



Is the world economy depend on the American economy?

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Abstract

America is the world's largest and developed economy and major global trader. The United States of America regularly known as the United States (U.S. or US) or America. The economic history of the United States of America began with British settlements along the Eastern seaboard in the 17th and 18th centuries. These 13 colonies acquired independence from the British Empire in the late 18th century and quickly grew from colonial economies towards an economy concentrated on agriculture. The commencement of the century, new innovations and developments in existing innovations unlock the door for improvements in the standard of living among American consumers. As of now America is undoubtedly the largest economy in the world. The nature of USA as a world dominance and power is determined by many factors like American Consumerism, Currency, Interest rates, Trade etc. If we observe clearly America's role in the world economy may not be true.

Key Words: Developed, Economy, Colonial, Innovation, Consumerism

Introduction

America is the world's largest and developed economy and major global trader. The United States of America regularly known as the United States (U.S. or US) or America .It is a country mainly located in North America. It includes 50 states. The United States is the world's third-largest nation by both land and total area. It shares borders with Canada to its north and with Mexico to its south and has maritime borders with the Bahamas and it has Pacific Ocean at West Atlantic Ocean in East, Cuba, Russia, and other nations also shares borders with America. With a population of over 333 million and it is the third most populated country in in the world. The national capital of the United States is Washington, D.C., and its most populous city and principal financial centre is New York City.

The economic history of the United States of America began with British settlements along the Eastern seaboard in the 17th and 18th centuries. After 1700, the United States of America obtained population rapidly, and imports as well as exports grew along with it. Africa, Asia, and most frequently Europe, shared to the trade of the colonies. These 13 colonies acquired independence from the British Empire in the late 18th century and quickly grew from colonial economies towards an economy concentrated on agriculture. In 180 years, the united States heighten to become an enormous, integrated, and industrialized economy that devised around one-fifth of the global economy

The commencement of the century, new innovations and developments in existing innovations unlock the door for improvements in the standard of living among American consumers. Many firms grew large by taking advantage of economies of scale and better communication to run nationwide actions. Focusing in these industries elevate fears of monopolies that would drive prices higher and output lower, but many of these firms were cutting costs so fast that trends were towards more output and lower prices in these industries. Many workers contributed the success of these large firms, which normally posed the highest wages in the world. The United States has been the world's biggest national economy in terms of Gross Domestic product since at least the 1920s. Since the 1970s, several arising countries have begun to close the economic gap with the United States

As of now America is undoubtedly the largest economy in the world. The American economy is an important player on the global economic forum. Since the 1970's, America's incorporation with the world market has raised by a factor of three. This means that at the present moment, the American economy shares to about 30% of the world economy. This is because most of the important multinational companies across the world are from America. Also, America has notable gold and oil reserves.

Among the different economists a common view is that the United States is an engine of the world economy. It means US and global economies output are closely associated and movements in US economic growth appear to influence growth in other countries remarkably.

Objectives of the Study

1. To describe the importance of American economy.
2. To analyse the reasons how the global economy influenced by the American economy.

Research Methodology

The study is exploratory in nature. The study is based on secondary data sources. The data has been collected from various sources related to previous studies and other reliable sources like various journals, books, and online magazines, both offline and online.

The nature of USA as a world dominance and power is determined by many factors, such as a stable economic growth, impact on global affairs via a sufficient representation in international organisations, and also influence on global events and population. Consequently, the Czech Republic is characterised by a number of phenomena where the effect of the U.S. economy on the country and her citizens is transparent. The so-called “Americanisation” of society is frequently cited in this regard.

The United States is a major developed mixed economy. It is the world's biggest economy by nominal GDP, and the second-largest by purchasing power parity (PPP). The American economy is generated by transportation infrastructure, high productivity and great natural resources. The America is the world's largest importer and second-largest exporter. It has free trade agreements with various countries, including the Australia, South Korea, Israel, and different others that are in effect or under negotiation.

American Consumerism

The theory of consumerism is that increased consumption of goods and services is beneficial for the economy. While the consumption of goods can navigate economic growth. Low unemployment, rising wages and easy credit have given consumers the confidence and ability to spend

American Consumerism Definition: Although the origins of consumerism start before the First World War, it only became standard place in the USA during the 1920s. Throughout this era, production and consumerist stimulus shaped the market place. US consumers are very significant. America is the biggest market in the whole world.

At the end of World War I, American soldiers come back to a strong economy, a result of increased production during the war, which meant high levels of employment at greater pay, which resulted in a lot of cash flow across the country. 1920s is often regarded as the start of American consumerism, many sense that the true rise of consumerism didn't start until the years following WWII. After so many years of need and distribution. Americans were ready spending their money on things they enjoyed, or things that could make their life better or stronger. Many young couples got married and immediately started families, which meant that demand for goods that would enhance their growing families was high

Hence, a period of boom in America interprets to a period of boom all across the world. This is because when American consumers start buying, companies all over the globe start to produce and selling. This creates a favourable trend in the countries where these companies are originally from. Hence, when Donald Trump cut interest rates for America, he not only tends bullish sentiments for American producers. Producers all over the world were able to take advantage of the increased disposable income in the hands of the American consumers. Even Chinese companies plan to develop their economy by selling to American consumers.

