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China-US Performance and Future Development Trends in the Global Economic Wave

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Abstract: After Barack Obama relieved the president of the United States, the global circumstance changed dramatically, and China-US relations became increasingly tense over the past five years. Trade war frequently happens between China and US. The leading cause for this situation is not only economic and political reasons. This paper will analyze the history of currency hegemony, how developed countries use cheap capital to earn a profit, the trade war between the two biggest economic entities (China-US), and China's means to oppose dollar hegemony.

Keywords: Currency history, China-US relation; industrial transfer; Belt and Road Initiative; trade war

1. Introduction

As a tool to reflect the value of commodity exchange, the currency significantly impacts people's life, social construction, and regime change. The earliest currency in the world appeared in the Shang Dynasty of China 3000 years ago, and more than 6800 seashells were unearthed in the Fu Hao Tomb of Yin in Henan. However, in the late Shang Dynasty, when metal was used as currency, copper coins appeared as an imitation of seashells. It can date back to the 14th and 11th centuries BC. The copper shell can be called the earliest metal currency in China, among which there is a copper coin with gold coating on the surface, which is used as a large amount of currency. The first original gold coinage in China, as a national gift and royal reward, was often circulated in the upper society, with gold content as high as 99%. Later, for thousands of years, gold coins often played this role. Many gold plates (a kind of imperial upper offering and reward articles) were unearthed in the tomb of Hai Hun, not for circulation. Still, the premise of forming a currency circulation system was a unified regime (1. Under the unified regime of the Qin Dynasty, the powerful endorsement of state power finally appeared [1]. In the 37th year of the First Emperor of Qin (210 BC), he ordered the abolition of the old coins of the Zhan Guo countries and the implementation of a new monetary system based on the Qin coins. It is China's first unified currency, shaped like a round coin with square holes. Qin coin gradually became the prescribed mode of producing money in China, which ran through the feudal society of China for more than 2000 years. Qin Shi Huang not only stipulated the quality, weight, shape, and usage of coins but also enacted the casting right of coins and prohibited private coins. The Qin coin did not better than the copper coins of the pre-Qin countries in terms of casting technology. Its reputation was maintained by national laws. The Chinese paper cur-

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rency appeared in the Song Dynasty - Jiaozi. Compared with the Bank of England, it appeared more than 700 years earlier. It was a handwritten "silver bill" at that time.

To sum up, we can see that China's currency has a long history of formation and development. We can summarize the experience in the history of currency in China; the issuance and maintenance of currency need the support of a robust regime. For example, the proportion of currency issuance needs to be precisely controlled (a whip method in the Ming Dynasty) [2]. But we can also ask why China, with such a long currency history, has not become the world's top financial power and has not played a significant role in the currency game because the Chinese ideology of currency is not combined with colonialism. The tributary system orients the Chinese doctrine of governing the world and seeking common points while reserving differences is one of the dominant standpoints. China never intervened in other countries internal affairs. All the things that officials in feudal times had to do was pay tribute to an imperial court, and China would pay them back with unique local products.

2. British Gold Standard

Starting with the formation of the monetary situation in the modern world. The earliest country to implement the gold standard was Britain. Who was in charge of the British Mint in 1717, renowned physicist Isaac Newton set the price of gold per ounce at 3 pounds, 17 shillings, and 10.5 pence. Britain published the currency laws, released gold coins, and specified the gold content in 1797. The Gold Standard System Act, established by Britain in 1816, authorized using gold as the benchmark against which to create paper money. The limitations on melting gold coins and exporting gold bars were lifted in 1819, and the Bank of England was mandated to exchange bank notes for gold bars in 1821 and coins in 1823. Since then, the proper gold standard has been adopted in Britain. The gold standard had gained widespread acceptance and international status by the late 19th century in capitalist nations. It was essentially a worldwide gold standard system based on gold and centered on sterling at the time due to Britain's dominant position in the global economy. When the First World War broke out, this 30-year-old worldwide gold standard system ended.

In the florescence of the gold standard system, gold was the most important international reserve asset of all countries, and sterling was the most important currency of international trade [3]. Gold and sterling became internationally recognized reserves at the same time. Because of Britain's then-dominant economic power and its role as the hub of worldwide economic and financial activity, London rose to prominence as a global financial hub, giving the pound the same significance as gold. As a result, the Sterling Exchange Standard System, commonly known as the international gold standard, was established based on gold and the pound. The formation of this circumstance gives credit to the excellent navigation and the dual strength of finance and military formed by the original accumulation of British colonial expansion. British has the most gold reserves in the world. Britain's solid national strength, that is, its strong national reputation, has formed an overwhelming advantage over the British pound. It also confirms the statement that after the Qin Dynasty's unification, solid national strength is the basis of the hard currency. In the wake of the increasing conflicts among countries, the outbreak of the First World War led to the rapid rise of the national strength of the United States. With the loss of gold reserves, the status of the gold standard and sterling is in jeopardy; with the chaotic international situation and the bank notes, the gold standard no longer meets the mainstream needs of society.

