# Space Race Turn Answers

## Frontline

### Chinese pursuit of space leadership is hostile and an attempt to threaten the US space leadership.

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For some analysts the Shenzhou, with the rest of the space program, is intrinsically tied to the Chinese efforts to modernize its own military forces and to catch up to America's space assets. According to Michael Stokes, aerospace analyst at the Department of the Defense, "the Chinese human space flight program is part and parcel of the nation's broader ambitions in space that have very clear implications for U.S. national security 10 to 20 years in the future". Stokes declared that China has paid great attention to the strategic role that the space assets have played in the American military actions in the post-Cold War period (from the 1991 Gulf War to the recent 2003 war against Iraq) and commented that he was personally worried less about China's attempt to catch up with the "human space flight club"(the launch of Shenzhou 5 hadn't yet occurred) than about its efforts "to develop a robust network of military satellites of its own, while at the same time researching ways to take out the other's satellites in the event of a conflict". Evidently the US military think the enemy has the desire to "deny space to others, if necessary", as expressed many times in the US Space Command documents, in the conclusions of the Space Commission presided over by Donald Rumsfeld (before his nomination to the head of the Pentagon) and finally sealed by the Rand Corporation's "Mastering the Ultimate High Ground". China's official reply to America's anxiety over its competitor's desire to abuse Space responds by stating their respect of international law regarding this new territory. In fact, China emphasizes that "certain countries", i.e. America, are showing their will to realize "space weaponization", notably after the abrogation of the Anti-Ballistic Missile Treaty (ABM) and since declaring their will to develop the Theater Missile Defense (TMD). The Chinese authorities, therefore, indirectly admonish the USA in these terms: "China is concerned about certain countries' joint research and development of theater missile defense (TMD) systems with a view to their deployment in the Northeast Asian region. This will lead to the proliferation of advanced missile technology and be detrimental to peace and stability in the Asia-Pacific region. China resolutely opposes any country which provides Taiwan [a notoriously independent state] with TMD assistance or protection in any form [italics in original text]."

### U.S. and China not cooperating now – China’s secretive military controls space program

**Richburg 7/5** [Keith B. Richburg is a foreign correspondent for The Post and author of Out of America “Space programs in other nations” 5/7/11 lexis]

In December, China broke ground on what will be a 3,000-acre space launch center and theme park on southern Hainan Island, directly modeled on the Kennedy Space Center in Florida. When the center opens in 2014, members of the public will be able to watch launches live from a viewing platform. After struggling in space for several years, experts said China this year appears poised for several significant breakthroughs that could cement its place as a leader in space exploration. Last October, China launched a robotic probe, the Chang'e 2 lunar orbiter, which completed its six months' worth of tasks this spring. Because it still had fuel in reserve, the craft left its moon orbit last month for further exploration in space. This summer, China is scheduled to launch an unmanned space module, called Tiangong 1, or Heavenly Palace, and later this year will send up another unmanned vehicle, Shenzhou, which will try to dock with it. These will be crucial first steps in China's goal to develop a manned space station. The Obama administration. has often expressed a desire to cooperate with China in space, but the idea has found little traction Much of China's space program falls under the control of the military; details - including its funding - are kept secret, and China has shown little sign of wanting to open up. Also, U.S. restrictions on some sensitive high-technology exports to China make space cooperation difficult.

### China economy low now—means no leadership

Japan Times 1/22/08 (http://search.japantimes.co.jp/cgi-bin/ed20080122a1.html)

So, do the new numbers matter? Yes. First, they tell us that the hyperventilation about China's inexorable rise and how it is "certain" to displace Japan and the U.S. as leading economies are just that: exaggeration. China has a long way to go before it overtakes either of those economies. Second, with a reduced economy, China is poorer than it was. GDP per capita has been considerably reduced — population has stayed constant while total economic output has shrunk. That means much of the poverty reduction for which China has been applauded has not in fact occurred. Moreover, the grand plans to tap the expanding middle class market in China should be shelved, for a while at least: that market does not yet exist. Third, if China is not as rich as thought, then it will be more difficult for Beijing to finance its ambitious defense modernization plans. It will also be harder to pay for the infrastructure development that is needed, along with all the other social improvements that a modernizing country needs. This has political implications too. The strains in Chinese society are unmistakable. The government needs wealth to pay for measures that can remedy those strains. These calculations mean there is less revenue available for those purposes.

### Distrust amongst USA and China will impede meaningful cooperation

Yi ZhouCenter for Space Science and Applied Research, Chinese Academy of Sciences, George Washington University“Perspectives on Sino-US cooperation in civil space programs” 14 July 2008

**<**http://za2uf4ps7f.search.serialssolutions.com.proxy2.cl.msu.edu/directLink?atitle=Perspectives%20on%20Sino-US%20cooperation%20in%20civil%20space%20programs&author=Zhou,%20Yi&issn=0265-9646&title=Space%20Policy&volume=24&issue=3&date=2008-08-01&spage=132&id=doi:10.1016/j.spacepol.2008.06.002&sid=ProQ\_ss&genre=article> TM

