

News Release

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"China's Rise: Challenges and Opportunities"

WASHINGTON, October 8, 2008 – China has become an economic superpower, an undisputed driver of world growth and the fastest growing consumer of the world's energy and other natural resources. Its military buildup and modernization are stirring concern among its neighbors and in the West. Its leadership is increasingly pursuing economic strategies that are not in sync with current international rules and arrangements. The extraordinary transformation of China poses a historic challenge for the next president, who must intensify and redefine the U.S.-China relationship over the next several years.

These are some of the central conclusions from, *China's Rise: Challenges and Opportunities*, an important and timely new book, by the Peterson Institute for International Economics and the Center for Strategic & International Studies (CSIS). The book's authors are some of the world's leading experts on China: C. Fred Bergsten, director of the Peterson Institute; Charles Freeman, director of the CSIS Freeman Chair in China Studies; Nicholas R. Lardy, a senior fellow at the Peterson Institute; and Derek J. Mitchell, a CSIS senior fellow. The book is the latest product of a three-year joint project between the Peterson Institute and CSIS, who previously published *China: the Balance Sheet—What the World Needs to Know Now about the Emerging Superpower*, in 2006. The book can be found at: <http://bookstore.petersoninstitute.org/book-store/4174.html>

The authors explore a fundamental issue: Is the bedrock of U.S.-China relations—"engagement" on a number of fronts and an effort to integrate China into the existing international order—still adequate? The buzzwords of a generation ago—engaging, containing or isolating China—no longer have meaning in an era in which China has become the world's second or third largest economy, the second largest exporter, by far the largest surplus country, and a holder of \$1.8 tril-

lion of foreign exchange reserves and wielder of increasingly vigorous diplomatic influence. A much more nuanced approach is needed. The book provides guidance for policymakers and interested students of China alike.

The authors bring information and insight to bear on China's economic strength, its dependence on trade (which accounts for more than twice as much of China's economy as it does in the United States and Europe), its enormous impact on the world economy and its hungry search for new energy resources even as it struggles to contain the horrendous pollution caused by its burning of coal and expansion of heavy industry. They present a deep analysis of China's energy policies and its prospects for the future. They open a window into the debates among Chinese officials on how much further to liberalize the economy, and they explain in fresh detail how tensions between central and local government officials hamper the cause of reform.

While China's military expansion has been less dramatic than its economic growth, the resurgence of its armed forces is impossible to ignore. In real terms China's military capabilities are not on the same scale as those of the United States. China's status as a nuclear armed power, increasing tactical progress and rising international military prowess, however, all give reason for the world to notice.

China's extensive and rapidly growing economic power allows it to pursue policies that challenge the U.S.-led international framework centered in the International Monetary Fund, the Group of Seven or Eight economic powers, and the World Trade Organization. They show that China is often going its own way, in defiance of current international norms. In the diplomatic sphere, China poses a challenge by cooperating with countries (such as Iran and Sudan) that threaten regional security or patently disregard human rights, and by channeling development assistance on terms quite different from established models. The authors call for the United States to re-examine the efficacy of the current rules and institutions governing the global economy, and for a much more intensive bilateral relationship to anticipate and resolve systemic problems.

In 1957, the authors note, the Soviet Union's launch of the satellite Sputnik sent Americans into a panic that ultimately led the United States to reform its educational, scientific and productive capacities. In the face of a similar challenge today, the authors call on Americans to

use China's rise as an opportunity to rebuild the United States's own capabilities and to redefine the relationship with China itself, and to join with it to rebuild the global diplomatic and economic architecture and find new solutions to the world's problems. The authors find that there are many risks posed by China's rise, but they conclude that: "On balance China's rise could turn out to be a good thing for the United States."