Chinese companies are finding it difficult to grow ever since the trade war has started and their access to American consumer markets has been threatened. As a stakeholder group, American consumers have much more influence than any other consumer group in the world.

American Currency

The power of the American currency is damage to the rest of the world. American can plainly produce dollars when it required to. However, the other countries in the world have to exchange their currency for the dollar. This is the reason that when American currency becomes more expensive, commodities like gold and oil become costly in emerging markets.

Major countries that beat the Word war II had suffered immense losses of infrastructure and mainland except US. US were the only country that did not hurt any major losses to its mainland apart from one of the incidents. All the other countries had to reconstruct their major infrastructure as their economies were left in total mess. Some countries also paid the United States for the assistance provided to them. Since oil is an essential input in almost all products, the extensive inflation level increases when American currency becomes stronger. Once again, no other currency in the world has as that much influence as the American dollar. It appears like the whole world is dependent upon America's actions.

US dollar holds high significance across the globe as it accounts more than 85 percent of the trading volume in the total forex market. This makes USD undoubtly the most significant and strategic currency traded in the forex market. Before Bretton woods, most nations followed the gold standard. That mean each country vow that it would redeem it currency for its value in gold.

At first bancor was suggested as the global currency. Bancor was a universal currency creates by UK. The name was impelled by the French banque or (Bank Gold). However, later on dollar became the currency chosen at Bretton Woods, After the Bretton woods Agreement, every member agreed to redeem its currency in US dollar but not gold. The US carried three fourth of the world's gold supply. No other country had enough gold to go back to as it substitutes. Hence after this agreement, US dollar became the most useful currency and all other major currencies were allowed to float against the US dollar. US dollar has an evaluate share of nearly 62 percent of the global currency reserves by the end of 2018.

Many developing nations around the globe had taken debt from IMF and the World Bank in US dollars on account of the agreement at Bretton Woods. Late when the nations would be repaying their loan it would be done in US Dollar as well. As a result, any repayment in the existing loan or attempt to stabilize the national currency would involve the trading of US dollars in the open market. The US dollar is largely the standard currency, in which goods and services are quoted and traded,

The United States Government is efficient of borrowing trillions of dollars from the global capital markets in US dollars issued by the Federal Reserve, which is alone under US government scope, at minimal interest rates and with practically zero default risk. In contrast, abroad governments and corporations incapable of increasing money in their own local currencies are forced to issue debt denominated in US dollars, along with its consequent higher level of interest rates and risks of default.^[16] The States' ability to borrow in its own currency without facing significant balance of payments crisis has been regularly described as its excessive privilege.

Other countries besides the United States use the U.S. dollar as their traditional currency, a process known as official dollarization. For instance, Panama has been using the dollar alongside

the Panamanian currency Balboa as the legal tender since 1904. Ecuador (2000), El Salvador (2001), and East Timor (2000) all take on the currency independently. The former members of the U.S administered Trust Territory of the Pacific Islands, included Palau, the Federated States of Micronesia, and the Marshall Islands, chose not to issue their own currency after getting independent, having all used the U.S. Dollar only since 1944. Two British dependencies also use the U.S. dollar. The British Virgin Islands (1959) and Turks and Caicos Islands (1973), The islands Bonaire, Saint Eustatius and Saba, now collectively known as the Caribbean Netherlands, adopted the dollar on January 1, 2011. The US dollar is an official currency in Zimbabwe, along with the Euro, Sterling, the Pula, and several other currencies. Some other nations connect their currency to US dollar at a fixed exchange rate. The local currencies of Bermuda and the Bahamas can be easily converted at a 1:1 ratio for USD. Argentina used a stable 1:1 exchange rate between the Argentine Peso and the US Dollar.

In some other nations like Costa Rica and Honduras, the US dollar is generally accepted, even if not officially regarded as legal tender. In Mexico's northern border places and large tourist zones, it is accepted as if it were a second legal currency. Many Canadian merchants close to the border, as well as large stores in big cities and major tourist hotspots in Peru also accept US dollars, though normally at a value that favours the merchant. In Cambodia, US Dollar circulate freely and are favoured over the Cambodian Riel for major purchases, with the Riel used for change to break 1 USD. After the U.S. occupation of Afghanistan, US dollars were accepted as if legal tender, but in 2021 the Taliban government banned the use of foreign currencies.

American Interest Rates

The benchmark rates in America choose what the interest rates in the rest of the world will be. For example, when the Fed raises interest rates, the other countries' economies are forced to raise interest rates in order to stay competitive. This is because a large lump of the capital floating around in the entire world is from America. Later, when America increases interest rates, the returns at home become more charming. As a result, investment funds start liquidating their investments. Compel other countries to increase their interest rates if they want to stay competitive. Since America literally regulates the interest rates around the world, it has the strength power to bring about a recession if these interest rate movements are not managed well.