Visible political signals have not been received: Although China and the USA have been increasingly dependent on each other economically and on the global stage, it is difficult for most Americans to understand or relate to China's centrally controlled government system and developing socialist democracy. Because of their different political systems, both countries have difficulty building trust with each other. They face many barriers to collaboration, so highly visible political signals are important in achieving the goal of space cooperation. We may recall that, in the past, the USA and the USSR had radically different political systems. Their top leadership supported cooperation on a strategic basis [12]. On 17 July 1975 three US astronauts and two Soviet cosmonauts docked Soyuz 19 with an Apollo spacecraft that was carrying a jointly developed docking module [13]. It was the first time that the two superpowers had substantively cooperated on space. These cooperative activities promoted the two countries’ future collaboration. To date, there have been no high-level political signals supporting space cooperation between China and USA, which makes both countries’ space administrations, NASA and CNSA, very cautious about bilateral cooperation. Strict US policies on non-proliferation, export controls, technology transfer and arms control, especially the US regime for technology transfer, the International Traffic in Arms Regulations (ITAR): The USA has a strong regulatory regime to prevent the illegal transfer and theft of sensitive technologies, such as space systems, that can be used in the development of military assets by governments, entities and persons that may be hostile to US interests. These restrictions affect cooperation between the USA and other countries, including China, in different space areas. In addition to high-level-cooperative space projects, ITAR affects normal science exchanges and visits. For example, in October 2002, a Chinese delegation could not obtain US visas to attend the 34th Committee of Space Research assembly, which is an international space science meeting open to space research professionals world-wide. In space commerce, US space firms have to face licensing requirements and contend with export controls, which have led to a decline in their market share As an example, in 2003 Boeing received large fines because the US government thought the company had directly helped China improve its launch technology through a contract with Chinese space manufacturers a few years previously. Yet between 1998, when all US space firms had to leave China's space market, and the present day, China's space development has been far from stagnating. On the contrary, China's space capabilities continue to improve and have made clear progress in the past few years. Now, inside the USA, many companies are arguing that ITAR is a significant trade barrier which acts as a substantial negative subsidy, weakening US industries’ ability to compete. Research agencies and institutions argue that ITAR prevents cooperation on international scientific projects. ITAR even affects cooperation between the USA and its allies [15]. It is time for US policy makers and Congress to consider adjusting these overly strict control policies if Americans wish to retain their important role in space cooperation around the world and the benefits this brings. On 11 January 2007 (US time), China terminated an aging weather satellite, Fengyun-1: Observers believed that the People's Liberation Army (PLA) had used technology to shoot down the satellite which could also be used as a space weapon. This event startled the USA and Europe because it apparently provided evidence of a Chinese space weapons capability. Many claims were made, such as, “China's weapon test is a wake-up call to the space arms race” NASA administrator Mike Griffin said in an informal meeting: “Some space cooperative proposals with China have been put on hold for the moment.” This event negatively affected the potential for space cooperation between China and Western countries, although the Chinese government has declared that it was no threat to any nation [17]. The incident was certainly not a good thing for international space security, since it created a lot of space debris. Right now, two points should be urgently considered. First, it is time for the international players to sit down together and start to discuss a future agreement, such as an international law restricting space debris, which would prevent a recurrence in any country (something the USA did not consider necessary before China's test). Second, if the USA continues to refuse collaboration with China in space, how can it accurately assess that country's motivations in the future? The USA would only be able to infer and debate internally about what China's intentions might be. China has no unique advanced capabilities: No single country or region has a monopoly on the ideas or technical capabilities to enable humans to live and work safely in space. The USA certainly knows that. It has been more than 30 years since Americans began to cooperate with the USSR. When such cooperation began, the USSR had strong space capabilities and experience. When the USSR collapsed in 1991, the Russian economy and space industry were severely short of funds. The USSR's experienced engineers and professionals, and their capabilities, could have been transferred to other countries, potentially to countries not allied with the USA. Such a development might have brought danger to the USA and the world. The USA helped Russia and helped itself at the same time by engaging in cooperation with that country, taking advantage of its rich experiences. Another example is that of Canada, which, while not in the same league as the USA (or Russia), possesses the unique technology of the robot arm that has become an important section of ISS. Today, although China has developed many technologies and capabilities, there is still no other country whose technology is more advanced than that of the USA, which is one reason why the latter lacks a compelling motivation to engage in cooperation with China. Management and cultural differences: Compared to the geopolitical and space policy problems, this is not a major obstacle. Because of cultural differences, Americans sometimes find it difficult to understand Chinese thinking. The same problem arose with cooperation between the USA and the USSR/Russia, and with Europe. There are many tools for resolving this. Detailed negotiating and trust building will be very helpful. In some cases the two countries should seek common points while putting aside differences for the sake of cooperation. Sino-US economic and political relations provide good examples of this. China does not yet have a completely modern management system, but management efficiency has improved in the past 20 years since China's reform and opening. China's management level will be enhanced in the near future. The above negative factors regarding Sino-US space cooperation appear difficult to remove right now. Any international relationship should be based on understanding and trust. That is a key for the two countries to begin space cooperation. The Chinese have an old story: thousands of years ago, China often had disastrous floods. The government did not know how to solve the problem, and paid huge sums of money for people to build levees to stop the water. A man named Dayu was appointed to control it. He thought of a completely novel way to control the water. Instead of building levees, he dug canals and off-shoot streams to divert some of the flow. After that, the area no longer flooded, and it became rich. This story is perhaps relevant to space relations between China and the USA. The USA continues to wall up the route to cooperation with China or places strict limitations on cooperative space activities. But, regardless, China will continue to develop its own space technology and other capabilities, and will undoubtedly achieve its goals in this field. Lacking the channels to understand and talk to it, the USA will over-emphasize the “China threat” and pay an unnecessary price for it. Negative attitudes toward space cooperation will also affect other relations between the two countries, potentially including the realms of global space security, economics and politics.

## Cooperation Fails

### Distrust amongst USA and China will impede meaningful cooperation

Yi ZhouCenter for Space Science and Applied Research, Chinese Academy of Sciences, George Washington University“Perspectives on Sino-US cooperation in civil space programs” 14 July 2008

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### ITAR restrictions and Chinese planners will confuse new cooperation efforts

Dinerman July 7, 2011 (Taylor, Senior editor of the Hudson NY and part-time consult to the DoD, “China’s Continuing Drive for Space Power”, July 7, 2011, http://www.hudson-ny.org/2242/china-space-power, GM)

 Between now and the end of this year, China plans to launch the first module of its new space station, confirming that China is determined to become a full-fledged, independent, comprehensive, world class power in outer space. China's methodical strategy of pursing mutually-supporting civil, commercial and military space activities is beginning to pay off. Space launch rockets can lift both civilian and military satellites; sensor technology can be adapted for both science and spying; communications systems are equally able to transmit orders to go to war or orders for children's toys. China's civil space projects include not only the space station and the manned Shenzhou capsules that will carry its Taikonauts to it and back, but also deep space probes such as the Chang'e 2 probe, which has now been dispatched from lunar orbit to a point almost a million miles from Earth. Its commercial activities until now have been limited to communications satellites and occasionally selling low-cost space launch services. US ITAR (International Trade in Armaments Regulations) technology export rules have, effectively prevented China from becoming a major player in the commercial space field. This has occurred in spite of efforts by some European aerospace firms to circumvent US restrictions by building so-called "ITAR Free" satellites. China's new comprehensive military space activities include intelligence gathering and early warning satellites, military communications satellites, a new space based navigation system similar to America's GPS. Last but not least, they have developed and tested a kinetic anti-satellite weapon that they used to blow up one of their old weather satellites in January 2007. Although in 1971, the devastating effects of Mao's Cultural Revolution were still all too evident, over the last 40 years China has changed out of all recognition. The country was impoverished, and its principal export a form of violent revolutionary ideology absorbed principally by gullible Western students, hippies and Intellectuals. In the late 1970s, China began slowly to dump most of Mao's ideology, and substitute Deng Xiaoping's concept: "To get rich is glorious." Today China exports, among other things; computers, solar panels, car parts, toys and a comprehensive array of semi-sophisticated weapons. It is the second-largest economy in the world, and has just overtaken the US as the world's largest energy user. There is, however, one policy from the Mao era that has not changed: China insists on maximizing its strategic independence. In his new book, "On China," Henry Kissinger explains that "The Chinese almost obsessive self-reliance was not always fully understood on the American side." This explains, in part, why US efforts to engage China in a mutually cooperative space exploration relationship, has been so frustrating and has lead nowhere. \* \* \* Many Americans imagined that China would be eager to join the International Space Station partnership, along with Russia, Japan and Europe. Leaders at NASA and elsewhere imagined that China would see its role in the ISS partnership as a way of certifying its status as one of the world's primary spacefaring nations.

