on the U.S's and China's Economy

Economic statistical information shows that the U.S's economy is the largest in the world and larger than that of China. According to Statistics Times (2019), United States' economy is currently the world largest by \$7, 128 billion on exchange rates compared to China's economy which is estimated to be about \$5, 987 billion. Despite the United States is the largest economy worldwide, China's rapid growth also shows that it has the potential of becoming a world economic leader sometime in the near future if the USA economy remains constant or experiences slow growth. From the above statistical information, it is clear the U.S and China have great economies.

China's Strategy of becoming a Global Economic Leader

China's rapid economic growth in the last seven decades has been mainly influenced by the economic policies that its government made decades ago and has proved to be effective and efficient in channeling its resources to create the world's second-largest economy that exists today. According to Steinbock (2018), the United States' policies, especially those made under Obama and Trump's administrations have slowed the level of the country's economic development ⁹ compared to the other world economies in the Group of Seven. Consequently, China is rapidly growing. China's ascension to become the second-largest economy has been influenced by better policies. The Chinese government started to change its policies towards the end of the 1990s when it started focusing on creating economic policies that would increase its exportation while limiting importation. As Meltzer and Shenai (2019) explain, China's modern socialism has fuelled its economy due to its economic control and coordination between the government and the businesses. The Chinese economic policies are based on a unique economic model than the U.S's economy. For example, the Chinese economy is moved towards self-sufficiency in the emerging technologies and other sectors in the industrialization (Meltzer & Shenai, 2019).

Secondly, China's economic development has also been influenced by the favorable incentives from the government to support domestic industries, through encouraging local consumption (Steinbock, 2018). According to Meltzer and Shenai (2019), one of the economic models that have effectively helped China grow economically over the last three decades is the support the local industries through subsidies and encouragement of the government to the citizens to consume locally produced goods, which in turn, reduces the imported goods. The government has been showing its extensive support to the local industries, which has significantly changed the role of China in the international market level.

Factors facilitating China's Economic Development over the United States'

⁵ Both China and United States are the leading economies in the world today, but going into the future, things may change, especially in favor of China. According to some economists who think that China has the potential to become an economic world leader, China's economic growth is determined by two main factors; policy changes and its relationship with the United States.

First, China's policy changes have been cited as one of the key factors that propel its economic growth. According to Meltzer and Shenai (2019), China's economic model is based on its policing system. For example, China has now changed its policy focus to industrialization and pursuit of the innovation-driven economy (Meltzer & Shenai, 2019). Through ⁴ the National ³ Medium and Long-Term Science and Technology Development Plan Outline of 2006 and Made in China 2025 initiative launched in 2015, China has created an economic policy aimed at helping it achieve self-sufficiency in various technological advancement sectors (Meltzer & Shenai, 2019).

Secondly, China's rapid growth has been associated with its ability to take the opportunity in the international market environment. According to Steinbock (2018), China has benefited significantly from its relationship with the United States, in which it has expanded its export-driven economic model aimed at widening its external market. According to Edwards ⁸ (2018), even though both China and United States have been engaged in stiff economic competition, especially in terms of marketing opportunities, China seems to have taken the opportunity in exploring the United States' market. According to the author, the United States' trade deficit with the Chinese has expanded in the past recent three decades as China becomes more involved in the American market more than the U.S. explores its market (Edwards, 2018).

This has been part of the sentiments of pro-U.S. economists have been making, especially since Donald Trump took over the administration. The President has also been making such remarks that seem to suggest that the United States' trade deficit is caused by China's rapid economic growth. As Edwards (2018) explains, the Trump administration believes that China has taken advantage of its relationship with the United States since 2001. The period between 2001 and 2017 was characterized by increased ²China's exports to the U.S market.

