



24-9 Economic implications of revoking China's permanent normal trade relations (PNTR) status

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In 2000, the United States granted China permanent normal trade relations (PNTR) status (formerly known as *most favored nation* status) in connection to China's accession to the World Trade Organization (WTO). China had originally been subject to the onerous Column 2 (Smoot-Hawley) tariff schedule, but they had been waived since 1980.

The granting of PNTR and the end of the annual waiver renewal process reduced the uncertainty associated with China's trade status and led to significant expansions of foreign direct investment into China and international trade (Handley and Limao 2017). Since China joined the WTO in 2001, Chinese exports to the United States have increased by more than 300 percent, nearly double the rate for imports from other sources—despite the recent ongoing bilateral trade war. Top categories of US imports from China include machinery and electrical machinery, furniture, textiles, and various light manufactures. This import growth led to considerable displacement—including losses of jobs, factories, and output—in US sectors competing with Chinese imports (Autor, Dorn, and Hanson 2013).¹

That dislocation, together with other social changes and concerns about China's trade practices, generated a political backlash in the United States (Autor, Dorn, Hanson, and Majlesi 2020; Noland 2020) and in recent years fueled interest in revoking China's PNTR status. In 2023, Republicans in the US House and Senate introduced a bill, the "China Trade Relations Act of 2023," but it died in committee. In 2024, a similar bill was introduced in the House. Also in 2024,

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¹ US exports to China also increased dramatically during this period (by 668 percent, compared with 176 percent for US exports overall), with growth concentrated in agriculture, machinery and electrical machinery, oil and gas, and optical and medical equipment.

former president and Republican presidential candidate [Donald Trump](#) and the [Republican Party Platform](#) expressed plans to revoke China's PNTR status. The notion has received some bipartisan support: In the House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party's (Select Committee on the CCP's) annual report to Congress, the lead recommendation was to revoke China's PNTR status if Congress determined that China failed to meet its WTO obligations.

In this Policy Brief, we examine what a revocation of China's PNTR status might mean for the United States, China, and other countries using G-Cubed, a multicountry, multisector hybrid dynamic stochastic general equilibrium-computable general equilibrium model (McKibbin and Wilcoxon 1999, 2013). We find that revoking China's PNTR status causes a short-term decline in US GDP relative to baseline from which the economy never fully recovers. The overall decline in output and employment felt unevenly across the economy, with agriculture, durable manufacturing, and mining taking the biggest hits. In the long run, workers displaced by the change shift into services employment (with lower real wages across the economy), but given the geographic remoteness of some agricultural and mining activities, this adjustment may not be as smooth as depicted by the model. Inflation rises by 0.2 percentage points (0.4 percentage points if China retaliates) in response to the imposition of additional tariffs, which raises both the price of imported goods for final consumption and the price of imported intermediate inputs used in domestic production. Stock market prices fall, with firms in agriculture, durable manufacturing, and mining absorbing the biggest declines. All of these impacts are magnified if China retaliates. Ironically, the policy damages the US industrial sector and contributes to a widening of the US trade deficit—the exact opposite of what proponents of this policy intend to achieve.

MODELING PNTR REVOCATION

The G20 version of the G-Cubed model used in this Policy Brief includes the G20 economies plus four regions (table 1). The model includes standard features of large macro models, including the following:

- intertemporal general equilibrium with standard optimization,
- rigidities, such as limits on the pace of investment, that prevent economies from moving quickly from one equilibrium to another,
- cross-border capital and trade flows and bilateral cross-border input linkages,
- heterogeneous households and firms,
- conventional forward-looking agents and a fraction of households that consume their current income and a fraction of firms that make backward-looking investment decisions, and
- monetary and fiscal policy rules.

The model also incorporates a full-fledged external sector. Intertemporal decisions of households and firms determine both saving and investment in response to government policy changes. The gap between aggregate saving and investment determines the current account. A key variable affecting national

Table 1
The G-Cubed Model (GGG6G_v179)

Region code	Country/region	Structure
ARG	Argentina	<i>Sectors</i>
AUS	Australia	Energy
BRA	Brazil	Mining
CAN	Canada	Agriculture
CHN	China	Durable manufacturing
DEU	Germany	Nondurable manufacturing
EUZ	Rest of eurozone	Services
FRA	France	
GBR	United Kingdom	
IDN	Indonesia	<i>Economic Actors</i>
IND	India	Consumers
ITA	Italy	Firms in each sector
JPN	Japan	Government (fiscal policy)
KOR	Korea	Central banks
MEX	Mexico	
OAS	Rest of Asia	<i>Markets</i>
OEC	Rest of the OECD countries	Goods and services
OPC	Other oil-producing countries	Primary factors and intermediate goods
ROW	Rest of the world	Money, bonds, equities, foreign exchange
RUS	Russia	
SAU	Saudi Arabia	
TUR	Turkey	
USA	United States	
ZAF	South Africa	

OECD = Organization for Economic Cooperation and Development

Source: The G-Cubed Model (GGG6G_v179), <https://documentation.gcubed.com/gcubed/version/6G/>.

saving, investment, and current accounts is the real interest rate, which directly affects both saving and investment decisions and human wealth through a discounting channel. The trade balance is the current account adjusted by net factor income from foreigners.² Flexible exchange rates and open capital accounts are assumed for all countries and regions except China, which has a crawling peg.

In each economy, the central banks follow rules for setting policy interest rates that reflect the standard Henderson, McKibbin, Taylor rules (Henderson and McKibbin 1993, Taylor 1993), with different weights on output gaps and inflation relative to targets in each country. For the Federal Reserve, we assume standard Taylor coefficients with equal weights on inflation relative to targets and the output gap. In some countries, such as China, we also weight the change in the exchange rate, to slow the appreciation or depreciation of the yuan. This assumption about monetary policy has the greatest impact on the economy in the initial years of the trade shock.

