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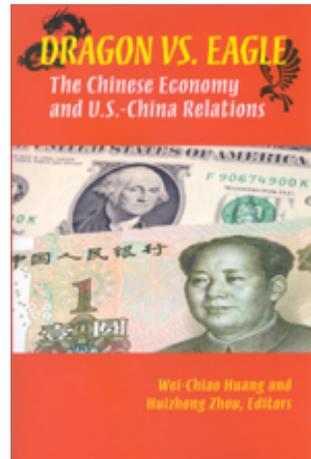
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## Introduction

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# 1

## Introduction

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It is a market economy, it is a nonmarket economy. It is capitalist, it is communist. It is a superpower, it is a developing country. It is a world factory, it is a global polluter. It is a nation of innovation, it is a nation of imitation. Its people are thriving, its people are suffering. It brings wealth to us, it takes jobs away from us. Such are the varied perceptions of a nation called China. In spite of frequent and ever-growing exchanges between the United States and China in business, culture, tourism, and almost all other aspects of social activities, in spite of overwhelming media coverage about China and extensive research, to many Americans, China is still a dragon behind a mist curtain.

Diverse, even diametrically opposed views of China reflect China's multiple, complicated, and ever-changing facets on the one side, and lack of understanding and historical and ideological biases on the other. In addition, like any bilateral and global trade, China's rise and its relations with the United States will inevitably create winners and losers, although the gains outweigh the losses for both China and the United States. For example, while large amounts of imports have made abundant goods and services available to Americans at affordable prices for the last two decades, they have replaced some domestic manufacturing businesses and jobs. The different experiences or prospects of the consequences of U.S.-China relations will certainly affect the perceptions and views of China.

The 2010–2011 Werner Sichel Economics Lecture Series, “Dragon versus Eagle: The Chinese Economy and U.S.-China Economic Relations,” invited six prominent scholars to deliver lectures on China's economic development and power, the driving forces of its growth, its trade relations with the United States, and the impacts on the U.S. economy. We are pleased to present the edited version of their lectures in this collection.

The primary concern from the U.S. perspective is, unsurprisingly, U.S.-China relations, especially as they relate to economics. The economic relationship between the United States and China is crucially important for both countries because they depend on each other; they are integrated. The United States relies on China for cheap consumer products and for financing the U.S. debt, while China relies on the United States for export markets, technology, and foreign direct investment. China is the second-largest trading partner of the United States, with a total volume of imports and exports of \$457 billion in 2010. The long-term trend in the U.S. trade deficit remains a key policy concern for the United States and its global trading partners. The overall U.S. merchandise trade deficit increased to \$915.6 billion in 2006. China's share in the merchandise trade deficit raised particular concern. The deficit with China increased rapidly and reached \$235 billion in 2006 and \$273 billion in 2010. In addition, China is the largest creditor of the United States, holding \$1.12 trillion in U.S. Treasury bills, according to the U.S. Federal Reserve.

Robert B. Koopman, in his chapter titled "U.S.-China Economic Relations and Value Chains in Global Production Networks," points out that while much attention has been paid to the increasing merchandise trade imbalance with China, it is useful to consider this trade relationship in a broader context. He brings our attention to the changes in the composition of the United States with a number of its main trading partners. In 1989, imports from the United States' largest Asian partners (Japan, China, Korea, Taiwan, Malaysia, and Singapore) accounted for 43.9 percent of U.S. non-oil imports. By 2007, the same share had dropped slightly to 41.5 percent. During this period, the U.S. share of imports from many of its other Asian partners declined. Between 1989 and 2007, the combined share of Japan, Korea, Taiwan, Malaysia, Singapore, and other Asian countries in U.S. non-oil imports dropped from 41.1 percent to 20.9 percent. Thus, much of China's increasing share of U.S. non-oil imports came at the expense of other Asian countries, particularly Japan, which dropped from 22 percent to 8.9 percent of U.S. non-oil imports during the same period.

