
Preface

The United States and China are the two largest, and most important, economies in the world. Their economic performance and policies will go far to determine the prosperity and stability of the global economy. They are, respectively, the traditional leader of the international system and the emerging superpower. The relationship between them, and their ability to work together, will play a vital role in determining both the short-term and longer run prospects for the world economy.

The Peterson Institute for International Economics has therefore committed itself to analyzing the Chinese economy and its interactions with the United States (and the rest of the world), and to making proposals for constructive integration of China with the global economy. Nicholas Lardy, our Anthony M. Solomon Senior Fellow, has analyzed the evolution and rebalancing of the Chinese economy in a series of Institute studies from his *China in the World Economy* in 1994 to *Markets over Mao: The Rise of Private Business in China*, which we published in September 2014. Arvind Subramanian, our Dennis Weatherstone Senior Fellow, described the rise of China and its global implications in *Eclipse: Living in the Shadow of China's Economic Dominance* in 2011. Lardy and C. Fred Bergsten, the Institute's Director Emeritus, coauthored (with colleagues from CSIS) two volumes aimed at explaining the US–China relationship to a broader public, *China: The Balance Sheet*, in 2006 and 2008. Lardy and Senior Fellow Morris Goldstein focused on the dollar-renminbi exchange rate in several publications over the past decade. We have published eight policy briefs and working papers on China-related issues in the last two years, drawing on the next generation of experts on China's economy, created a dedicated blog “China Economic Watch” on the Institute's website, and now publish a regular metric of China Rebalancing.

Still, we needed to tackle China's behavior, current and potential, in the trade arena. Trade and investment issues have played a central role in the US-China economic relationship at all three levels of international interaction: global, regional and bilateral. We have carefully assessed the course of China's own trade policies and their impact on the United States, starting with *Managing the Costs of Protection in China* by three Chinese scholars in 1998 through *US-China Trade Disputes: Rising Tide, Rising Stakes* by our Reginald Jones Senior Fellow, Gary Clyde Hufbauer, with Yee Wong and Ketki Sheth in 2006. Ongoing Institute studies on the World Trade Organization, on the Asia-Pacific Economic Cooperation forum and especially recent work by Jeffrey J. Schott and colleagues on the Trans-Pacific Partnership, have paid close attention to the role and posture of China in determining trade flows and negotiation outcomes.

This new analysis by Bergsten, Hufbauer, and Sean Miner considers the potential gains from and feasible means toward, freer trade and investment between China and the United States. This study crucially and realistically considers how such deeper China-US economic integration could come about bilaterally or through their joint participation in regional agreements such as the Trans-Pacific Partnership or a Free Trade Area of the Asia Pacific—as well as the terms needed to assure such integration would be beneficial for the majority of people in both countries. To do so, this volume draws on the extensive record of Institute studies of potential free trade agreements (FTAs) and how to achieve them between the United States and other countries. The Institute has conducted more than a dozen such analyses over the years, some of which were seen as aspirational fantasies at the time, but which later became reality—notably the NAFTA and the Korea-United States FTA, which were heavily influenced by prior Institute proposals in practice. Whether or not an FTA between China and the United States will occur, we certainly believe that this new effort will contribute significantly and practically to improved economic relations between China and the United States—not least by showing how great the mutual benefits would be.

We are grateful to those beyond the lead authors who contributed to this book. Chapter 2, which presents a comprehensive analysis of the macroeconomic and sectoral effects of both a China-United States FTA and the several regional initiatives, was prepared by Peter A. Petri, Michael G. Plummer, and Fan Zhai. Chapter 3, which offers an in-depth perspective on the adjustment requirements for US workers under such an FTA, was written by our nonresident senior fellow Robert Z. Lawrence. Chapter 12, which addresses the US export control regime and its possible effects on China, was authored by Asha Sundaram, a professor at the University of Cape Town. Sherry Stephenson, a senior fellow at the International Centre for Trade and Sustainable Development, contributed to chapter 7 on service barriers.

The Peterson Institute for International Economics is a private, nonprofit institution for rigorous, intellectually open, and honest study and discussion of international economic policy. Its purpose is to identify and analyze important issues to making globalization beneficial and sustainable for the people

of the United States and the world and then to develop and communicate practical new approaches for dealing with them. The Institute is completely nonpartisan.

The Institute's work is funded by a highly diverse group of philanthropic foundations, private corporations, and interested individuals, as well as income on its capital fund. About 35 percent of Institute resources in our latest fiscal year were provided by contributors from outside the United States. This study was made possible by the generous support of the China-US Exchange Foundation, the US Chamber of Commerce, and the C.V. Starr Foundation. Partial funding was also provided by Qualcomm, Inc. A list of financial supporters of the Institute for the preceding year is posted at <http://piie.com/supporters.cfm>.

The Executive Committee of the Institute's Board of Directors bears overall responsibility for the Institute's direction, gives general guidance and approval to its research program, and evaluates its performance in pursuit of its mission. The Institute's President is responsible for the identification of topics that are likely to become important over the medium term (one to three years) that should be addressed by Institute scholars. This rolling agenda is set in close consultation with the Institute's research staff, Board of Directors, and other stakeholders.

The President makes the final decision to publish any individual Institute study, following independent internal and external review of the work. Interested readers may access the data and computations underlying Institute publications for research and replication by searching titles at www.piie.com.

The Institute hopes that its research and other activities will contribute to building a stronger foundation for international economic policy around the world. We invite readers of these publications to let us know how they think we can best accomplish this objective.

ADAM S. POSEN
President
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