In principle, revocation of PNTR would move trade with China from the conventional Column 1 tariff schedule to the far more restrictive Column 2 tariff schedule (table 2). With most Chinese imports to the United States now under some form of special protection, however, this marginal change overstates the protective impact of PNTR revocation.³

It is also possible that in the legislation revoking PNTR, Congress might give the president the authority to apply rates up to the Column 2 rate (or even farther). In the first of its 150 recommendations, the bipartisan Select Committee on Strategic Competition between the United States and the Chinese Communist Party implies that tariffs could be raised to something short of the full Smoot-Hawley level. Both the committee and some other Congressional commentaries suggest that the move could be interpreted as a negotiating strategy that could be reversed if China were to make sufficient concessions.⁴ That said, once in place, protection creates a political economy for its perpetuation. For the purposes of this exercise, the imposition of the Column 2 schedule is a defensible modeling scenario.⁵ We solve the model for 2018–2100, with 2018 as the base year. The key inputs into the baseline are the initial dynamics from 2017 to 2018 and projections from 2018 onward for sectoral productivity (or technological) growth rates by sector and country. The exogenous driver of economic growth

2 We allow for valuation effects on foreign debt when the real exchange rate changes. All US foreign debt is assumed to be in US dollars. If the dollar appreciates, the volume of exports by the United States required to service the original stock of foreign debt therefore declines relative to future imports.

3 Smith and Lee (2023) and Oxford Economics (2023) also make this modeling assumption.

4 Congress should “Move the PRC to a new tariff column that restores US economic leverage to ensure that the PRC abides by its trade commitments and does not engage in coercive or other unfair trade practices and decreases US reliance on PRC imports in sectors important for national and economic security. This shift should be phased in over a relatively short period of time to give our economy the time necessary to adjust without avoidable disruptions” (House Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party 2022, 14).

5 “To counter malign influence and theft perpetuated by the People’s Republic of China and the Chinese Communist Party” (HR 7476), the 2024 Chinese PNTR revocation bill includes “fast-track authority” for legislation to develop (and later levy) a new tariff schedule for imports from China. Absent the enactment of such legislation, the bill would impose Column 2 tariff rates on imports from China.

Table 2

Increases in weighted-average tariffs after revocation of China's permanent normal trade relations status, by sector

Sector	Tariff change (percentage point)
Nondurable manufacturing	42.9
Durable manufacturing	36.9
Agriculture, forestry, fishing, and hunting	24.5
Mining	5.7
Energy	1.1

Source: Constructed by the authors with data from the US Census (via Dataweb).

for each country is sectoral productivity growth. Growth in the capital stock is determined endogenously within the model.

Based on these assumptions, we produce a baseline for all economies. Productivity in the United States—the world's technology frontier—is assumed to grow constantly into the future; other economies close their gaps at the sector level with the United States based on a productivity catchup model. As emerging-market economies have low initial technology levels relative to the United States, they enjoy rapid technological progress and hence brisk economic growth. This productivity catchup alone will significantly change the landscape of the world economy this century.

Given the baseline, we then assume the announcement of the revocation of China's PNTR status in 2025, a decision we assume to be permanent. Pierce and Schott (2016) and Handley and Limao (2017) document that the elimination of uncertainty associated with the annual renewal process contributed to a boost in US trade with China, independent of any tariff cutting. The "permanent" nature of the change incentivized US firms to establish operations in China or deepen their cooperation with Chinese firms, shifting production from the United States to China. It also encouraged US producers to invest in capital- or skill-intensive modes of production while transferring more labor-intensive activities to China.

On the Chinese side, PNTR incentivized enterprises to invest in, or expand resources devoted to, sales in the US market. In principle, this move would send the sort of trade-biased investment effects that Pierce and Schott (2016) and Handley and Limao (2017) document into reverse (we do not model these specific channels). We also assume that the revenue from the tariff increase (0.9 percent of GDP) would be paid to the US government, reducing the fiscal deficit.⁶

The results we present are the difference in the outcomes of economic variables relative to the baseline projections. We also model a retaliation scenario, in which China responds with the same tariff changes the United States

6 Alternatively, one could assume that the tariff revenue is rebated. A rebate would attenuate the contraction of GDP, production, and employment.

imposes on Chinese imports (see table 2). China could retaliate in other ways; for concreteness, we assume this simple tit-for-tat.

RESULTS OF THE MODELING

Figures 1-7 display the effect of revoking PNTR on the economies of the United States, China, Canada, Europe, Japan, and Mexico with and without retaliation by China. The full set of results for all countries can be downloaded from the [dashboard](#).

Revoking PNTR would increase the price of imports in the United States through the direct impact of tariffs on prices. Although Chinese producers would absorb the decline in the price they receive after the tariff, that absorption would not offset the rise in the tariff on the price of Chinese goods in the United States. The amount of foreign currency needed to pay the Chinese for their exports would reduce demand for Chinese currency, causing the US dollar to appreciate relative to the yuan, by 6 percent in the short run. The higher prices from the tariff are thus partly offset by appreciation of the US dollar. Importers of consumer goods and intermediate goods would switch away from Chinese imports to imports from other countries and US-produced goods.

In terms of GDP, revocation of PNTR would lead to a decline in income in the United States and a more pronounced decline in income in China (figure 1). The decline in US GDP would be intensified if China retaliated by limiting access to markets in China.⁷ China would be affected by the tariff and by partly pegging the exchange rate response by raising interest rates to protect the yuan, which would cause a monetary-induced slowdown that accelerates the negative trade shock in China. China's GDP would decline by 0.6 percent in 2025.⁸ If the Bank of China allowed the nominal depreciation of the currency, this initial loss would be halved. Over time, production would shift from China to other countries, including Canada and Mexico, leading to slightly lower long-run GDP in the United States and an even greater decline in China. The outcomes for aggregate employment are similar to the GDP results (figure 2).

