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Living in the Shadow
of China's Economic Dominance

Arvind Subramanian

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Peterson Institute for International Economics



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*To
Parul,
Tia, Kartikeya, and Rohan, and
My parents*

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Preface

The Peterson Institute's research and publications over the years have focused to a considerable extent on China and its economic rise. One of the early books in this regard was Nicholas Lardy's *China in the World Economy* (1994) followed most notably by *China: The Balance Sheet—What the World Needs to Know Now about the Emerging Superpower* (Bergsten et al. 2006) and *China's Rise: Challenges and Opportunities* (Bergsten et al. 2008).

Most of these analyses focus on the opportunities for, and challenges facing, China itself rather than its impact on the rest of the world (though chapter 1 of *China's Rise* addresses that issue and elaborates my earlier proposal for a G-2 between China and the United States). There are, however, two major exceptions. Morris Goldstein and Lardy's *Debating China's Exchange Rate Policy* (2009) analyzes the effects of China's exchange rate policy on its trading partners and Gary Hufbauer et al.'s *US-China Trade Disputes: Rising Tide, Rising Stakes* (2006) examines trade disputes between China and the United States.

In this book, Senior Fellow Arvind Subramanian extends this line of inquiry by examining the rise of China from the perspective of its impact on the world economic system. He explores this through the key concept of economic dominance, focusing on whether and how China might attain future dominance.

Subramanian anchors the analysis by adopting a historical perspective in comparing China's future rise with the past hegemonies of Great Britain and the United States. He attempts to quantify and project both economic dominance and currency dominance, arguing that China's future dominance could be more imminent, broader in scope, and much larger in magnitude than is currently imagined. The profound effect that this might have on the United States and the world financial, and especially trading, system is explored at

some length. The book concludes with a series of proposals for reconciling China's rise with continued openness in the global economic order.

The Peter G. Peterson Institute for International Economics is a private, nonprofit institution for the study and discussion of international economic policy. Its purpose is to analyze important issues in that area and to develop and communicate practical new approaches for dealing with them. The Institute is completely nonpartisan.

The Institute is funded by a highly diversified group of philanthropic foundations, private corporations, and interested individuals. About 35 percent of the Institute's resources in our latest fiscal year were provided by contributors outside the United States. The Smith-Richardson Foundation and the Eranda Foundation provided generous support for this study.

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The Institute hopes that its studies 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.

C. FRED BERGSTEN
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When Keynes famously noted that practical men believe themselves to be exempt from any intellectual influences, he probably had in mind some iron law of vanity that says that the debts we really owe (even if to defunct economists) considerably exceed those we recognize and acknowledge. The obligatory filling of an acknowledgments page is a discipline, however weak, to guard against this law. So here goes.

My foremost general debt is to C. Fred Bergsten, who persuaded me to forgo being a “lifer” at the International Monetary Fund, with all its variable charms, yo-yo excitements, but unquestionable security, and join the Peter G. Peterson Institute for International Economics. The intellectually fertile and stimulating environment of the team at the Institute, under his superb direction, has allowed me to work with delight and inspiration every day that I have been here since April 2007. I owe a similar debt to Nancy Birdsall and the Center for Global Development, with which I have been associated for as long as the Institute.

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ARVIND SUBRAMANIAN
Washington, DC
September 2011

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“If you want to understand the true magnitude of the shift in economic power that is currently changing the world, *Eclipse* is the book to read—provocative, well argued and elegantly written.”

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