Central bank of the United States of America is the Federal Reserve., one of the most complex institutions in the world. The Fed is known as the orchestrator of the world's biggest economy, decide how much it expenses businesses and consumers to borrow money. Economical borrowing expenses can be the difference between businesses choosing to lease new workers or invest in new initiatives. Expensive rates, however, can cause both businesses and consumers to fall back on big-ticket buys as well as hiring.

When the Federal Reserve increases interest rates the impact doesn't stop with U.S. home buyers paying more for mortgages or Main Street business owner facing costlier bank loans.

The side effect can be felt beyond America's borders, hitting shopkeepers in Sri Lanka, farmers in Mozambique, and families in poorer countries around the globe. The impacts other country range

from enhanced borrowing costs to depreciating currencies. The U.S. rates hikes can distribute long-distance destroy in a number of ways. They could slow down the American economy and reduce U.S. consumers' hunger for foreign goods.

They also affect world investment. As rates increase in the United States, safer American government and corporate bonds start glancing more attractive to world investors. So they can drag money out of poor and middle-income nations and invest it in the United States. Those shifts drive up the U.S. dollar and push fall down currencies in the developing world.

Currency falling can cause problems. They make it more costly to pay for imported food and other products. That can cause economic damage. It slows growth, rinses out jobs, and squeezes business borrowers. It also forces bounden governments to spend more of their budgets on interest payments

Increasing U.S. interest rates don't always spell calamity for developing global countries. If they're climbing because the U.S. economy is strong and businesses and consumers want loans to buy things that means more chance for countries with exports to sell into the U.S. market.

America's Trade Wars

A trade war, began by the United States, would do serious destruction to the global economy as protectionist actions climb. Nations imposing tariffs and countries subject to tariffs would experience losses in economic welfare of the society, while nations on the border would experience collateral damage.

As the largest commercial dispute in modern history, the China-U.S. trade war, started by then-President Donald Trump almost five years ago, was planned to pressure Beijing to change its unfair trade practices and separate the United States from China's economy. America's bilateral trade wars are also affecting a lot of other countries. For instance, America and China are incriminated in a experienced trade war. Due to this, other countries like Australia are suffering.

Australia is the largest supplier of raw material to China. When China is selling fewer goods to America, it is also buying fewer raw materials from Australia. Hence, Australian economy is also indirectly affected. Also, since America has issued endorse on Iran, the rest of the world cannot buy oil from Iran. Here too, decisions made by America are making oil expensive for the whole world by artificially limiting supply.

There is no real champion in this US-initiated trade war. Nations coating new tariffs, including the United States, trail declines in real exports and GDP. Other countries are slap indirectly by weaker demand for their own exports, either through supply chains or in reaction to weaker world economic growth.

If we observe clearly America's role in the world economy may not be true. For example, there's a common notion that much of America's national debt is held by China. The reality? In fact, most of the federal government's debt (about 70%) is held by Americans. China only holds a little over 4 percent of our debt — and isn't even the leading country on that front.

The country that holds the most American debt is Japan. (Though even they only have about 5.5 %.) Another mistaken belief, America is dependent on Middle Eastern countries for oil. In fact, the nation from which America imports by far the most petroleum is Canada. Our neighbours to the North provided 51 percent of our petroleum imports in 2021. Saudi Arabia, by contrast, provided 3 percent.

Possibly the most confusing economic issue in America is trade deficits. A trade deficit happens when a country imports more goods than its exports. There's a common faith that if the U.S. is running trade deficits, we must be come into deprived. In reality, however, the U.S. has go trade deficits through the majority of its history. And trade deficits are often bigger when the economy is strong. As a result, most economists say trade deficits don't tell us much about the monument of the economy.

Conclusion

The United States is the world's single-largest economy; it accounts for roughly one-quarter of global output and about one-tenth of total trade flows in the world. America also the single largest international creditor and debtor. Given its enormous size and the strength of its binds with the global economy, shocks to the U.S. economy are transmitted globally through a variety of ways, including trade, finance, and commodity market linkages etc. U.S. business cycles are highly synchronised with global business cycles. Growth is frequently more in the rest of the world during periods of U.S. expansion than it is during U.S. recessions. The four global recessions since 1960 have all coincided with heavy recessions in the United States. Impact to U.S. growth, changes in U.S. fiscal and monetary policies, or uncertainty in U.S. financial markets or policies have essential global expose over's. For example, a surge in U.S. growth can be expected to speedily activity in the rest of the world. The United States is at the centre of global trade and financial networks. U.S. multinational corporations and their affiliates abroad are extremely integrated into global supply chains. Financial linkages between the U.S. and the rest of the world, including emerging market economies, have grown rapidly, widening the potential for spill overs in either direction. These two-way channels imply that, as important as the U.S. economy is for the global economy, the U.S. economy is in turn affected by developments in the rest of the world. In a highly integrated global economy, cross-border linkages translate into important cyclical spill overs. These spill over's have material implications for all countries, irrespective of their size. Understanding these linkages and associated spill over's remains a fertile area for future research.

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