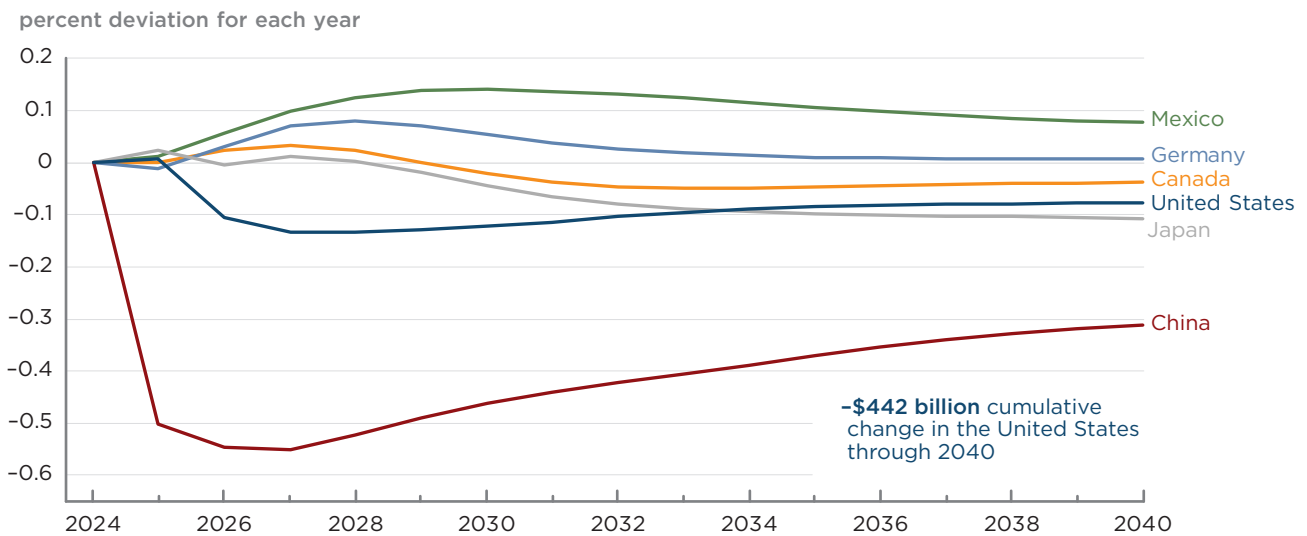
The imposition of higher tariffs would increase prices for consumer and intermediate goods, contributing to a rise in US inflation of 0.2 percentage points in 2025 (0.4 percentage points if China retaliates) (figure 3). Although the Fed would eventually remove the inflationary impulse, the price level would remain 0.4 percentage points higher forever (0.6 percentage points higher if China retaliates). At the same time, the appreciation of the US dollar would reduce the price of imported goods from other countries and dampen some of the direct impacts of the tariff increase on price levels. On net, the increase in input costs in the United States would lead to inflation. The Fed would balance the decline in economic growth with the rise in inflation and allow some of the inflationary

7 The decline in US GDP is somewhat larger than obtained by Smith and Lee (2023) using a static CGE model and somewhat smaller than obtained by Oxford Economics using a traditional macro model in a study commissioned by the US-China Business Council (2023). Smith and Lee also obtain a decline in Chinese GDP, albeit of a smaller magnitude. Both Smith and Lee and Oxford Economics find that retaliation by China would intensify all of these effects.

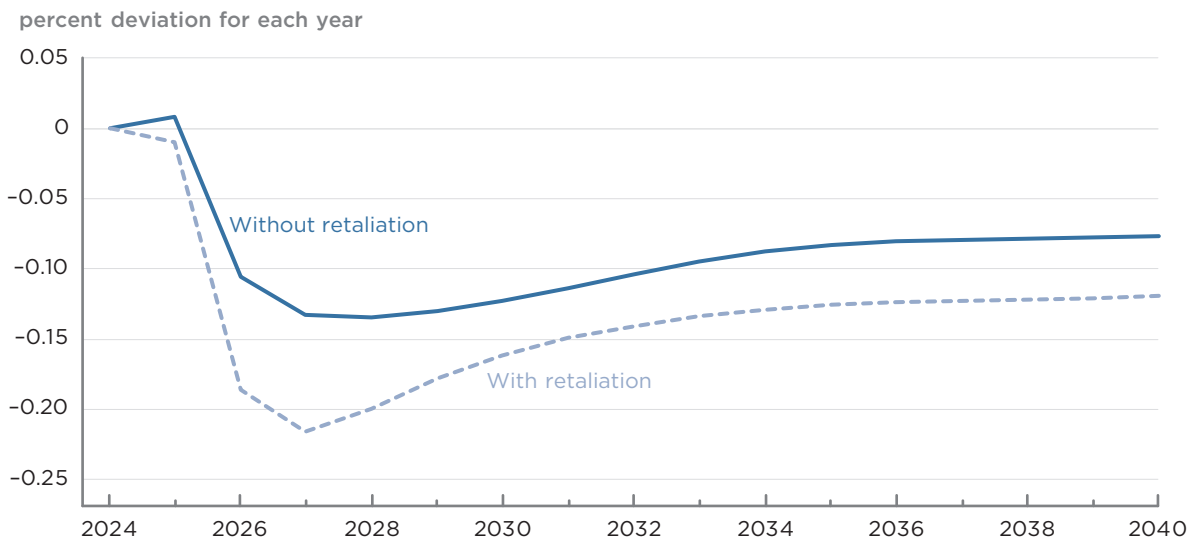
8 The initial response of Chinese GDP depends importantly on the reaction of the People's Bank of China to the depreciation of the renminbi relative to the US dollar. If it tightens monetary policy to maintain a peg to the US dollar, China's GDP could decline by as much as 1.6 percent in 2025.

Figure 1
Projected GDP following revocation of China’s permanent normal trade relations status, 2025–40

a. Change in real GDP in selected countries



b. Change in US GDP with and without retaliation by China



Source: Authors’ calculations.

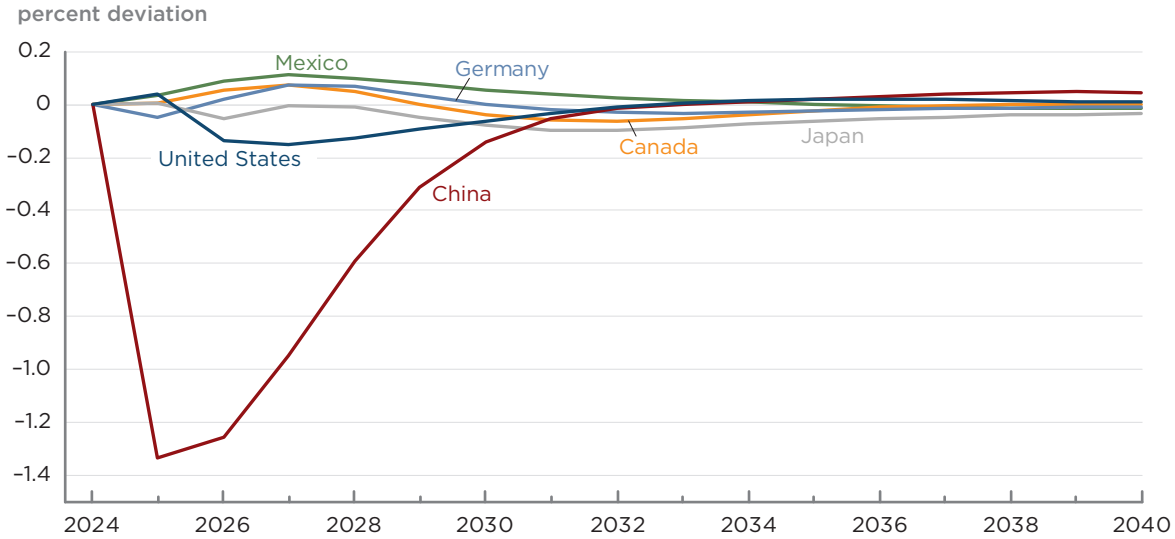
impulse to pass through to the economy. It would initially allow the policy rate to rise slightly within the 25-basis-point band but then permanently reduce the rate slightly within the same band. The tariff change would be deflationary in China (with a short-run spike in 2026–27) because of the decline in demand for Chinese exports and the tightening of Chinese monetary policy to resist change in the exchange rate relative to the US dollar.⁹

9 These price increases in the United States are lower than those obtained by Smith and Lee’s static CGE model, which generates a significant increase in import prices from all sources. One difference is that G-Cubed captures the appreciation of the US dollar, which depresses dollar import prices from non-Chinese sources.