## Cooperation Low

### Space relations low now—US just passed anti-China space legislation

**Young July 7th** , 2011 (Connie, c bs news correspondent, “Can US afford to snub China in space quest?”, July 7th, 2011, http://www.cbsnews.com/8301-503543\_162-20077462-503543.html, GM)

The fast-approaching end of the U.S. space shuttle program is about to leave America entirely dependent on its international partners to carry astronauts to and from space for the foreseeable future, just as a tenuous relationship with China - whose space program is advancing rapidly - hits an all-time low in the area of space exploration. Beijing was deeply offended when two journalists from China's state-run Xinhua news agency were barred from covering the historic launch of the shuttle Endeavour in May, the second-to-last mission for the U.S. shuttle program. Endeavour blasted off from Florida's Kennedy Space Center on May 16, carrying an Alpha Magnetic Spectrometer-2 particle detector - a $1.5 billion apparatus developed, in part, by Chinese scientists. It became a source of national pride in China. Banned from covering the launch, the government mouthpiece lashed out in a report two days blasting "discriminative" new U.S. legislation which bans any of NASA's government-apportioned funding being used in partnership with, to support or host any entity of the Chinese government. The Xinhua article refers to a clause added by Rep. Frank Wolf (R-Va.), chairman of the House committee which oversees NASA's budget - and a fierce critic of China's human rights record, to an emergency national budget bill passed in April to keep the U.S. government running for six months. Xinhua's article claimed "even Americans themselves" viewed the so-called "Wolf Clause" as discriminatory. The emergency budget averted a government-wide shutdown, and it was passed in spite of vocal objections by members of both parties to many of the restrictions included. However, there has been little talk in Washington specifically about the clause on space cooperation with China, and no U.S. lawmakers have publicly labeled it "discriminative," as Xinhua suggested. "Obviously, the 'Wolf Clause' runs counter to the trend that both China and the United States are trying to push ahead their exchanges and cooperation in science and technology," said the Xinhua article. In remarks to the House Appropriations subcommittee explaining his stance, Wolf made it clear China's dismal record on human rights was behind the legislation blocking any NASA interaction with China's military-run space program. "Consider our differing worldviews," said Wolf. "The U.S. was founded on the premise that liberty is a birthright, that individual human life is sacred, that the freedom to worship according to the dictates of your conscience is paramount. The Chinese government operates antithetically to these beliefs." "There is no clearer indication of the gulf that exists between our two countries than the Chinese government's treatment of its own people." But experts in U.S.-China relations accuse Wolf of seeking to "ram through a potentially unconstitutional assault on the president's ability to conduct scientific diplomacy." Gregory Kulacki, a Beijing-based global security analyst and member of the Union of Concerned Scientists wrote in the journal "Nature" that the restrictions placed on NASA may, in part, be partisan U.S. politics threatening to further exacerbate a relationship already fraught with distrust. The scientist tells CBS News that Wolf's amendment was "prompted by efforts by the Obama administration to reach out to the Chinese (on space cooperation) even though the Bush Administration had been doing the same thing for years." "The ban should be lifted," wrote Kulacki bluntly. "The progress of Chinese space activity during the previous US administration suggests that the prohibitions that have stifled Sino-American scientific cooperation for decades have not achieved their aims, and have arguably been counterproductive. China has shown that it has the talent and resources to go it alone. The sanctions have only severed links between the countries and made a new generation of Chinese intellectuals resentful and suspicious of the United States. And they stand in contrast to the tradition of scientists strengthening diplomatic relations."

### U.S. and China not cooperating now – China’s secretive military controls space program

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In December, China broke ground on what will be a 3,000-acre space launch center and theme park on southern Hainan Island, directly modeled on the Kennedy Space Center in Florida. When the center opens in 2014, members of the public will be able to watch launches live from a viewing platform. After struggling in space for several years, experts said China this year appears poised for several significant breakthroughs that could cement its place as a leader in space exploration. Last October, China launched a robotic probe, the Chang'e 2 lunar orbiter, which completed its six months' worth of tasks this spring. Because it still had fuel in reserve, the craft left its moon orbit last month for further exploration in space. This summer, China is scheduled to launch an unmanned space module, called Tiangong 1, or Heavenly Palace, and later this year will send up another unmanned vehicle, Shenzhou, which will try to dock with it. These will be crucial first steps in China's goal to develop a manned space station. The Obama administration. has often expressed a desire to cooperate with China in space, but the idea has found little traction Much of China's space program falls under the control of the military; details - including its funding - are kept secret, and China has shown little sign of wanting to open up. Also, U.S. restrictions on some sensitive high-technology exports to China make space cooperation difficult.

### Low cooperation now – American suspicion and Chinese quest for power

**Mann 7/10** [ Simon Mann is Washington correspondent for The Age. Simon has been a journalist for more than 20 years, spending most of that time at The Age in a variety of roles including news reporter, features writer, business editor, national news editor and associate editor. From 1998-2003 he was Europe correspondent for The Age and The Sydney Morning Herald. “Up, up and away” July 10 2011 lexis]

"Now that the space shuttle is gone, where does America stand in space exploration?" tweeted an inquirer to the President's historic Twitter session at the White House. Obama first offered plaudits for the shuttle - "It was an extraordinary accomplishment and we're very proud of the work that it did" - and then a promise: "We've set a goal to let's ultimately get to Mars. A good pit-stop is an asteroid . . . Let's start stretching the boundaries so we're not doing the same thing over and over again, but rather let's start thinking about what's the next horizon, what's the next frontier out there." Then, he offered a more sobering reality: "In order to do that, we're actually going to need some technological breakthroughs that we don't have yet." Obama's longer-term vision mirrors that of Kennedy, who floated the possibility of international co-operation in September 1963. Whether through a genuine desire for closer contact or fearing his moon-bid was over-reaching, Kennedy told the United Nations General Assembly that "in the field of space - there is room for new co-operation" with the Soviets. "I include among these possibilities a joint expedition to the moon." Obama speaks a similar language. Within a framework of international law and amid robust competition, his redrafted space policy talks of international partnerships for "mutually beneficial space activities". But America's obvious partner, China, remains more a focus of US suspicion and derision than a prospective collaborator, with disagreements on terra firma over economic policy an impediment to a union made in the heavens. The ambiguous drivers of Beijing's space program have long alarmed Washington, with Congress recently enacting laws prohibiting exports of high technology to China, despite Obama and Chinese President Hu Jintao agreeing earlier this year to "deepen dialogue and exchanges" in the field of space. The White House believes, however, that it has constitutional authority to sidestep the Congressional restraints, with Obama's science adviser, John Holdren, elaborating on the administration's thinking before a House appropriations subcommittee in May. When it came to sending humans to Mars, for example, would it really make sense trying to go it alone, he asked. "Many of us, including the President, including myself, including [NASA Administrator Charles] Bolden, believe that it's not too soon to have preliminary conversations about what involving China in that sort of co-operation might entail," Holdren told the committee. "If China is going to be, by 2030, the biggest economy in the world . . . it could certainly be to our benefit to share the costs of such an expensive venture with them and with others." But the Republican-dominated committee, which characterised Beijing as a "fundamentally evil" regime, warned that any collaboration would violate US law. "What concerns me most about the Chinese space program is that, unlike the US, it is being led by the People's Liberation Army," responded Virginia Republican Frank Wolf. "There is no reason to believe that the PLA's space program will be any more benign than the PLA's recent military posture." Though well behind the US, Beijing is pushing an aggressive program to put an unmanned craft on the moon by 2013 and humans by 2020. It also aims to have its own space station orbiting Earth by as early as 2020. More immediately, China is launching a global navigational system for the Asia-Pacific region as a forerunner to delivering the satellite service globally in a direct challenge to America's global positioning system, technologies as vital for waging war as much as they are for managing traffic. Though Beijing's vaulting ambition rankles with some in Congress, Alanna Krolikowski, of George Washington University's Space Policy Institute, told the May hearing: "As China invests in and derives greater benefit from space, it will acquire the same stake in creating a predictable, stable, safe and sustainable space environment that the US . . . and other countries already share." China's space ambitions "are about prestige and about security and having a voice on the international stage", says Ben Baseley-Walker, of the Secure World Foundation, which advocates for the peaceful development of space. He says the interest among many nations is opening myriad partnership possibilities. "The US is no longer the one-stop shop if you want to get into space.

