WASHINGTON—A new study from the Peterson Institute for International Economics proposes that the United States and China consider the possibility of a far-reaching agreement to lower barriers to trade and investment between them over the longer run either through a conventional bilateral accord or, preferably, via an expanded Trans-Pacific Partnership (TPP) that would include China along with several other new members.

The book, *Bridging the Pacific: Toward Free Trade and Investment Between China and the United States*, analyzes the likely economic and foreign policy benefits of a closer US-China relationship and offers several possible strategies for achieving such a goal over the coming years. The authors are C. Fred Bergsten, senior fellow and director emeritus of the Peterson Institute; Gary Clyde Hufbauer, Reginald Jones Senior Fellow at the Institute; and Sean Miner, an Institute research analyst.

*Bridging the Pacific* argues that a China–United States Trade and Investment Agreement (CHUSTIA) would expand US exports by almost $400 billion and US national income by over $100 billion annually. These gains are about double what the United States can expect from the TPP with its expected membership in negotiations that are still under way. US productivity growth would rise substantially and its trade deficit would decline. The gains might be increased by another 25 percent if investment, which cannot be accurately captured by traditional economic models, were to be liberalized along with trade. Among the many issues that the negotiations would have to address are tariffs and barriers to trade in agriculture, government procurement, and services. Also to be negotiated are rules on export controls, intellectual property rights, state-owned enterprises, foreign direct investment, labor rights, the environment, currency arrangements, and cyber-espionage.

China’s barriers to trade and investment are much higher than those of the United States. The book argues that, as a result, a CHUSTIA would yield large productivity gains for China, expanding its national income by more than $300 billion per year. These benefits would offset most or all of the economic losses that China is likely to suffer from the new trade preferences that are being created among countries participating in the prospective TPP, which the book estimates at about $100 billion per year, and in the Transatlantic Trade and Investment Partnership between its two most important markets in the United States and Europe. The proposed liberalization by China should be fostered by the domestic economic reforms now being pursued by President Xi Jinping.
A central theme of the book is that enhanced economic ties between the United States and China would produce major benefits in the political and security areas, helping to strengthen the overall bilateral relationship and deter future conflicts. The economic relationship itself is likely to continue deteriorating as the Chinese economic presence continues to grow rapidly if disputes continue to be settled on a case-by-case basis and without agreement on a more systematic and cooperative framework like a CHUSTIA.

Like any trade agreement, CHUSTIA would embody adjustment costs as well as overall economic benefits. Robert Z. Lawrence, nonresident senior fellow at the Institute and Albert L. Williams Professor of Trade and Investment at the Harvard Kennedy School, analyzes those costs carefully in the book and concludes that about 100,000 US workers would lose their jobs during each year of implementation of such an agreement over a decade. These losses, though difficult for individual families and communities, would amount to one half of one percent of all such separations over that period and less than one percent of the total US labor force of about 150 million. In addition, average wages might be depressed by 2 to 3 percent as has occurred over the past decade as a result of increased trade with China.

Balanced against these losses, the book concludes that US export increases resulting from a CHUSTIA would generate a roughly equal number of new jobs at wages that are 10 to 20 percent higher than the national average. The study estimates that US national income would rise by about $1.25 million for every job lost. Major foreign policy and national security benefits would accrue as well. The agreement’s liberalization should nevertheless be phased in slowly in sectors that would cause significant employment dislocation in either country, and the US program of Trade Adjustment Assistance for displaced workers should be at least tripled in magnitude (from $1 billion to $3 billion per year) to address problems that might result.

_Bridging the Pacific: Toward Free Trade and Investment between China and the United States_  
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About the Peterson Institute

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