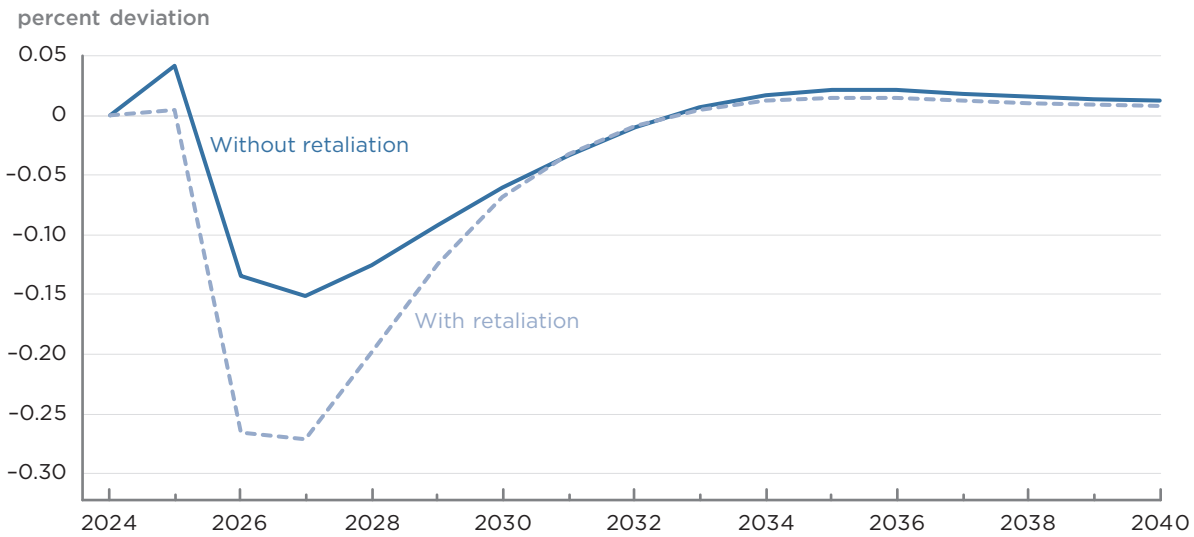
Figure 2

Projected employment (hours worked) following revocation of China’s permanent normal trade relations status, 2025–40

a. Change in hours worked in selected countries



b. Change in hours worked in the United States with and without retaliation by China



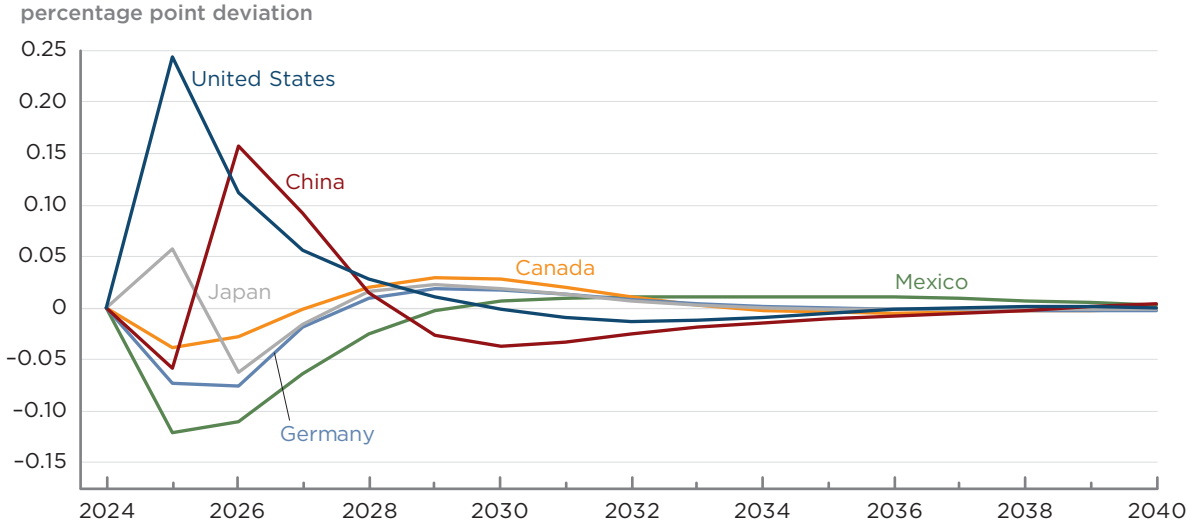
Source: Authors’ calculations.

The macroeconomic story is conventional; the impact on sectors is diverse. Differences in sectoral outcomes are caused by the different tariff changes (which are much larger in manufacturing; see table 2), the production structures in each sector (including capital-labor ratios and dependence on intermediate goods), and the relative importance of foreign versus US demand for the output of each sector.