## Cooperation Low – Wolf Clause

### Cooperation with China is at an all time low due to Wolf Clause and new budget

Young 11 [Connie Young is news producer for CBS “Can U.S. afford to snub China in space quest?” July 7 2011 http://www.cbsnews.com/8301-503543\_162-20077462-503543.html]

The fast-approaching end of the U.S. space shuttle program is about to leave America entirely dependent on its international partners to carry astronauts to and from space for the foreseeable future, just as a tenuous relationship with China - whose space program is advancing rapidly - **hits an all-time low in the area of space exploratio**n. Beijing was deeply offended when two journalists from China's state-run Xinhua news agency were barred from covering the historic launch of the shuttle Endeavour in May, the second-to-last mission for the U.S. shuttle program. Endeavour blasted off from Florida's Kennedy Space Center on May 16, carrying an Alpha Magnetic Spectrometer-2 particle detector - a $1.5 billion apparatus developed, in part, by Chinese scientists. It became a source of national pride in China. Banned from covering the launch, the government mouthpiece lashed out in a report two days blasting "discriminative" new U.S. legislation which bans any of NASA's government-apportioned funding being used in partnership with, to support or host any entity of the Chinese government. The Xinhua article refers to a clause added by Rep. Frank Wolf (R-Va.), chairman of the House committee which oversees NASA's budget - and a fierce critic of China's human rights record, to an emergency national budget bill passed in April to keep the U.S. government running for six months. Xinhua's article claimed "even Americans themselves" viewed the so-called "Wolf Clause" as discriminatory. The emergency budget averted a government-wide shutdown, and it was passed in spite of vocal objections by members of both parties to many of the restrictions included. However, there has been little talk in Washington specifically about the clause on space cooperation with China, and no U.S. lawmakers have publicly labeled it "discriminative," as Xinhua suggested. "Obviously, the 'Wolf Clause' runs counter to the trend that both China and the United States are trying to push ahead their exchanges and cooperation in science and technology," said the Xinhua article. In remarks to the House Appropriations subcommittee explaining his stance, Wolf made it clear China's dismal record on human rights was behind the legislation blocking any NASA interaction with China's military-run space program. "Consider our differing worldviews," said Wolf. "The U.S. was founded on the premise that liberty is a birthright, that individual human life is sacred, that the freedom to worship according to the dictates of your conscience is paramount. The Chinese government operates antithetically to these beliefs." "There is no clearer indication of the gulf that exists between our two countries than the Chinese government's treatment of its own people." But experts in U.S.-China relations accuse Wolf of seeking to "ram through a potentially unconstitutional assault on the president's ability to conduct scientific diplomacy." Gregory Kulacki, a Beijing-based global security analyst and member of the Union of Concerned Scientists wrote in the journal "Nature" that the restrictions placed on NASA may, in part, be partisan U.S. politics threatening to further exacerbate a relationship already fraught with distrust. The scientist tells CBS News that Wolf's amendment was "prompted by efforts by the Obama administration to reach out to the Chinese (on space cooperation) even though the Bush Administration had been doing the same thing for years." "The ban should be lifted," wrote Kulacki bluntly. "The progress of Chinese space activity during the previous US administration suggests that the prohibitions that have stifled Sino-American scientific cooperation for decades have not achieved their aims, and have arguably been counterproductive. China has shown that it has the talent and resources to go it alone. The sanctions have only severed links between the countries and made a new generation of Chinese intellectuals resentful and suspicious of the United States. And they stand in contrast to the tradition of scientists strengthening diplomatic relations." Other experts agree that cooperation between the two countries, particularly on space and science projects, is mutually beneficial. Mitigating space debris and collecting data for weather and natural disasters around the globe, once spearheaded by former Secretary of State Collin Powell, are a few examples of common interests. Joan Johnson-Freese, Chairman of the National Security Decision Making Department at the U.S. Naval War College, an expert on China's space program, agrees with Kulacki's assessment. "I think (the bill) is fool-hearted," she told CBS News in a telephone interview. "We ought to be working with them on things like space debris and we also should be working with them so that we can learn more about their program." "There are a number of members of Congress who are adamant we will not work with China," said Johnson-Freese. "Meanwhile, China is reaching out and working with many, many countries." Beijing now has cooperative agreements with Russia, Canada, Europe, Venezuela as well as neighboring countries. Collaborations include joint satellite projects, aerospace university exchanges, export of communication satellites and the sharing of some of its satellite imaging data for natural resources. "About the only country that has said 'no thank you' to cooperation with China, is the United States," noted Johnson-Freese

### Wolf clause destroys US-China space cooperation

Ward 7/6/11 (Kenric, Politics Analyst for Florida News. “U.S. Law Restricts Chinese Access at NASA” State Sunshine News. http://www.sunshinestatenews.com/story/us-law-restricts-chinese-access-nasa MJT)

Congress's newly enacted "Wolf Clause" bars NASA from hosting "official Chinese visitors" and restricts space agencies from working with that country. Specifically, agencies are not allowed to "develop, design, plan, promulgate, implement, or execute a bilateral policy, program, order, or contract of any kind to participate, collaborate, or coordinate bilaterally in any way with China or any Chinese-owned company.” Enforcing the clause during the launch of Endeavor last month, NASA turned away two reporters from the official Chinese news agency Xinhua. "I think the Chinese are shocked,” said a staffer for Rep. Frank Wolf, chairman of the House Commerce, Justice and Science Appropriations Subcommittee and author of the clause. U.S. Rep. Frank Wolf, R- Va.Hide “[The Chinese] are so used to the [Obama] administration caving to them and bending over backward. I think they’re truly taken aback that this policy was put in place," the aide to the Virginia Republican told Epoch Times. Ironically, the Xinhua reporters were at KSC to write about the Alpha Magnetic Spectrometer-2 particle detector, a component developed by Chinese scientist Samuel Ting. Wolf, concerned about the sharing and co-mingling of space technology going forward, authored his eponymous security clause after the Obama administration began cozying up to Beijing in 2009. Discussion of space partnerships extended to “hands-on, bilateral, human space flight technology sharing, training sharing, and critical national secrets or expertise,” Wolf’s office said. Security and defense experts maintain that there is no real difference between China’s military and civil space programs, and Wolf says, “There is no reason to believe that the [People's Liberation Army's] space program will be any more benign than the PLA’s recent military posture.” U.S. Rep. Bill Posey, whose district includes the Kennedy Space Center, agrees with Wolf. “The restriction makes good sense from a national security perspective,” said Posey, R-Rockledge. “Many forget that Communist China’s military and civilian industrial sectors are all one and the same. "I have strong objections to sharing U.S. military and technological secrets with a communist regime that often has goals and aims that differ sharply with ours.” The Wolf Clause, approved as part of the budget negotiations in April, will have to pass both the House and Senate again to remain in force into 2012. While that's no sure bet -- and President Obama could veto the legislation -- a security expert said prudence is warranted. “Congress exercising its power of the purse over technology transfers to countries they see as despicable is legitimate. We used to have such a policy to the Soviet Union; I don’t think it’s unprecedented," said Henry Sokolski, executive director of the Nonproliferation Policy Education Center.