To fully understand what was happening in global trade flows, Koopman's research delves further into value-added components of trade. By focusing on gross values of exports and imports, traditional trade statistics give us a distorted picture of trade imbalances between

countries. Value-added trade statistics help reveal the real economic impacts of global trade on domestic and foreign countries. The value-added approach demonstrates that many countries may add value to a particular good or service in a global supply chain, and that attributing the entire export value to the last exporting country can provide a misleading picture of the sources of value in trade.

China is often the final assembler in a large number of global supply chains, and it uses components from many other countries to produce its exports. Since processing exports have accounted for more than 50 percent of China's exports every year since 1996, imported intermediate inputs used in production for exports are contributed by other countries, including the United States. Accounting for value added, the contribution of China to the U.S. trade deficit differs substantially from what the traditional trade data suggest. The U.S.-China trade deficit on a value-added basis is considerably smaller (by about 40 percent in 2004) than on the commonly reported basis of official gross trade. By contrast, Japan exports parts and components to countries throughout Asia; many of these components are eventually assembled into final products and exported to the United States. Thus, the U.S.-Japan trade balance on a value-added basis is larger than the comparable gross trade deficit. The U.S. value-added trade deficits with other major trading partners (Canada, Mexico, and the EU-15) differ by smaller amounts from their corresponding gross trade deficits.

Koopman also identifies three major factors that contribute to the growing trade imbalance between the two countries and to China's more recently growing trade surplus with the world. The first factor is China's extensive use of policy instruments to encourage its rapid economic development and transition from a centrally planned economy to a market-driven economy. These policies include, among others, incentives for foreign investment and export performance, the establishment of special economic zones and substantial infrastructure investment, and a managed exchange rate. A second explanation focuses on more macroeconomic factors, suggesting that significant imbalance in the U.S. savings and investment rates, combined with relatively rapid consumption-led economic growth in the United States compared to other developed countries, have led to an increased current account and merchandise trade imbalance. A third factor has been the rapid growth in fragmented global production processes, as businesses take advantage

of declining costs in information and communications and international logistics to distribute pieces of their production chain based on lowest cost sources. Although fragmentation of global production has developed independently of China's policy environment and is a widespread phenomenon, a large part of China's growth in exports to the United States has been in processing trade carried out by the foreign-invested enterprises, which have been encouraged by and benefited from China's "imports for exports" policies.

What is the size of the Chinese economy relative to the United States? Is it an economic superpower or a developing country? What have been the driving forces behind the unprecedented growth for more than a decade? In Chapter 3, "China's Economy from an American's Perspective," Gene H. Chang offers a balanced view of the Chinese economy and its potential problems.

The true size of China's economy has been a subject of some debate. Using the official exchange rate and the figures reported by the State Statistics Bureau of China, China's GDP in 2010 was \$5.7 trillion, ranking second in the world. This is about one-third of the U.S. GDP, which is \$14.6 trillion. It is slightly larger than third-ranked Japan, which generated \$5.4 trillion in GDP.

However, with a population of 1.3 billion people, China is still poor. Its per capita GDP is only about one-tenth of that in the United States, ranked the 94th in the world. Its per capita consumption of energy, for example, is about 15 percent of the United States. In addition, economic development in China has been quite uneven, with the coastal regions much more developed than the inland.

To put the development of the Chinese economy in perspective, Chang compares the sector composition in China with other countries. Economic theory and history indicate that in the preindustrial period, agriculture contributes the most value added to a country's GDP. In the middle stage of industrialization, manufacturing and industry add the most value. Finally, in a developed economy, the service sector adds the most value to GDP. China's service sector is relatively small, adding value of \$2.563 billion, which is about 22 percent of that of the U.S. service sector. In the industry sector, the value added is \$2.751 dollars, which is 85 percent of the output of the U.S. industry. While agriculture in China accounts for less than 10 percent of GDP, it contributes a total

of \$564 billion, more than three times as much as that of the United States.