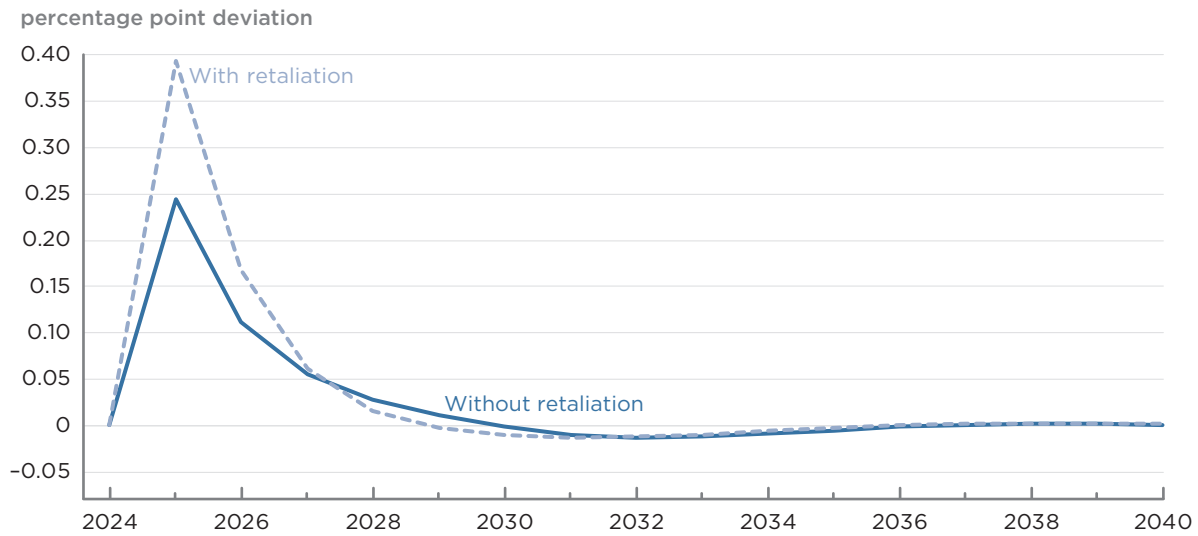
Figure 4 shows the percentage change in sectoral production in the US economy. Panel a shows the impact of the US tariff changes; panel b shows the impact of the tariff changes plus Chinese retaliation. The three sectors with the largest declines in output in 2025 and the long run are those that are exposed to

Figure 3
Projected inflation following revocation of China's permanent normal trade relations status, 2025-40

a. Change in inflation rate in selected countries



b. Change in US inflation rate with and without retaliation by China



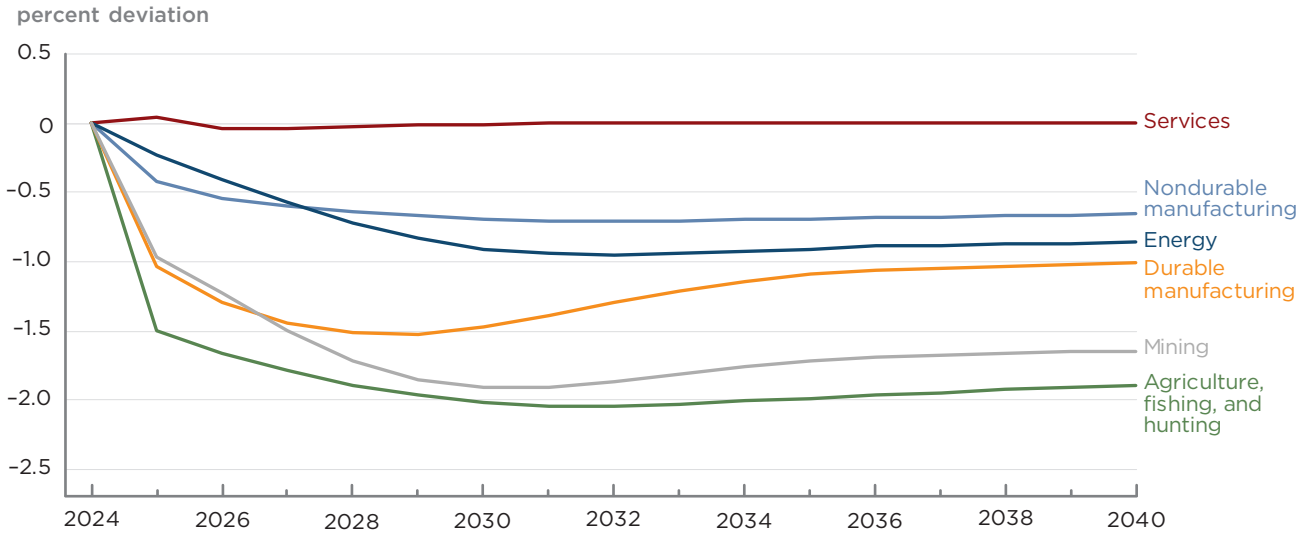
Source: Authors' calculations.

trade: agriculture (-1.4 percent), durable manufacturing (-1.2 percent), and mining (-1.1 percent). Agriculture is adversely affected by the appreciation of the dollar, which reduces foreign demand for US exports. The declines in durables and mining are caused partly by the contraction of investment. Manufacturing suffers because of its dependence on China as a source of intermediate inputs. The losses in agriculture and durable manufacturing nearly double if China retaliates, because they are both directly exposed to trade, and durable goods are also exposed to an investment slowdown in both countries; mining is not as affected by Chinese retaliation because of lower trade exposure. The model embodies a significant degree of aggregation (six sectors); it consequently understates the

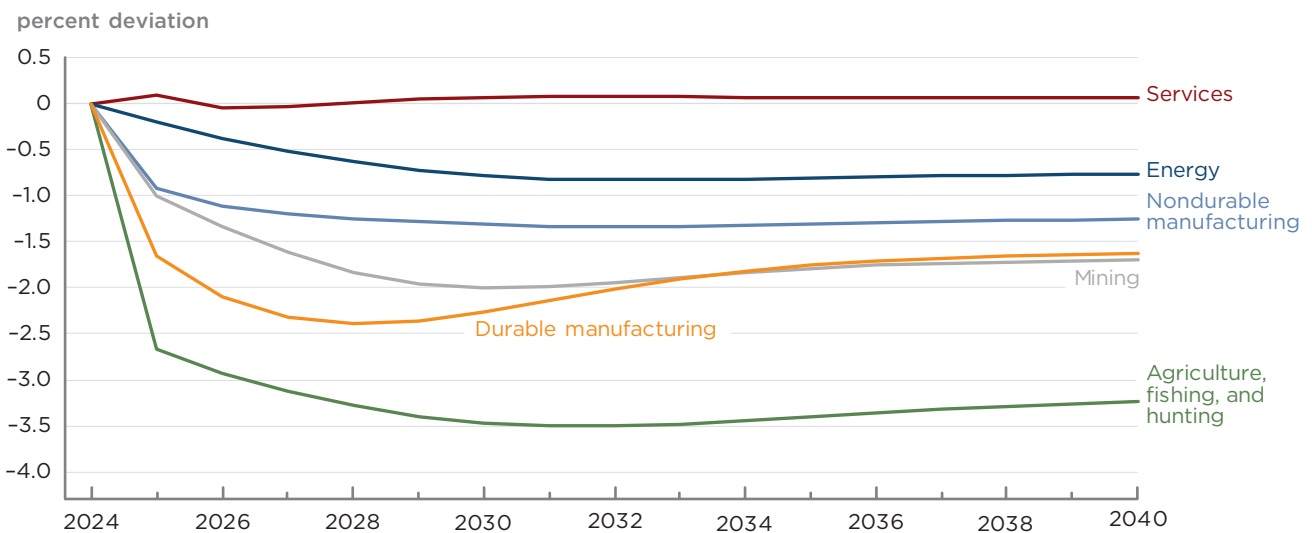
Figure 4

Projected output by sector in the United States following revocation of China’s permanent normal trade relations status, 2025–40

a. Output without retaliation by China



b. Output with retaliation by China



Source: Authors’ calculations.