### Wolf Clause harms U.S.-China space relations

Young 7/10/11 (Connie, CBS News Correspondent. “Can U.S. Afford to Snub China in Space Quest?” CBS News. http://www.cbsnews.com/8301-503543\_162-20077462-503543.html MJT)

The fast-approaching end of the U.S. space shuttle program is about to leave America entirely dependent on its international partners to carry astronauts to and from space for the foreseeable future, just as a tenuous relationship with China - whose space program is advancing rapidly - hits an all-time low in the area of space exploration. Beijing was deeply offended when two journalists from China's state-run Xinhua news agency were barred from covering the historic launch of the shuttle Endeavour in May, the second-to-last mission for the U.S. shuttle program. Endeavour blasted off from Florida's Kennedy Space Center on May 16, carrying an Alpha Magnetic Spectrometer-2 particle detector - a $1.5 billion apparatus developed, in part, by Chinese scientists. It became a source of national pride in China. Banned from covering the launch, the government mouthpiece lashed out in a report two days blasting "discriminative" new U.S. legislation which bans any of NASA's government-apportioned funding being used in partnership with, to support or host any entity of the Chinese government. The Xinhua article refers to a clause added by Rep. Frank Wolf (R-Va.), chairman of the House committee which oversees NASA's budget - and a fierce critic of China's human rights record, to an emergency national budget bill passed in April to keep the U.S. government running for six months. Xinhua's article claimed "even Americans themselves" viewed the so-called "Wolf Clause" as discriminatory. The emergency budget averted a government-wide shutdown, and it was passed in spite of vocal objections by members of both parties to many of the restrictions included. However, there has been little talk in Washington specifically about the clause on space cooperation with China, and no U.S. lawmakers have publicly labeled it "discriminative," as Xinhua suggested. "Obviously, the 'Wolf Clause' runs counter to the trend that both China and the United States are trying to push ahead their exchanges and cooperation in science and technology," said the Xinhua article. In remarks to the House Appropriations subcommittee explaining his stance, Wolf made it clear China's dismal record on human rights was behind the legislation blocking any NASA interaction with China's military-run space program.

## Chinese Economy Low Now

### No impact China econ – has decreased 40%

Japan Times 1/22/08 (http://search.japantimes.co.jp/cgi-bin/ed20080122a1.html)

Forget defense buildups. There are far easier ways to deal with the "China threat." Just crunch the numbers. A recent recalculation by the World Bank has shrunk the Chinese economy by some 40 percent. This should quiet the alarmists who maintain that China's dominance is just around the corner. China is big and a geopolitical force to be reckoned with. But there is little chance that it will overtake Japan or the United States any time soon. Economists use various tools to measure economies. Total economic output is a simple yardstick, but it is inexact. Prices differ from country to country so some standardization is needed to make meaningful comparisons. The most famous measure is the "Mac Index," which uses the price of a McDonald's hamburger as its indicator. If a Big Mac costs ¥300 in Tokyo, and $3 in New York, then a dollar is worth ¥100. The number should then be used to make comparisons of Japan and the U.S. This is called finding purchasing power parity (PPP) to ascertain an economy's real size. Meaningful analysis requires data. China had not participated in price surveys so the baseline that economists used to calculate Chinese prices was based on 1985 data, which assumed $1 was worth 2.1 yuan. Recently, the Beijing authorities allowed data collection on over 1,000 items. Using this information, the economists concluded that $1 was actually worth 3.4 yuan. As a result, the calculation of China's GDP in 2005 shrank from $8.8 trillion to $5.3 trillion, a 40-percent reduction — it is as if half of Chinese wealth had disappeared.

## Chinese Economy Not Key to Global Economy

### Decline in Chinese economic growth rate will not affect the global economy or create political instability—Japan proves.

[Michael Pettis, Prof. at Peking University’s Guanghua School of Management, specializing in Chinese financial markets, “What happens if Chinese growth slows?”, 11/18/10, http://seekingalpha.com/article/237610-what-happens-if-chinese-growth-slows]

Last week I suggested that slowly the consensus is shifting towards a recognition that Chinese growth may slow sharply in the next few years. When I discuss this prospect with analysts and investors, however, they almost always worry about two things. First, since China represents the largest component of global growth, it seems reasonable to expect that a sharp slowdown in China will also mean a sharp slowdown in global growth. Slowing Chinese growth, in other words, should be terrible for the world. Secondly, if growth does slow sharply, this should cause an equally sharp rise in social instability and, with it, rising political instability.  I disagree with both claims — not that they are necessarily wrong but rather that they are not obviously true, and depend heavily on the way China rebalances. To see why it is worth considering what happened to Japan in the past two decades.  In 1990, Japan was 17 percent of the global economy and was easily the second largest economy in the world. It also accounted for the largest share by far of global growth, having completed two ferocious decades during which time its economy had grown annually by eight to ten percent. Only the most skeptical doubted that within a decade or two Japan would overtake the US as the world’s largest economy.  Imagine at the time that you had been smart enough, and foolhardy enough, to predict that over the next two decades Japan’s growth rate would collapse to substantially less than one percent annually, and that by 2010 it would be less than one-third the size of the US. Had anyone believed you (and of course no one would have believed you), they would have almost certainly made two very obvious predictions.  First, a collapse of that magnitude in the Japanese growth rate would create an enormous drag for the rest of the world. Without Japan to power it, global growth would be anemic at best.  Second, the Japanese people would have been unwilling to accept with equanimity such a disaster. At the very least there would be a surge in social instability and Japanese voters would have revolted against their leaders.  Although the first prediction, about a dramatic slowdown in Japanese growth, would have turned out to be completely accurate, the two subsequent predictions would have been completely wrong. First, in spite of the virtual collapse of the Japanese growth machine, the world experienced robust growth in the 1990s. Second, the Japanese people turned out to be remarkably docile about the terrible turn the Japanese economy took.  Contributing to growth  It is worth considering why Japan did not fulfill what seems like such obvious predictions. The answer, it turns out, may depend crucially on the way the Japanese adjustment took place. Take Japan’s impact on global growth. Analysts too easily confuse a country’s share of global growth with its contribution to global growth, but they are very different.  Although Japan comprised a disproportionate share of global growth before 1990, this doesn’t mean that it contributed disproportionately to growth outside its borders. On the contrary, Japan had at the time the largest trade surplus ever recorded as a share of global GDP. This meant that it absorbed far more global demand than it provided.  Since I believe that it is largely demand that powers growth, Japan may well have been absorbing more growth from the rest of the world than it contributed. In that case the impact of Japan’s declining GDP growth would come about largely as a consequence of the change in net demand it provided to the rest of the world – would its trade surplus grow or shrink?  On that score it is pretty clear that Japan’s contribution in the past two decades to the rest of the world was positive. The combination of the small decline in Japan’s surplus as a share of GDP and the large decline in Japan’s GDP as a share of the world (Japan dropped from roughly 17% of the world in 1990 to 8% today) meant that from the late 1980s to the present, as a share of global GDP, the Japanese trade surplus dropped by more than half.  This means that Japan’s net demand more than doubled during this period as a share of global GDP, or more accurately, that its deficiency in net demand dropped by more than half. This would have provided an expansionary boost to the global economy. Perhaps this is why the world was so easily able to shrug off the almost unprecedented collapse in Japanese growth rates even though Japan was seemingly the great growth engine of the world.  But what about social instability – why were the Japanese so accepting of such a shocking contraction in growth? The answer here has probably to do with the fact that during this difficult adjustment Japan rebalanced its economy away from one that penalized household income and consumption growth to one that supported it.  If the Japanese measured well-being in terms of GDP per capita, the last twenty years would have come as a brutal shock. But if they measured it in terms of consumption per capita, the last twenty years were not so bad. Before 1990, Japanese consumption grew much more slowly than Japanese GDP as households were forced to subsidize growth via large transfers of wealth from households to businesses – mainly in the form of very low deposit rates and a seriously undervalued currency. This, of course, is the same process that is occurring in China.  After 1990, Japanese consumption grew substantially faster than GDP as the country painfully rebalanced its growth model. One of the forms of rebalancing, interestingly enough, may have been Japanese deflation, which automatically pushed real deposit and lending rates into positive territory and so reversed one of the main mechanisms by which wealth was transferred from Japanese households to Japanese businesses – artificially low interest rates on deposits and loans.  Japanese per capita household consumption, in other words, did not decline nearly as dramatically as Japanese per capita GDP. In fact it may have grown in real terms (once you adjust for inflation in the period before 1990 and deflation after, and after you adjust for the decline in population) only a little more slowly after 1990 than it did before 1990. As Japan rebalanced, wealth was transferred from the state and corporate sector back to the household sector. Most of the slowdown was consequently borne by businesses and governments.  I think the Japanese story has important implications for our analysis of China. If China indeed experiences a rapid slowdown in GDP growth, the impact on the rest of the world may be far less than we expect. The real key is the evolution of the Chinese trade surplus. If it contracts, it will provide an expansionary boost to the rest of the world, not a contractionary one.  Of course that doesn’t mean that the world will grow quickly. My expectation is that global demand growth over the next several years is likely to be anemic with or without China. But it does mean that a slowdown in Chinese growth might not be the disaster for the world that many believe.  Also a rapid slowdown in Chinese growth does not mean a social or political disaster domestically. It depends on how serious China is about rebalancing its economy. If policymakers are willing to force up interest rates and wages, most of the adjustment pain will be borne by SOEs and the state sector, not by the household sector. In that case we might see a slowdown in Chinese consumption growth, but one not nearly as severe as the slowdown in Chinese GDP growth. Since the Chinese, like everyone else, probably measure their well-being in terms of purchasing power per capita, rather than GDP per capita, a sharp slowdown might not be nearly as painful as we assume.