No one would doubt that China has experienced a remarkable growth at an annual rate of around 10 percent for three decades, lifting hundreds of millions out of poverty. As a result, the standing of the Chinese economy in the world moves upward quickly. In 2000, China's economy was behind most large industrial economies. Then China passed the U.K., France, Germany, and finally Japan in 2010, becoming the second-largest economy in the world. Based on certain assumptions, it is projected that China would overtake the United States to become the largest economy by 2020.

What explains the rapid and sustained economic growth of China for three decades? Many have suggested reasons ranging from the Chinese culture and system to purely timing and luck, but none is uncontroversial. Chang focuses on some obvious economic reasons, namely, the high rate of capital formation supported by the high rate of savings, and the political system, where governments have strong influences over the economy and control the banks.

In terms of fixed capital investment and saving as percentages of GDP, China is ranked near the top of the world. China spends 45.6 percent of its GDP on fixed capital formation. The country has been enthusiastically pouring money into infrastructure, residential housing, and equipment. The local governments are even more zealous in capital spending because large projects are symbols of their performance; they get credits for big building projects in their local areas, but they are not actually held accountable for the costs of these projects. The funds for the investment often come from the loans by the local state-owned banks. If the loans finally go bad, it is hard to pin down who was responsible for the bad decision, and the state eventually picks up the tab. The true scales of construction and other investment projects are even larger than the reported figures in the official statistics, as the local officials always underreport their investment to avoid the discipline from the central government's macroeconomic contractionary measures.

The money for capital investment comes from public and private savings in China, which accounts for more than half (52 percent) of the GDP. For each yuan the Chinese made, they spent less than half in consumption. Why is the savings rate so high in China? Scholars give

a list of explanations in line with conventional theories, which include the following:

- Rapid growth in income. As personal income rises rapidly, old habits remain, hence consumption increase lags behind income increase.
- A relatively younger population composition, so the larger working population provides a “demographic dividend.”
- The influence of the Confucian culture and thrifty habits by the older generations.
- Lack of social security and high medical costs and costs of education for children, so households have to engage in a lot of pre-cautionary saving.

Politicians and news media in the United States often blame undervalued Chinese currency for the huge U.S. trade deficit with China, though the majority of economists would consider a lower gross savings rate as a more important factor for the U.S. trade deficit. Is the Chinese RMB undervalued? Chang, based on his own research, estimates that the Chinese currency is 25 percent undervalued against the U.S. dollar, but 17 percent undervalued against the global balance equilibrium value, because the U.S. dollar is about 10 percent overvalued against its global balance equilibrium value. China’s trade surplus with the United States is particularly large because, unlike the Euro zone and Japan, China keeps the RMB relatively stable with the U.S. dollar, thus reducing the foreign exchange cost in trade between China and the United States. Another reason is that China’s export involves mostly processing, which employs goods and services produced in other countries, as is detailed in Koopman’s chapter.

While China has the potential to be a great power, it faces serious challenges in both the economic and political arenas. With a population of 1.3 billion people, China is still poor in terms of per capita income. In other vital measures, in per capita terms, China appears weak, too. For example, China’s per capita renewable water resources are only 20 percent of those of the United States, and per capita energy consumption is about 15 percent. To curb the population growth, China’s fertility rate dropped to 1.54 in 2010. The population will age quickly in the coming years. This sets up a “demographic time bomb” for the future.

By the year 2050, the elderly would make up more than 30 percent of the population, and the dependency ratio would reach 80 percent.

To sustain its growth, China clearly has to move away from the current labor-intensive mode of development to a more technology-intensive economy, and it needs to increase highly skilled human capital. Yet, the current state-controlled education and science and technology systems do not promote creative thinking and research and development, which are crucial for sustained growth. Under the current system, science and technology rewards and research grants are often allocated based on who has political influences or personal connections rather than on merit. Intellectual property rights are not effectively protected, discouraging costly but valuable inventions and original innovations. China's technology right now is far behind the United States. With such an inefficient and even corrupted system, the gaps in advanced areas are not likely to close in the near future.