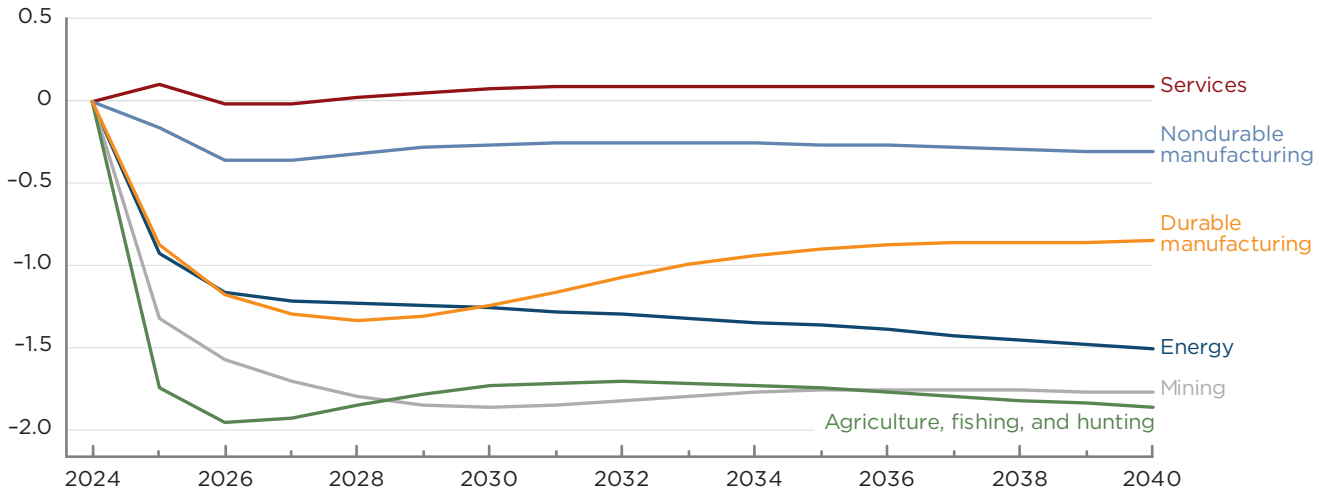
true impact of revoking PNTR by not fully capturing the efficiency losses that would be felt at a more granular level.

The decline in demand for output from each sector would be mirrored by the decline in the demand for labor in each sector. Initially, most job losses would be in agriculture, mining, and durable manufacturing (figure 5). Over time, these unemployed workers would be absorbed into the services sector, through a fall in real wages across the US economy. The remoteness of some agriculture and mining activities could impede this process, generating somewhat more negative results than those depicted in figure 5. Retaliation by China would increase job losses across the economy but especially in agriculture and durable manufacturing—the very sectors the new tariffs are intended to support.

Figure 5
Projected sectoral employment in the United States following revocation of China’s permanent normal trade relations status, 2025–40

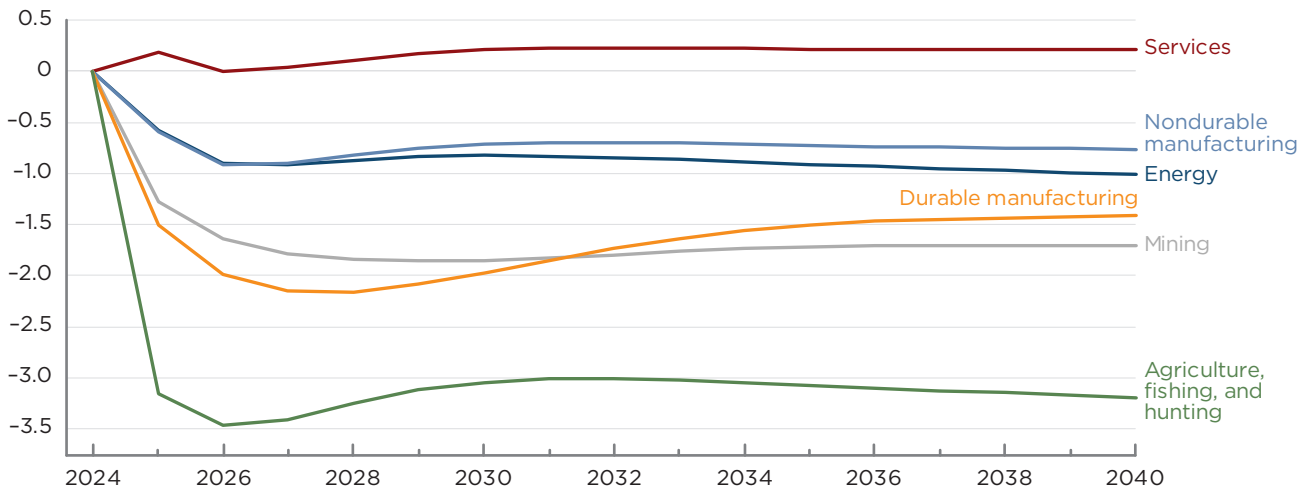
a. Employment without retaliation by China

hours worked, percent deviation for each year



b. Employment with retaliation by China

hours worked, percent deviation for each year



Source: Authors’ calculations.