China's Rise: Challenges and Opportunities

by C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy and Derek J. Mitchell

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About the Peterson Institute and CSIS

The **Peterson Institute for International Economics**, (www.petersoninstitute.org) directed by C. Fred Bergsten since its inception, is the only major research center in the United States that is primarily devoted to global economic policy issues. Founded in 1981, its staff includes more than two dozen experts who focus on macroeconomic topics, international finance and exchange rates, trade and related social issues, energy, the environment, global investment, and related domestic policies. Its expertise covers all key regions of the global economy—especially Asia, Europe and Latin America as well as the United States itself. The Institute is private and nonprofit. It is one of the few think tanks widely regarded as nonpartisan by both the press and Congress, and its scholars are cited by the quality media more than those at any other such institution. Support is provided by a wide range of charitable foundations, private corporations and individual donors, and from earnings on the Institute's publications and capital fund. It celebrated its 25th anniversary in 2006 and adopted its new name at that time, having previously been the Institute for International Economics.

The **Center for Strategic and International Studies (CSIS)** (www.csis.org) is a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions; accordingly, all views, positions, and conclusions expressed in these publications should be understood to be solely those of the authors.

About the Authors

C. Fred Bergsten has been director of the Peterson Institute for International Economics since its creation in 1981. He has been the most widely quoted think tank economist in the world over the eight-year period 1997–2005. He was ranked in the top 50 “Who Really Moves the Markets?” by *Fidelity Investment’s Worth*, and as “one of the ten people who can change your life” in USA Today.

Dr. Bergsten was assistant secretary for international affairs of the US Treasury (1977–81); assistant for international economic affairs to Dr. Henry Kissinger at the National Security Council (1969–71); and a senior fellow at the Brookings Institution (1972–76), the Carnegie Endowment for International Peace (1981), and the Council on Foreign Relations (1967–68). He is co-chairman of the Private Sector Advisory Group to the United States–India Trade Policy Forum. He was chairman of the Competitiveness Policy Council, which was created by Congress, throughout its existence from 1991 to 1995; and chairman of the APEC Eminent Persons Group throughout its existence from 1993 to 1995. He chaired the “shadow G-8” that advised the member governments on their annual summit meetings during 2000–2005.

Dr. Bergsten has authored, coauthored, or edited 38 books on international economic issues including *China: The Balance Sheet—What the World Needs to Know Now about the Emerging Superpower* (2006), *The United States and the World Economy: Foreign Economic Policy for the Next Decade* (2005), *Dollar Adjustment: How Far? Against What?* (2004), *Dollar Overvaluation and the World Economy* (2003), *No More Bashing: Building a New Japan–United States Economic Relationship* (2001), and *The Dilemmas of the Dollar* (2d ed., 1996). He has received the Meritorious Honor Award of the Department of State (1965), the Exceptional Service Award of the Treasury Department (1981), and the Legion d’Honneur from the Government of France (1985). He has been named an honorary fellow of the Chinese Academy of Social Sciences (1997). He received MA, MALD, and PhD degrees from the Fletcher School of Law and Diplomacy and a BA magna cum laude and honorary Doctor of Humane Letters from Central Methodist University.

Charles Freeman holds the Freeman Chair in China Studies at the Center for Strategic and International Studies (CSIS) in Washington, DC. The Freeman Chair was established by the Freeman Foundation, to which Charles Freeman has no relation, to advance the study of China and to promote understanding between the United States and the countries of the Asia-Pacific

region. He concentrates on economic, political, and social changes in greater China and on US-China relations, with particular attention to economic and trade matters. He joined CSIS after two years as managing director of the China Alliance, a collaboration among four US and Canadian law firms to counsel clients on trade, investment, and government relations strategies in China.

Between early 2002 and late 2005, Freeman was assistant US trade representative (USTR) for China affairs, the United States' chief China trade negotiator, and played a primary role in shaping overall trade policy with respect to China, Taiwan, Hong Kong, Macao, and Mongolia. During his tenure as assistant USTR, he oversaw US efforts to integrate China into the global trading architecture of the World Trade Organization and negotiated with China to resolve a wide range of market access issues and other trade interests on behalf of the United States.