China's income gap is widening, frequently causing social and political conflict and unrest. The Gini index, a common indicator of inequality (to be explained in Chapter 4 by Terry Sicular), reaches 0.469 for China, which is higher than most countries in the world. The Chinese Communist government lacks the legitimacy to rule because it is not elected by people, and the people have little confidence in it. There is no independent legal system or channel where people can vent their grievances or trust that they will be treated fairly. Hence, there exists widespread hostility and distrust among people toward the governments and their officials, resulting in many protests and plenty of unrest. China is politically unstable under the current system, and a large-scale protest that topples the government is not entirely impossible in the future.

The Communist political authoritarian system is an inherently and intrinsically unstable system under which China lacks rule of law. The party determines everything, hence impeding not only creativity and independent thinking, but also entrepreneurship. Even worse, private property is still not genuinely protected. If the Communist authoritarian system were to collapse, the resulting political upheaval and economic crisis could dwarf any scale of economic recession.

As Chang points out, the income gap between the rich and the poor has been widening and has become an important factor for social instability. Terry Sicular's chapter, "Winners and Losers in China's Eco-

conomic Reform,” addresses this issue in greater detail, especially recent trends in inequality in China.

China has undoubtedly become more prosperous during the past three decades. However, dramatic policy and structure shifts, while bringing about tremendous benefits and wealth, inevitably create winners and losers. Economists have long thought that economic development is initially accompanied by rising inequality, but that eventually various forces emerge that will cause inequality to decline. This “inverted U” relationship between growth and inequality was first proposed by Simon Kuznets (1955) and is called the Kuznets hypothesis. The reasoning is that initially growth begins in certain sectors and regions, and the benefits of early growth therefore go to a small subset of the population, causing inequality to increase. As development continues, however, under the right conditions growth will spread to other sectors and regions. Employment will expand, and the benefits of growth will be shared more widely. In the long term, inequality can decline. Rising inequality is therefore not necessarily a permanent feature of growth in general, or growth in China.

A commonly used measure of inequality, as explained in Sicular’s chapter, is the Gini coefficient, an index that takes a value of between 0 and 1. A Gini of 0 would mean perfect equality—all members of the society have identical, equal income. A Gini of 1 would indicate perfect inequality—one person has all of the society’s income, and everyone else has zero income. The Gini coefficients for actual countries mostly range from 0.20 to 0.70.

Between 1995 and 2002 inequality in China remained roughly constant. Rural off-farm employment became more widespread, contributing to a decline in rural inequality. Macroeconomic growth during this period was widely shared. Nevertheless, other disequalizing factors—the urban-rural gap and education-based income disparities—continued. From 2002 to 2007 inequality resumed its upward trend. It appears that China had not yet reached the Kuznets turning point. By 2007, in fact, inequality in China had reached a level that was quite high by international standards; China’s Gini coefficient was 0.497, which was near that of Mexico and Zambia, two countries that are considered to be high inequality.

Several factors appear to have contributed to the upward trend in inequality between 2002 and 2007. The gap between urban and rural

incomes continued to widen, although within rural and urban areas, levels of inequality did not increase substantially. In 2007 urban incomes per capita on average were 4.1 times rural incomes. This ratio was up from 3.3 in 2002, which was already high by international standards.

A second factor contributing to increasing inequality has been the household income derived from assets and property. In the 1990s major property rights reforms were implemented that gave households opportunities to own property. These reforms included the privatization of urban housing, the development of the urban real estate market, enterprise ownership reforms, and the expansion of stock and financial markets. In the wake of these and other measures, household income from assets and property, including imputed rents from owner-occupied housing, rose to 10 percent of household income in 2002 and to 15 percent in 2007. Asset income in China is unequally distributed, and its contribution to inequality has increased. A decomposition of income by source reveals that the contribution of income from assets and property to national inequality increased considerably from 9 percent in 2002 to 20 percent in 2007.