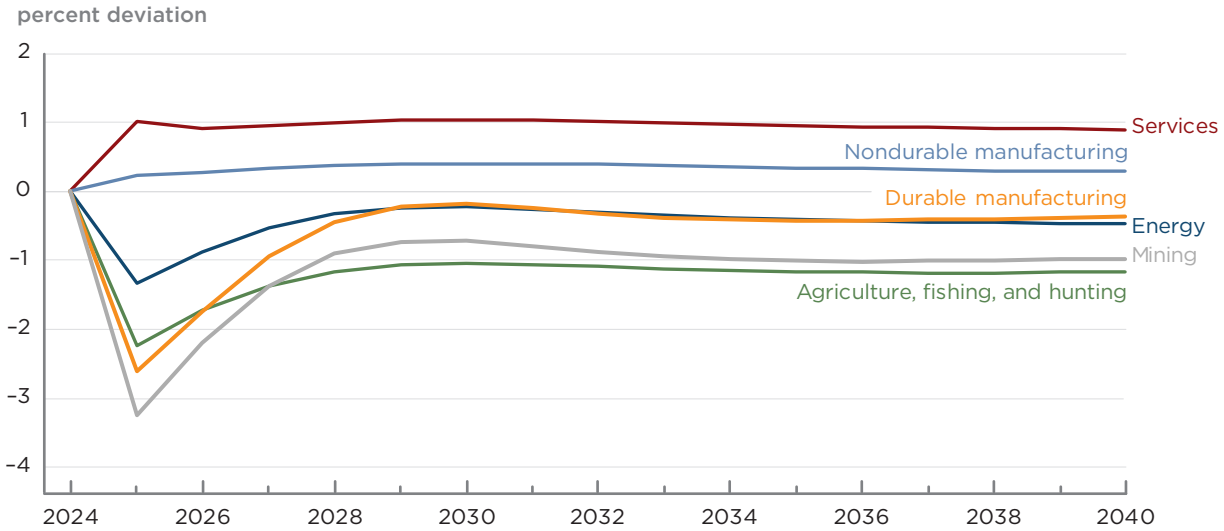
The imposition of tariffs and retaliation by China would immediately affect the stock market prices of the sectors most affected. The value of equities would decline by 3 percent each in the mining and durable manufacturing sectors (figure 6a). Retaliation would push these losses up to 5 percent in durable manufacturing (because of significant loss of exports to China) and up to 4.5 percent in agriculture (figure 6b).

US tariff policy and retaliation by China would affect overall trade balances (figure 7). In the model, the trade balance is driven by national savings relative to national investment. If investment falls relative to savings, capital flows out of an economy, and the trade balance moves toward surplus, through adjustment of the real exchange rate that makes exports cheaper and imports more expensive.

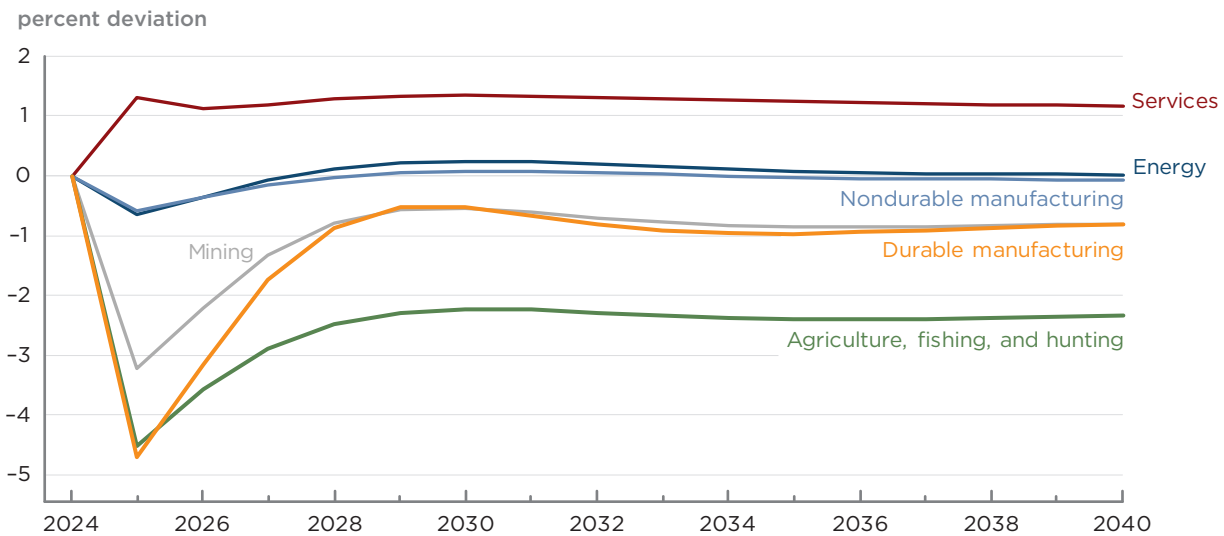
Figure 6

Projected equity prices in the United States following revocation of China’s permanent normal trade relations status by sector, 2025-40

a. Value of equities without retaliation by China



b. Value of equities with retaliation by China



Source: Authors’ calculations.

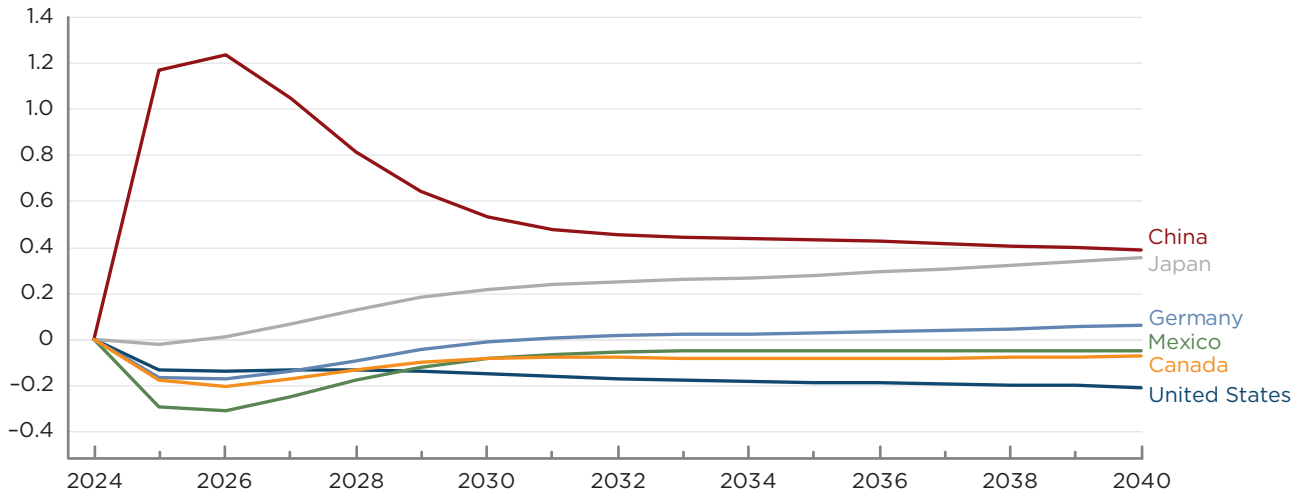
The composition of goods in exports and imports depends on the changes in incomes and relative prices in each economy.