His career-long experience with China and other parts of Asia spans tours of duty in government, business, and the nonprofit sectors. Prior to joining the Office of the USTR, Freeman served as international affairs counsel to Senator Frank Murkowski (R-Alaska), where he advised on trade, foreign relations, and international energy matters. His private sector experience also includes stints as a Hong Kong-based executive with the *International Herald Tribune* and as a Boston-based securities lawyer and venture capitalist concentrating on developing markets in Asia and Eastern Europe. He also previously worked in Hong Kong as director of economic reform programs in China and Taiwan for the Asia Foundation.

Freeman received his JD from Boston University School of Law, where he was an editor of the *Law Review* and graduated with honors. He earned a BA degree from Tufts University in Asian studies, concentrating in economics, also with honors. He also studied at Fudan University in Shanghai and at the Taipei Language Institute.

A second-generation “China hand,” he grew up between Asia and the United States and speaks Mandarin Chinese. His civic activities include service on the board of directors of the National Committee for US-China Relations.

Nicholas R. Lardy, called “everybody’s guru on China” by the *National Journal*, has been a senior fellow at the Peterson Institute since 2003. He was a senior fellow in the Foreign Policy Studies Program at the Brookings Institution from 1995 to 2003. He was the director of the Henry M. Jackson School of International Studies at the University of Washington from 1991 to 1995. From

1997 through the spring of 2000, he was the Frederick Frank Adjunct Professor of International Trade and Finance at the Yale University School of Management.

His most recent publication (coedited with Morris Goldstein) is *Debating China's Exchange Rate Policy* (2008). Other publications include *China: The Balance Sheet—What the World Needs to Know Now about the Emerging Superpower* (2006), *Prospects for a US-Taiwan Free Trade Agreement* (2004), *Integrating China into the Global Economy* (2002), *China's Unfinished Economic Revolution* (1998), *China in the World Economy* (1994), *Foreign Trade and Economic Reform in China, 1978–1990* (1992), and *Agriculture in China's Modern Economic Development* (1983). He is a member of the Council on Foreign Relations and is a member of the editorial boards of the *China Quarterly*, *Journal of Asian Business*, *China Review*, and *China Economic Review*.

He received his BA from the University of Wisconsin in 1968 and his PhD from the University of Michigan in 1975, both in economics.

Derek J. Mitchell is senior fellow and director for Asia in the CSIS International Security Program (ISP), having joined the Center in January 2001. He concurrently serves as director of CSIS's new Southeast Asia Initiative, which was inaugurated in January 2008 and is the Center's first initiative dedicated to the study of Southeast Asian affairs. He is responsible for managing all Asia-related studies conducted at ISP, which currently include projects involving the security of the Taiwan Strait, the future of the US-Japan and US-South Korea alliance, China's foreign and security policy and US-China relations, and the integration of India into the strategic mix of East Asia. He was special assistant for Asian and Pacific affairs in the Office of the Secretary of Defense (1997–2001), when he served alternately as senior country director for China, Taiwan, Mongolia, and Hong Kong (2000–2001), director for regional security affairs (1998–2000), senior country director for the Philippines, Indonesia, Malaysia, Brunei, and Singapore (1998–99), and country director for Japan (1997–98). He was the principal author of the Department of Defense (DoD) 1998 East Asia Strategy Report, and he received the Office of the Secretary of Defense Award for Exceptional Public Service in January 2001.

Prior to joining DoD, Mitchell served as senior program officer for Asia and the former Soviet Union at the National Democratic Institute for International Affairs in Washington, DC. From 1993 to 1997, he developed the institute's long-term approach to Asia and worked on democratic development programs in Armenia, Burma, Cambodia, Georgia, Pakistan, and Thailand. In 1989,

he worked as an editor and reporter at the *China Post* on Taiwan. From 1986 to 1988, he served as assistant to the senior foreign policy adviser to Senator Edward M. Kennedy.

He received a master of arts in law and diplomacy degree from the Fletcher School of Law and Diplomacy in 1991 and a bachelor's degree from the University of Virginia in 1986. He studied Chinese language at Nanjing University in China and speaks Mandarin Chinese proficiently. He is the coauthor of *China: The Balance Sheet—What the World Needs to Know Now about the Emerging Superpower* (2006) and coeditor of *China and the Developing World: Beijing's Strategy for the 21st Century* (2007).