The rise in inequality between 2002 and 2007 implies that some households benefited more and others less from growth during this period. Who, then, were the winners and losers? Sicilar examines the growth in household income by decile groups in the population. All decile groups, from the poorest 10 percent of the population at the far left to the richest 10 percent at the far right, enjoyed positive growth in income between the two years. Growth in income of the poorest decile, however, was much smaller (in both percentage and absolute terms) than that of the richest decile. Income of the poorest decile increased by 406 yuan, less than 50 percent of 2002 income. Income of the richest decile roughly doubled, with an increase of nearly 16,000 yuan. For intermediate deciles, growth in income was correlated closely to their position in the income distribution.

Both the number of poor and the poverty rate declined dramatically between the early 1990s and early 2000s. In 1993 the poverty rate was 40 percent, but by 2002 it had fallen to 15 percent. The poverty rate declined further between 2002 and 2007 to about 4 percent. Most of this decline is due to a steep reduction in rural poverty. China's success in reducing poverty is outstanding by international standards. As a consequence of these trends, China has changed from a high-poverty

country to a moderately low-poverty country. Moreover, China's share of world poverty has declined substantially, from nearly 40 percent of the world's poor in 1990 to only 15 percent in 2005. In conclusion, China's economic reforms have had many "winners" and few absolute "losers." Yet, challenges to China's harmonious society remain acute and ongoing.

The rapid growth of the Chinese economy has been fueled by a large-scale migration from the countryside to the cities. As China relies on cheap labor and labor-intensive manufacturing as key factors for development, tens of millions of migrant workers pour into coastal developmental areas looking for factory jobs, which pay wages higher than they can earn in the countryside. The most recent census (2010) estimates that there are now nearly 200 million rural migrants in urban China. The sheer scale of the migration has brought about profound changes in the economic, social, and demographic structures of the nation. Migrant workers bring back to their rural hometown not only earned wealth, but also experiences and expectations they gain while living in the urban areas. These experiences will change their frame of reference, especially that of their children. They will no longer be content with earning higher income—they want the same comfortable and rich life that the urban residents do. Mary Gallagher, in her chapter titled "Changes in the World's Workshop: The Demographic, Social, and Political Factors behind China's Labor Movement," offers insights on changes of the frame of reference of migrant workers, especially the younger generation, and the social and political impacts.

Gallagher explains that China's labor markets are highly segmented by institutional barriers to labor mobility across regions and across sectors. The *hukou* system, a restrictive residency registration system, is still fundamental in placing barriers between the labor markets of urban and rural citizens. There are also important social and cultural expectations about employment that further segment labor markets. Unemployed college graduates and unemployed rural migrants rarely compete in the same labor markets. There are some jobs that urban youth simply do not consider. Conversely, few employers in labor-intensive manufacturing would want to hire urban youth, who might not work hard enough or be able to withstand the harsh conditions. Barriers to labor mobility and segmentation based on *hukou* status and education level continue to exist in China, to the extent that sometimes

labor shortages and labor surplus can coexist. For example, there were reports in the Chinese media in 2003 of a “migrant labor shortage” in development zones in China’s south. Although this shortage ebbed during the global financial crisis and China’s export crisis of 2008–2009, these shortages began to reappear soon after.