The trade balance can worsen or improve as a result of changes in demand and relative prices across the global economy. In the first year, the model projects that the Chinese trade balance would improve by 1.2 percent of GDP in 2026 as a result of the US tariff change. Capital would flow out of China because of the slowdown of economic activity, leading to a depreciation of the Chinese currency, which would make Chinese goods less expensive in foreign markets. Slower Chinese demand would release goods for export. The Canadian and Mexican trade balances would deteriorate because capital would flow into

Figure 7
Projected trade balance following revocation of China’s permanent normal trade relations status, 2025-40

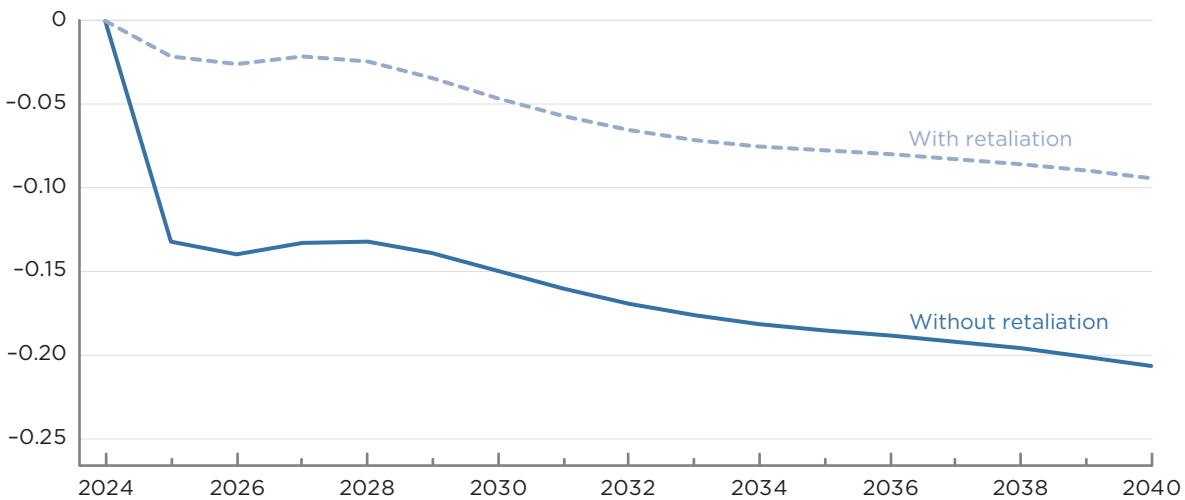
a. Trade balance in selected countries

percent of GDP deviation from baseline



b. US trade balance with and without retaliation by China

percent of GDP deviation from baseline



Source: Authors’ calculations.

these economies as initial financial capital is reallocated from China. Over time, production facilities would be relocated to these economies from China.

The US trade balance would deteriorate relative to the baseline. US imports from China would fall, as a result of the increase in import prices, but imports from other sources would rise. Overall, imports would decline. US exports would fall because of the appreciation of the dollar. Some of the capital outflows from China would flow into the United States, which means that investment would fall less than savings on net, implying a widening of the current account (and trade) deficit. Imports would be lower than intended, but the trade balance would not improve, because of the adjustment in exports.

Table 3

Estimated cumulative impact on US economy in 2025–28 of revocation of China's permanent normal trade relations (PNTR) status (billions of 2018 US dollars)

	Revocation of China's PNTR status	Revocation of China's PNTR status plus retaliation by China
<i>GDP</i>	-94.9	-158.7
<i>Production</i>		
Durable manufacturing	-332.2	-532.2
Nondurable manufacturing	-89.9	-181.8
Agriculture	-39.9	-70.1
Energy	-45.5	-40.7
Mining	-10.7	-11.5
Services	-14.7	9.9
<i>Change in consumer price index by 2028 (percent)</i>	0.4	0.6

Source: Authors' calculations.

Table 3 reports the cumulative results for the period 2025–28. If China retaliates as specified, durable manufacturing production would decline by \$532 billion relative to the baseline. In value-added terms, GDP would fall by \$158.7 billion and the price level would rise by about 1 percent. These impacts would be attenuated in the unlikely event that China did not retaliate.

This permanent decline relative to the baseline is precisely what trade theory would predict, as imposition of an impediment to beneficial trade permanently reduces the gains from trade, as reflected in real GDP. These results will be larger if US productivity growth is endogenous and declines in response to the disruption in availability of specialized inputs. Per Clausing and Lovely (2024), it is also likely that the additional trade protection and rise in the price level will have adverse distributional consequences.

Would revocation of PNTR and Chinese retaliation be the end of the story? It is likely that industrial intermediates would be exported from China to third countries, such as Vietnam or Mexico, which use them as inputs into final goods bound for the US market. If these indirect exports were sufficiently large, it is possible that President Trump and/or Congressional protectionists might impose tightened rules of origin, further restricting access to the US market. Such an action would deepen the adverse impacts documented in this Policy Brief and hurt diplomatic relations with these third countries.

CONCLUSION

The granting of PNTR to China in connection with its accession to the WTO resulted in a large expansion of bilateral trade. Concerns over Chinese trade practices and the impact of Chinese exports on US import-competing sectors contributed to political discontent in the United States and calls for the revocation of PNTR.

Analysis based on G-Cubed (a multicountry, multisector model) reveals that revoking PNTR would reduce output and raise prices in the United States. The resulting increase in inflation would be moderated by appreciation of the dollar and action by the Fed. These impacts would be felt unevenly across the economy, with trade-exposed sectors such as agriculture, durable manufacturing, and mining suffering the biggest losses. Revocation of PNTR would reduce employment in these sectors and encourage the redeployment of labor into the services sector—presumably not the outcome advocates of PNTR revocation seek. In principle, the US trade deficit could either expand or contract, depending on the behavioral relations within the model. Our modeling suggests that revocation of PNTR would widen the trade deficit, as US savings fall by more than investment—another outcome that revocation proponents presumably do not welcome. All of these impacts would be magnified if China retaliated, as it would be expected to do and has done in past trade disputes (Congressional Research Service 2019).

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