## Chinese Economy Resilient

### China economy resilient and its key to the global economy – empirically proven.

 Kevin Yao, Thu 7/23, 2011 6:54am EDT (Analysis: China economy resilient, for now, Reuters, Editing by Kim Coghill, http://www.reuters.com/article/2011/06/23/us-china-economy-growth-idUSTRE75M1AO20110623)

(Reuters) - China's growth is slowing under the weight of Beijing's anti-inflation campaign and weaker global demand, but any investors betting on a hard landing would be underestimating the resilience of the world's second-largest economy. China's relentless urbanization continue to drive expansion even as Beijing seeks to check unfettered investment by growth-obsessed local authorities, while stronger domestic consumption is providing a firmer cushion against external shocks. China bears may have been emboldened on Thursday by a purchasing managers' survey showing growth in the factory sector nearly stalled in June as new export orders fell. But skeptics who are expecting an abrupt economic slowdown may have miscalculated Beijing's resolve to act quickly if needed to revive growth, especially if inflation eases later this year as expected, reducing the need for fresh monetary tightening measures, analysts say. "The economy is set up for growth. You've still got urbanization and industrialization to come and all the incentives at local government levels are still to do with encouraging growth," said Stephen Green, an economist at Standard Chartered Bank in Hong Kong. "People always over-worry about a China hard landing. Clearly there are a lot of problems with the economy but people may underestimate the government's ability to muddle through." Green expects some policy relaxation later this year as price pressures start to moderate. NO HARD LANDING? Global investors are unnerved by any sign of a slowdown in China, a key global growth engine, even as the U.S. economic recovery loses momentum and Europe struggles with a sovereign debt crisis. An abrupt slowdown in China could hammer international financial markets and stifle demand for commodities from iron ore to soybeans. The economy has expanded at an average annual pace of 10 percent in the past three decades. Fears of a hard landing have gained traction as a recent stream of data showed the turbo-charged economy is cooling, but for now China shows no signs of following the West with growth levels falling well below long-term trends. Indeed, most market watchers typically define a hard landing in the Chinese context as a sudden dip in quarterly GDP growth below 8 percent, a level advanced economies can only dream about. The 8 percent threshold is, more importantly, a political line in the sand for Beijing, which it deems to be the minimum level needed to create enough jobs to ensure social stability. The last time the economy showed signs of a sudden slump, during the depths of the global financial crisis in late 2008, Beijing announced a 4 trillion yuan ($600 billion) stimulus plan, quickly returning to double-digit growth. While few argue with the success of that scheme, many economists say the spending binge also sowed the seeds of inflation and created excesses such as unrestrained lending and property bubbles which are aggravating imbalances in the economy, leaving it more vulnerable if the current "soft patch" in Western demand turns out to be a prolonged downturn. MORE STIMULUS? Policymakers will certainly have more room to consider fresh pump-priming if inflation peaks in June or July near 6 percent, as widely expected, and then moderates steadily in the second-half of the year. Dong Tao, an economist at Credit Suisse, believes the central bank will not rush to relax policy for fear of fueling further property price rises, but said the government will unleash its spending power to prevent growth from slowing too much. "Should the threat of a hard landing emerge, we would expect fiscal stimulus to come to the rescue, instead of monetary easing. Providing funding to policy housing and speeding up infrastructure projects would be the easy options," he said. China has already announced an ambitious plan to start building and upgrading 36 million affordable homes between 2011-2015, with 10 million to be completed this year, to quell growing public discontent over rapidly rising house prices. Many economists, while trimming their growth forecasts for China, don't believe the current slowdown will amount to a slump akin to that during the global financial crisis. Most still expect GDP growth of more than 9 percent in the second quarter from a year earlier compared with 9.7 percent in the first quarter, with full-year growth seen at about 9 percent. "I'm not worried about the risk of a hard landing in China. It's a low-probability event this year and next year," said Gao Shanwen, chief economist at China Essence Securities in Beijing. After all, a gentle easing in growth is exactly what Beijing wants and is in line with its policy to priorities' efforts to cool inflation. "The slowdown is essentially part of the deal. you need to a slowdown to reduce excesses and control inflation," said Kevin Lai, economist at Daiwa Global Markets in Hong Kong. OVERHAUL U.S. economist Nouriel Roubini, who foresaw America's housing crisis, said China faces a "meaningful probability" of a hard landing after 2013, mainly due to over-investment. Roubini said investment was already 50 percent of China's GDP and that 60 years of data had shown that over-investment led to hard landings, citing the Soviet Union in the 1960s and 70s, and East Asia before the 1997 financial crisis. China does face a host of risks, including a property bubble, mounting local government debt and potential rises in bad loans. But there is little sign they would explode soon. China has in the past repeatedly defied predictions of a crash. "Typically, they grow out of them -- they make good loans, the good loans finance the bad loans and eventually they write off the bad loans," said Tim Condon, head of Asia research at ING. Andy Xie, an independent economist, argues for a soft landing in China, noting Chinese households are not highly indebted and most bank loans have been channeled to government projects. "When a borrower is in technical default, it usually doesn't lead to asset seizure followed by liquidation, which is the cause of a hard landing," he wrote in an article. "Instead, in the Chinese context, both lender and borrower are usually government owned. Debt rescheduling is almost automatic. Hence, as long as money supply grows, it will be spent and translate into demand." Nevertheless, China must overhaul its growth model by reducing the reliance on investment and exports, and push financial reforms to head off potential risks, analysts say. "The global crisis has brought urgency to China's rebalancing need. It is also a great opportunity," Xie said.