Migration, together with the one-child policy, has had transformative effects on the social and cultural characteristics of China’s new generation of migrants. Gallagher finds that migrant workers born in the 1980s and after are markedly different in basic characteristics, in political socialization, and in life experiences from that of their parents. This generation is the first to be affected by the strict one-child policy that was implemented in the late 1970s. While in their parents’ generation a family might have several children, even rural children in this generation generally share at most one sibling. In urban areas, the majority of children born are the only child in the family. Given their greater importance to the family’s economy and long-term success, these “little emperors” have been lavished with attention and opportunity. Even rural children, who do not have the same educational and economic opportunities of their urban counterparts, have been given more attention and more protection from hard agricultural labor than in previous generations. Many rural parents understand that education is still the key to upward social mobility for their children. This focus on education has spared children from backbreaking manual labor and allowed them to focus on their studies. Although rural children do not attain the same level of education as urban children, they now have much higher rates of middle school and high school completion. Even if they take manufacturing jobs in the urban areas, they take it as part of their “going out” strategy for the transition to urban life.

The post-1980s generation, both rural and urban, is also markedly different from the previous generation in terms of political socialization and life experiences under socialism. As children of the reform era, they have little familiarity with the mass political campaigns of the high Mao Era. Their primary years of education and political socialization coincided with post-Tiananmen China, when economic growth was the major goal. The private sector was allowed to expand, and the “rule by law” campaign was disseminated in the media, encouraging people to protect their legal rights.

These different demographic characteristics and life experiences have helped create a new generation of migrants who are challenging traditional barriers and identities that have existed in China since the Maoist *hukou* policy was put into place in the late 1950s. Three main characteristics of this new generation are worth examining here: 1) their frame of reference, 2) their long-term expectations, and 3) their potential capacity to organize their interests and grievances collectively.

Surveys and interviews show that young rural migrants are increasingly better integrated and familiar with global youth culture and Chinese urban culture. Their frame of reference is increasingly not what would have happened to them if they had stayed in the countryside but what is possible for them as young urban citizens. This change in their reference point translates into higher expectations on the job and some tendency to value work that offers future opportunity even at the expense of current lower pays.

Given the higher levels of education in the current generation, better access to technology, and increased integration into urban culture, there is greater potential for this generation to articulate collective interests and to act collectively to promote and press for their interests and rights, vis-à-vis employers and the government alike. In the strikes of 2010, analysts pointed to workers' new abilities to organize within single workplaces and to design institutions to allow for leadership selection and representation. The increased potential for young migrants' collective power has been recognized in the media and by the governments. Since 2003, the party-state has been much more concerned about the conditions and long-term development of China's urbanizing citizens.

Migrant workers, mostly young adults, earn higher incomes than when they were in the countryside and substantially improve their lives, but what happens to those who stay behind in the rural areas, mostly older peasants? Would the movement of young rural adults to urban and coastal areas for higher-income-earning opportunities leave the older residents remaining in rural areas at greater risk of falling into poverty? John Giles addresses this issue in his chapter, "Left Behind in Old Age? Sources of Support for China's Rural Elderly in a Period of Growth, Migration, and Demographic Transition."

In general, rural residents lack access to pension support when they are of retirement age, and they must rely on either their own labor income or support from family members. In rural China, financial support for

the elderly remains the responsibility of adult children and is even codified into laws governing the family. As the population of potential care providers continues to shrink as a result of both China's demographic transition and the availability of attractive migrant employment opportunities for the young, many observers have expressed concerns for the well-being of the rural elderly.

Giles points out that major differences exist in the primary sources of support for China's urban and rural elderly, and between men and women from both groups of elderly. While pensions are the single most significant source of support for the urban elderly, they remain a very minor source of support for the rural elderly. Labor income is the primary source of support for 37.9 percent of the rural elderly. Support through antipoverty programs does not figure prominently, because the rural *dibao* (benefits for low-income residents) was not an important source of income support for rural elderly households. Also notable is the inability of the elderly to earn income from property. The elderly in China have not grown old in an environment in which they could accumulate land wealth. Lack of land wealth limits the ability of the elderly to earn income from rents and may also limit the scope for encouraging intergenerational transfers from their children (who would be prospective heirs).