3. Bretton Woods System

The Bretton Woods system's inception served as a demonstration of the outcome of that era's national strength struggle, which the United States won. Based on US dollars and gold, the Bretton

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Woods system is a gold exchange standard [4]. Its main goal is to create a global monetary order with the US dollar at its core. Its fundamental components include the US dollar's strong relationship to gold and the fact that the exchange rate between the currencies of IMF member nations and the US dollar is fixed (implementing a fixed exchange rate system). The credibility of the US dollar has a direct impact on how the Bretton Woods monetary system functions. As a result of the US having three-quarters of the world's gold reserves and a robust military after the war, the US Minister of the Treasury at the time, Harry White, argued for enhancing the standing of the US dollar, and the resolution was approved.

In the spring of 1933, the United States set off a new wave of the financial crisis. A large number of withdrawals and sluggish bank funds have weakened the solvency of Bank of America. The run of depositors caused many bankruptcies; Finally, the Government had to issue a decree with suspending the activities of banks. The withdrawal of deposits by depositors has also led to a sharp decrease in the central bank's gold reserves. From February 1 to March 4, gold reserves decreased by 20%. On April 19, 1933, Roosevelt abolished the dollar's gold standard. On March 6, it was announced that banknotes would not be cashed, and on April 19, gold export was utterly prohibited. The gold standard in the United States also collapsed.

The United States' national strength and the Federal Reserve's financial capital have promoted today's dollar status. The largest holder of US Treasuries has become the user of Treasuries to raise the US dollar. Under the interaction of finance and war, whoever wants to change the settlement means of the US dollar and threaten the status of the US dollar will be forced by military power. For example, Libya and Iraq have become an international consensus in which everyone understands the situation they are dealing with. But they have no choice. Euro settlement, gold settlement, or whoever has touched the core interests of the United States, they will launch a war under cover of terrorism issues. So why is today's China-US relationship increasingly tense? We can imagine that.

4. Mode of Developed Countries Earn Profit by Using Hard Currency

First, let's figure financial capital clear out how it works well in the U.S.A when many industries, commerce, or enterprises transfer overseas from the U.S.A or developed country. Because the invested country has cheap production factors, the return on investment is much higher than ROI in the homeland. It will attract numerous enterprises increasingly to invest overseas. The ROI will return to the capital market in the state. After this process, the closed loop is formed. When enterprises transfer overseas, the ROI is earned and reinvested into the capital market. When the de-entity-industrialization, massive unemployment occurred. The government will spend more expenditure to deal with the damage that unemployment did in the cities. The increasing number of government financial expenses will transfer to deficit or liability. The government will issue a new bond to neutralize the deficit and liability. Quantitative easing will stimulate capital flow and investment. The government will count on the Capital Financial Corp to create money to boost the market. Consequently, the government is intricately connected with financial capital.

Capital is always a scarce factor. Developed countries have excess capital, but it is deficient in developing countries. The excess capital can be present as low-interest rate funds, which consistently beat and replace the high-interest rate fund in developing countries. The US dollar is a capital, hard currency. The United State has the right to create as many dollars (hard currency) as they want. However, it is difficult for developing countries to earn that hard currency. They must use real property to exchange hard currency (paper money).

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5. The Profit Model of the Dollar in China in the Trade War between China and the US

The China-US economic model is a typical hard currency trade with physical goods, and the United States is beneficial from the trade without paying anything. When trade occurs between China and the United States, the trade has always gone in this way. China always has a trade surplus when exporting goods to the United States, and the current account shows a surplus. However, the United States does not allow China to buy high-technology products or resources. All the hard currency that the Chinese government earned is only allowed to reinvest into the United States Treasury bond market. Under this economic mode, it is distinctly to understand how the dollar (hard currency) works for the United States. The United States uses a basket of paper to exchange physical goods. The Chinese government does not benefit from the trade; in the end, they still pay those papers to buy US treasury bonds. Consequently, the Chinese government is a sheep that gets skinned twice; the US benefits from the trade without paying anything.

After the 1960s, the United States used multinational corporations to adjust its industrial structure worldwide [5]. After the 1990s, the United States accelerated the process of adjusting the industrial structure. Up to now, the United States has transferred more than half of the labor-concentrated industry worldwide, mainly in Southeast Asia. China formulates the reform and opening-up policy in the 1980s. Two central policies are the most crucial for China’s economic growth: the Reform of state-owned enterprises policy and the opening-door policy. The Reform of state-owned enterprises policy is to transform the single public ownership economy into the joint development of various ownerships with public ownership as the main body; this policy gradually expands enterprises' production and operation decision-making power. The opening-door policy is used to take advantage of coastal conditions to attract overseas Chinese and foreign capital, introduce advanced science and technology and management experience, and carry out modernization. In general, China transformed the economic mode from a planned economy to a mixed economy, combining the planned economy and the market economy. By implementing the reform and opening-up policy in the 1980s, China’s economy entered a period of rapid growth. Numerous overseas Chinese and foreign capital flow over into the Chinese market. The policy is incontrovertible and successful. A low-cost labor force attracts oversea capital to invest in the Chinese market without hesitation. However, the investment seems to stop in the labor-intensive industry area. The developed countries do not want to put their high-technology company. For instance, there are incalculable mobile phone manufacturing factories in the coastal regions of China like Jiang Su, Shen Zhen, etc. Still, it is impossible to find a mobile phone or chip research and development company in those cities.

