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## US has a stake in keeping China stable

By Daniel J Aronoff

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From Mr Daniel J. Aronoff.

Sir, Martin Wolf continues his persuasive and valuable advocacy of globalisation ("The answer to Asia's rise is not to retreat from the world", March 15). I would like to elaborate on a few points from a US perspective.

First, the US has achieved full employment with stable average compensation levels in the face of the huge expansion in the effective worldwide low-cost labour supply, thus proving that a flexible domestic labour market will achieve equilibrium regardless of the external financial balance. What has been striking, as Mr Wolf points out, is the shift in demand (and, hence, compensation) towards educated workers. This state of affairs presents a challenge for the US to provide opportunity for millions of young people to better their living standards by improving education quality and access. If the challenge is met, future US gross domestic product will be larger.

Second, though China's currency fixing may be distorting trade patterns, the trade that does occur is still mutually beneficial and, if one accepts the conventional wisdom that the renminbi is being artificially undervalued by Chinese accumulation of US Treasuries, the resulting tilting of terms of trade in the US's favour represents a huge transfer of wealth from China to the US.

Finally, and most importantly, the US has a stake in maintaining China's internal stability. The risk of Chinese foreign adventurism would be heightened by societal strife as the government may then look to external conflict as a means to galvanise support. Since the Chinese policy of export-dependent growth appears to emanate from an attempt to quell social unrest through generation of high levels of manufacturing employment growth, the US ought to tread very cautiously in implementing protectionist measures that could undermine Chinese job growth and frame the US as a potential scapegoat for China's problems.

As Adam Smith noted: "Man is never so innocently engaged as when he is making money." Of all countries, the US ought to understand that.

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