Giles further examines the sources of support by gender among the rural elderly. Family support is more important for rural elderly women, and labor income remains more important for men. His research finds that 68.5 percent of rural women over 60 report that financial support from family members is their most important source of support, whereas only 27.5 percent report that labor income is most important. By contrast, 48.5 percent of rural elderly men report that labor income remains their most important source of support, and only 39.3 percent report support from family members. When distinguishing the importance of pension by gender, a significantly higher share of rural men (8.1 percent) than women (1.3 percent) report that pension income is their most significant source of financial support. The gap between men and women reflects historical differences between genders in employment in local government and the military.

Given the structure of elderly support, Giles finds that the effects of lost farm income and uncertainty about land tenure likely dominate the effects of increased income from remittances in labor supply decisions

of the rural elderly. Nonetheless, this effect is not statistically significant for men or for women under 70. Women over 70, however, are 8 percent more likely to continue working (most likely in agriculture) if the household has a migrant child. The elderly have to work more to make up the income loss. Women over 70 with a migrant child work 411 hours more during a year, or the equivalent of 10 40-hour work-weeks. For regions of the country planting two crops a year, this would amount to full-time work during the agricultural busy season.

Overall, migrant children continue to provide remittance support to their parents. On average, the predicted transfer from adult children is sufficient to maintain elderly incomes above the poverty line. However, as the range of potential transfers is wide, elderly people with migrant children face greater risk of falling below the poverty line. Migration of adult children may also have a significant impact on the work status of elderly women. Having a migrant child in the family raises the probability that a woman over 70 will still be in the labor force and work longer hours. For men and women under 70, a migrant child has a positive but statistically insignificant effect on participation in income-earning activities.

What is the long-term outlook of the Chinese economy? Can China maintain the momentum and sustain this phenomenal growth well into the next several decades? A team of elite World Bank economists projects that China's yearly growth rate will "slow down" to 5.9 percent in 2021 and further down to 5 percent in 2026 (World Bank 2012). This projection is remarkably close to Dr. Zhiwu Chen's one-man projection when he delivered the lecture "China in 2049" in 2011 at Western Michigan University. The final chapter of this volume is a short transcribed version of his lecture.

Chen presents a "big picture" of a possible future GDP path for China in comparison to the United States from 2011 to 2049, the centennial of the founding of People's Republic of China. He depicts three phases of China's growth path: an annual growth rate of 8.5 percent from 2011 to 2016 in the first phase, a drop in growth by 12 percent in 2017 in the second phase (a bold projection with reasons given in the chapter, unlike projections by other agencies such as IMF), followed by a resumption of a steady growth rate of 5–6 percent per year through 2049 in the third phase. Chen predicts that in 2049, when PRC is 100 years old, China's nominal GDP will surpass the United States, and if

purchasing power parity is taken into account, China's GDP will surpass the United States much earlier, in 2027, 15 years from now.

Chen gives a very long-run historical perspective of China's per capita GDP over 2000 years and notes that the high growth actually only occurred in the last 40 years. He gives an insightful analysis of China's rapid growth and ascent in the recent decades. He refutes the conventional wisdom that the main driving factor of China's rise is an abundant and low-cost workforce (reasons given in the chapter). He convincingly argues that China has ascended by "riding the tide," benefiting from the world's encouraging trade environment because of increasing globalization and dispersion of technological progress as a result of industrial revolution. Chen concludes by pointing out some challenges and concerns for China's sustainable growth, such as over-reliance of growth on state capitalism, that is, government dominance in the past and current growth of the economy.

The chapters in this volume reflect the opinions of six leading experts on certain important aspects and issues of the Chinese economy and its economic relations with the United States. While these chapters can cover only part of the complex pictures, they all contain insightful analyses of the issues concerned. The analytical frameworks and the insights presented in this volume will be valuable for understanding and evaluating the Chinese economy, its growth, and its relations with the United States, which hopefully will help guide policymakers in this ever-integrated global economy.

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