## Chinese Econ Unsustainable

### China economic growth not sustainable: government intervention, corruption, debt.

Vitaliy Katsenelson, Oct. 18, 2010, 2:15 PM (Growth In China Is Not Sustainable, And The Way To Play It Is to Get Short, Business Insider, Vitaliy N. Katsenelson, CFA, is Chief Investment Officer at Investment Management Associates in Denver, Colo., http://www.businessinsider.com/china-growth-fake-2010-10)

The summer is over in Denver. Of course, in Denver the summer was officially over Labor Day weekend, when the outdoor swimming pools were drained and locked for the winter. For most people summer ended a few weeks later, when the leaves turned bright yellow. But not me, I wanted to hang on to this summer for as long as I could; I really did not want it to go. But my illusions were finally shattered last week by rain, chilly winds, and almost-bare trees. My deliberate (though mostly harmless) failure to recognize the obvious is similar to an investor hanging on to the illusion that Quantitative Easing, the Sequel will change the fundamentals of the economy. It won’t, it will just entrap us in more debt and lower interest rates. But that is a subject for a different time. I had the pleasure of presenting my thesis on China and Japan at the Casey Research Summit in San Diego in early October. I made a small family vacation out of the trip, taking along my wife and kids. Here is what I learned: You want to go Sea World in early October on a weekday – Sea World was 80% empty (or 20% full, if you like). There were no lines – in fact we went on a few rides with the kids twice – the weather was kind, and Shamu was happy to see us – it was a great vacation. I stumbled on this incredible slideshow by Time Magazine that shows Ordos, in Chinese Inner Mongolia. Ordos is one of the most egregious examples of Chinese Late Stage Growth Obesity. Built for one million residents, it is completely empty. Take a few minutes to look at the slideshow, it is well worth it. Here is a link to my updated presentation on China and Japan (Japan starts on slide 40). I also did an interview with David Galland of Casey Research, and the transcript is below. I have to warn you, it is very long. Shadow over Asia (From October 2010 Volume III, Issue 10 The Casey Report) An interview with Vitaliy Katsenelson, Chief Investment Officer, Investment Management Associates, Inc., and author of Active Value Investing. Profiled in Barron’s in September 2009, Vitaliy, who was born in Murmansk, Russia, and moved to the U.S. in 1991, from 2007 to 2007 was an adjunct faculty member at the University of Colorado at Denver’s Graduate School of Business. TCR: What our readers are looking for is a better sense of China and Japan, both of which are very important in the context of the global economy. As we have to start somewhere, let’s start with China. Today the conventional wisdom is that somehow the Chinese economy is better managed than its competitors, very similar to how people viewed Japan in the 1970s and 1980s. Back then people were absolutely convinced that Japan was the superior country with superior policies and that its economy was unstoppable. We all know how that ended. So, let’s start there. Is China’s system better than everyone else’s? Is it really possible the Chinese economy can keep steamrolling along? VK: A few months ago, I watched a movie about Ayn Rand and it talked about how Americans in the 1930s looked at the Soviet Union’s flavor of managed economy as being superior to the American version of capitalism. At the time America was just coming out of the Great Depression, so that view made a lot of sense. So in the short run, and especially after the ugly side of creative destruction has paid us a visit, the grass of managed economy may look greener. So when we look at China, the conventional wisdom says that the government is very, very smart, and therefore they can do a very good job in steering the economy in the right way. Chinese government may have the best intentions, its leaders may have IQs of 250 each on a bad day, but it is impossible to centrally manage an economy of China’s size. I am a big believer that in the boxing match between a visible and an invisible hand, though the invisible hand may lose a few rounds, it will win the match every time. Last century we had the most amazing economic experiment take place when after World War II, Germany was split into two countries with different economic and political systems. But they were the same people, with the same language and culture, separated by a wall. We know how that story ended. Of course, for a time, having government control over the levers of the economy can have advantages. For example, by taking prompt action, the Chinese government was able to pull the economy out of the recession remarkably fast, basically by fire-housing the stimulus package that was equivalent to 12% GDP. That’s the advantage. The only problem is that these kinds of short-term advantages come with long-term, painful consequences. For example, when you have a huge government presence in the economy, you also have a huge bureaucracy, and bureaucracy brings corruption. This is one of the reasons why China is rated so poorly on Transparency International’s annual corruption rating. Corruption breeds misallocation of capital, because the capital flows not to the best use, but it basically flows to whatever the political connection or whatever the bribe is directed to. In addition, when you have a government-managed economy, it creates excesses. China has huge excesses in the industrial sector, as well as in commercial and residential real estate. We see plenty of evidence of these excesses, but they are likely to be much greater than we can measure today as they are covered up by robust economic growth. The true magnitude of these excesses will come to the surface once the economy slows down. TCR: In essence, you’ve got a relatively small group of individuals who are making big decisions about China’s economy and where production should be, in what sectors, etc. If history is any guide, that really can’t last, yet many people seem to think it can. That said, China’s economy has certainly done remarkably well in the global economic crisis. In fact, according to their government, their GDP is almost back to where it was pre-crash. Why? VK: Sure, the growth you see today in China is there, but it’s not a sustainable growth. It’s not a growth that you’ll see a few years from now. That is an important point for readers to understand. TCR: Why is it not sustainable? VK: Because the growth is being induced by government spending, by a misallocation of capital. I’ll give you an example. The vacancy rate on commercial real estate in China is fairly high, but they still keep on building new office buildings because they think they will always grow. So therefore as long as they keep building, that activity will be registered as growth, until they stop. And when they do stop, they’ll drown in overcapacity, and they won’t be building new skyscrapers for a very long time. TCR: We read that note you sent about the South China Mall, which is pretty stunning. It’s the second largest mall in the world but is mostly empty. VK: That’s right. But as outrageous an example as the South China Mall is, there’s an even more outrageous example – namely that the Chinese built an entire city, Ordos, in Inner Mongolia for 1.5 million residents and it is completely empty. These are classic examples of the sort of excesses going on in China. TCR: The equivalent of building bridges to nowhere, but on a very large – Chinese – scale. VK: Exactly. There are no shortcuts to greatness. As long as they keep building new bridges, the economic numbers will register that there is growth, but at some point the piper will have to be paid, and these projects have a negative return on capital. TCR: It seems the Chinese are following the script Japan used to dig itself out of its postwar doldrums, deliberately keeping their currency low in order to build an economy on the back of low-cost manufacturing. But that game inevitably has to end – already we see more and more things being made in Indonesia, Pakistan, India, and so forth. If China loses the manufacturing core of their economy, won’t they be in big trouble? VK: Well, once you move manufacturing to other countries, it’s very difficult to get it back. So you could probably argue that China will maintain its manufacturing advantage for a while. The problem with China is pretty much same as with any bubble. Though it may have had a solid foundation under it, it is simply a good thing taken too far. If you look at the railroad bubble in the United States, the country did need railroads, but we built too many. The same thing happened with the technology bubble in 1998. The Internet was transformative to our economy, no question about it. But, again, it was taken too far. There are some other countries that are lower-cost producers than China, but they probably can’t do it on the same scale that China can. But my point is that China is just a good thing taken too far, and if you add government involvement and corruption into the mix, you will get a bubble that is taken a lot further than you would normally expect. One way of thinking about it is that the actions taken by the Chinese government, especially after the recent global recession, have basically supersized the bubble that was already forming. TCR: Their government is sort of a holdover from a largely bygone era when many nations were communists, so isn’t it true that they need to maintain some fairly strong forward momentum, otherwise they could run into some political problems? Is that why they were so quick to unleash the massive stimulus or encourage their banks to lend an amazing amount of money? You have a chart showing those loans amounted to 29% of GDP in 2009. What kind of quality of lending can that be? VK: Let’s try to understand why the Chinese government did the things they did. As everyone knows, the Chinese economy grew at a very high rate for a long period of time. When the global economy slowed down, their economy slowed down as well (though official numbers did not show it). The Chinese government is extremely concerned about the economy slowing down because that is likely to lead to political unrest. A lot of that potential friction comes because a lot of people moved from villages to the cities. China has an almost nonexistent social safety net system. So people who lose jobs don’t complain, they riot. So, yes, the Chinese government is afraid of political unrest, and therefore they quickly released a tremendous amount of stimulus into the economy, then followed it up with encouraging bank loans equal to 29% of GDP in 2009, a huge increase. When you infuse this much debt into an economy, it’s impossible to have good capital allocation decisions. While the economy is growing, the bad debt won’t be so apparent, but it certainly will be when the economic growth slows. A good analogy might be that when you analyze a credit card company that is growing very, very fast, and that has opened new accounts, you don’t see the bad debt because that debt is covered up by new loans. The true nature of the past lending decisions only becomes obvious when the company’s growth falls off. One way to think about the Chinese economy is by comparing it to the bus in the movie Speed with Keanu Reeves and Dennis Hopper. In the movie, a bus was wired with explosives that would blow up if the bus’s speed dropped below 50 miles an hour. Since China is manufacturer to the world, that manufacturing business comes with a lot of fixed costs. Factories, equipment need financing, and they are mainly financed by debt – another fixed cost. The high level of fixed costs doesn’t afford China an economic slowdown, but when it happens, the consequences will be dire. High fixed costs are great when revenues are rising as income grows at a faster rate than sales. But they are devastating to profitability when sales decline: costs decline at a slower rate than sales and you start losing money, fast.