6. The Dilemma of Chinese Industrial Upgrading

Hua Wei is one of China's most prominent technology magnates, mainly concentrating on the research and development of Mobile Communication Technology [6]. After Donald John Trump took charge in the United States, he started a trade war with China. Donald John Trump’s government enacted the self-trade-protection policy. The main content of this policy is about imposing restrictions on the importation of Huawei mobile phones and authorizing Hua Wei to use Android. And chip. Hua Wei company once fell into the most despairing low ebb on account of the lack of core technology and the loss of the North American market. The Hua Wei company highly depends on Android and mobile phone chips. And Hua Wei’s 5G is restricted by the United States and its ally. Without the support of technology in America, Hua Wei company is compelled to go its road which develops its chip and mobile phone operating system. It is challenging for a technology company like Hua Wei to implement technical transformation and industrial upgrading.

With the U.S. sanctions, Hua Wei's company mobile phone sales fell by 17 percent in the first quarter of 2016 [7]. However, according to the Asia Pacific smartphone market report released by Counterpoint, a foreign media market research institute, in 2018, China's smartphone shipments in the Asia Pacific market showed a positive growth trend, with Southeast Asia, Central Asia, Japan, and South Korea in the Asia Pacific region growing by more than 45% [8]. We can see those companies expanded the market along with the Belt and Road Initiative.

7. Conclusion: How China Broke the Lockdown and Its Strategic Outlook for the Future (One Belt, One Road)

With the Belt and Road Initiative, joint development and shared prosperity are promoted through cooperative cooperation, and friendship and understanding are strengthened through peace-building and exchanges to improve all four pillars of the Belt and Road Initiative. The Chinese government advocates peace and cooperation, openness and inclusiveness, mutual learning, and mutual benefit. Achieving political mutual trust, economic integration, and cultural inclusion will be at the core of China's practical cooperation to build a community of interests, a community of common destiny, and a community of responsibilities. Asia, Europe, and Africa are all traversed by the "Belt and Road." The vibrant East Asian economic circle is at one end, while the European economic circle is at the other. Middle Eastern nations have enormous potential for economic growth. The seamless movement of goods and people from China to Europe (the Baltic Sea) to Central Asia and Russia, via West Asia and Central Asia to the Persian Gulf and the Mediterranean Sea, and from China to Southeast Asia, South Asia, and the Indian Ocean is the centerpiece of the Silk Road Economic Belt. The 21st Century Maritime Silk Road is designed to connect China's coastline ports with the South Pacific via the South China Sea and with China's coastal ports with Europe via the Indian Ocean.

Iran is one of the most crucial cooperative partners under the Belt and Road Initiative [9]. The United States has implemented all kinds of sanctions over the years. In 2020, China and Iran concluded and signed the pact on petroleum. The China Yuan is the currency of the settlement of petroleum and is the most absorbing topic. This signifies that the Chinese government is using China Yuan to challenge the dollar's status. Today, China is the only one who can play the currency hedging game, which is China will increase issues of the same amount of RMB when the dollar increases issues [10].

Nowadays, China-US relations are increasingly tense, and the trade war continues. The United States is fundamentally opposed to China's industrial upgrading because, from the very beginning, American capital came to China to make money. China has used its tax and industrial chain advantages to carry out industrial policy support, gradually carrying out industrial localization and industrial upgrading. It has just started to fight against Japan's Korean clothing industry, Taiwan's OEM industry, Italy's furniture, and lighting industry, etc. It is slowly beginning to enter the electronics and automobile industry in Japan, Korea, and Germany. It has yet to reach the core ICT industry in the United States. Like France, the United States has always been a powerful manufacturing country. However, unlike Germany and Japan, the United States and France do not retain a large number of factories and workers at home. Instead, they release many industries through equity control, patent control, brand control, etc., and a large number of capital profits return yearly. Countries like the United States and France have substantial trade deficits, but they also have colossal capital surpluses, which generally maintain the country's balance sheet. This is the fundamental reason the United States prevents China from upgrading its industry. Because once China breaks through patent and equity control, localizes the industry, or sets up a production line of non-western intellectual property rights, and ensures the reliability of quality. The capital return mode that the West relies on will be problematic, and the national balance sheet will be severely unbalanced.

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Suppose China wants to break the lockdown of the United States. In that case, they have to persist in developing the Belt and Road Initiative and de-dollarization, which is using RMB to be the currency of settlement in the member state of the Belt and Road Initiative. As long as the China government keeps innovating or upgrading the industry and enhancing the credibility of the RMB, they will have an increased chance to break the lockdown.

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