Edwards (2018) further asserts that this is the period ²that China's exports to the United States increased nearly sevenfold. Even though some scholars have associated China's increased economic activities with its entry to international trade organization in 2001, but as Edwards (2018) explains, this has nothing to do with China's potentiality in economic growth because China started experiencing such tremendous growth even before it joined the WTO in 2001. It is obvious that China's exports grew significantly between the time it joined WTO, but this does not explain why the United States' economy has been experiencing a slowdown. Further, it would be wrong to blame China's relationship with the United States as a factor that fuelled its economic growth while the United States also experienced the highest export to China during the same period. Edwards (2018) explains that the decade to 2017, the U.S increased its export services to China, which was seven times more than what China was exporting ³to the United States. So, if the U.S exports to China were seven times ⁷faster than China's exports to the United States, why does the American trade deficit continues to exist or increased in the last decade? Edwards tries to answer this question by explaining the bilateral goods trade between the two countries. According to Edwards (2018), most China's exports are made from components made elsewhere and assembled in China.

Steinbock (2018) further explains the United States' trade deficit cannot be blamed on China because it started long before China joined WTO. Such trade deficit started in the 1970s, almost three decades before China joined WTO. As a result, when the trade between the two countries is recalculated, their bilateral trade deficit falls rapidly. Therefore, it would be wrong to make an assumption that China's economic success has been dependent on its relationship with the U.S.

Strengths of United States' Economy

Even though the United States faces unlimited threats from China in maintaining its position as the world's leading economy, there are certain strengths that would be in favor of the United States. If they are utilized well, they may help the United States maintain its position or even advance further. First, the United States enjoys the privileges of unlimited natural and human resources, which China does not have (Li, 2019). According to Li (2019), despite the recent rebound in the United States' economy, its services activities have topped the expectations as per the International Monetary Fund's prediction, which has found that the United States' labor market has remained solid and strong with a high rate of job creation.

Secondly, the United States has more potential in human capital, which is characterized by millions of productive labor force compared to China's low-income population. According to Li (2019), China's real GDP per capita has increased by about 9% since it started its economic transformation in 1978. However, despite attaining its maximum GDP growth rate of 19.30% in 1970, China still requires a lot in terms of human capital that United States has used to advance its economy for centuries (Statistics Times, 2019). According to Statistics Times (2019), despite China's vast population growth, which is four times more than the United States' population, United States still enjoys a wide range of economic factors such as high per capita income. The

⁶ United States income per capita stands at 6.38, which is 3.32 times greater than the Chinese economy (Statistics Times, 2019).

Conclusion

This study has compared the United States' economy with that of China and from the study, China's economy is rapidly expanding and growing faster than it would reach or even surpass the United States' economy in the coming years. However, there is potential growth in the United States' economy that would advance its position and ensure its sustainability in the global market. Contrary to what a section of economists think that China's economic prosperity has been largely dependent on its relationship with the United States, China has been taking the opportunity in the global market and its domestic economic policies to advance its economy. In fact, this essay has demonstrated that in the last decade to 2017, United States' exports to China have been four times more than ² China's exports to the U.S. Therefore, it would not be appropriate to blame the United States' trade deficit on China. Based on the strengths discussed above, the United States can improve its economy by adopting some of the following recommendations.

Recommendations

First, the United States needs to improve its economic policies to favor its economy. For example, it can enact policies that ensure that the federal deficit is cut or reduced as well as minimize its economic subsidies, especially for the business organizations from outside. This will ensure that the local industries have a higher competitive edge in the national market.

Secondly, the United States should improve its international relations with China to attract more Chinese investors as well as get investment opportunities in China. Instead of

looking at China's relationship as competition, the United States should start looking at their relationship with China as a mutual partnership where each party can benefit from.

² China's exports to United States have devastated U.S. manufacturing sector, but the fact that its GDP has been fairly stable even before China attained its maximum GDP; the United States has greater economic potentials to sustain its growth. However, as depicted in this essay, United States' economy may be the largest, but China's rapid economic growth should be a concern to the USA and policymaker should engage in serious economic policies to ensure that China does not only overtake it but also contribute to its economic growth by mutually partnering in economic development activities.

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