### Numbers show China economic growth slowing – not sustainable.

Flemming J. Nielsen, Mon, Jul 11 2011, 08:15 (China: Import growth slows, suggesting subdued growth, Danske Bank A/S, http://www.fxstreet.com/fundamental/analysis-reports/flash-comment/2011/07/11/)

China’s import growth was much weaker than expected in June and for Q2 as a whole contracted 3% q/q. There are also some signs of weakness in exports, but Q2 as a whole was relatively resilient. Hence, export growth in Q2 again ran ahead of import growth and China’s trade balance surplus has again started to increase, and in June was well above consensus expectations. The sharp slowdown in China’s import growth in Q2 has, in our view, been one of the main drivers behind the recent weakness in the global manufacturing cycle. We believe it is more important than the impact from the Japanese earthquake, which is currently getting much of the blame. The Japanese economy has been recovering during Q2 and it now looks as if Japan’s import growth is poised to exceed China’s import growth in Q2. •On a positive note, there are signs that China’s import growth will soon stop deteriorating and should start to improve later in Q3. Details China’s total imports increased 19.3% y/y in June – well below market consensus of 25.3% y/y. Seasonally adjusted imports plunged 7.9% m/m, largely offsetting a similarly strong increase in imports in May. China’s imports declined 3.0% q/q in Q2, which is a sharp slowdown compared with Q1 when imports increased 13.4% q/q. The weakness in China’s imports is also evident in the import volumes released for the most important commodities. Imports of crude oil, iron ore and steel products were all weak in June (see charts on page 3). China’s exports increased 17.9% y/y in June – slightly below market consensus of 18.6% y/y. Seasonally adjusted exports declined 2.5% m/m. While there were signs of weakness in exports in June, for Q2 as a whole exports were relatively resilient, increasing 5.5% q/q – only slightly weaker compared with Q1 when exports increased 6.8% q/q. With export growth again running substantially ahead of import growth in Q2, China’s trade surplus has started to increase again. China’s trade surplus was USD22.3bn in June – well above market consensus of USD14.2bn. On the current trend, it appears as if China’s trade surplus will exceed last year’s trade surplus. Assessment & outlook The sharp slowdown in import growth in Q2 suggests that Chinese growth is slowing. We estimate that China’s GDP growth slowed to below 8% q/q AR in Q2 from slightly above 10% q/q AR in Q1. We believe the sharp slowdown in China’s import growth has been a major driver behind recent weakness in the global manufacturing cycle evident in manufacturing PMIs across the world (much more important than the aftermath of the earthquake in Japan that is currently getting much of the blame for weakness in global industrial activity). The Japanese economy has been recovering during Q2 and Japanese import growth looks set to exceed Chinese import growth. If we are looking for a turnaround in global manufacturing activity, China will be more important than Japan. It looks increasingly doubtful whether inflation will be able to reach 4% y/y by the end of the year as assumed in our current forecast. Hence, we will probably have to revise our inflation forecast for 2011 higher at some stage. At the moment, it is negative for the global economy that it has been increasingly difficult for China to continue to play the role as the leading global growth engine, because it now has to focus primarily on containing domestic inflation. This is happening at a critical stage for the global economy, where growth is starting to lose momentum in the advanced economies and where the ability of the advanced economies to boost growth by using traditional fiscal and monetary tools has been significantly reduced. However, on a positive note, there are signs that China’s import growth is stabilising and should start to improve later in Q3. As seen in the chart on the previous page, the import component in the NBS PMI and the purchase of inputs in the HSBC PMI – which usually track China’s imports well – have both stopped deteriorating. There also are signs that inventory cuts are easing, which usually bodes well for future imports. That said, the development in inflation in China is going to be decisive. China will not be able to return to its role as global growth engine until it is confident that inflation is under control.

### Even theChinesegovernment admits it

Just Means, Mar 14, 2011 (China's Growth Conundrum, http://www.justmeans.com/China-s-Growth-Conundrum/47056.html)

In a recent press briefing following the annual meeting of the National People's Congress, China's Premier Wen Jiabao publicly stated that China's current growth pattern is unsustainable. Over the course of the two-hour talk that laid out China's 5-year plan for economic development, Jiabao stated that despite the country's overall average annual rate of growth of 11.2% "We are keenly aware that we still have a serious problem in that our development is not yet well balanced, coordinated or sustainable."[emphasis my own] That's right, China's leadership has admitted that despite prodigious growth - it's growth has not been sustainable. Jiabo goes on to say "This manifests itself mainly in the following: growing resource and environmental constraints hindering economic growth large income gap, an irrational industrial structure, continued weakness in the agricultural foundation significant problems containing food safety." In other words, growth - even remarkable growth - has not solved China's development problems. It has, in the case of the environment, even exacerbated some. He goes on to say that the solution lies in making agriculture the foundation of the economy, expanding social programs such as education, and taking steps to conserve resources and protect the environment. Although Jiabao stops well short of eschewing the growth paradigm, it is refreshing to have a world leader - one heading the world's second largest economy - admitting that when it comes to solving a country's environmental and social problems, when it comes to developing - the solution does not lie merely in more economic growth.

# CCP Turn Answers

## Frontline

### No legitimacy now and no chance of recovery

Sweeny 4/30/06 (Pete, Editor for China Economic Review, Pete Sweeney has worked at Sinomedia since 2008 as a reporter and editor. He first came to China in 2006 on a language scholarship, and did research on outbound investment as a US State Department Fulbright Scholar in 2007-2008. He was in Chendgu during the earthquake and reported on it there, http://academics.cuberoof.com/sisea532-Chin-poli/Pei\_v\_Naughton.pdf

Discriminating between the competing predictions about the future of China and in particular the future of the CPP clearly requires a degree of subjective judgment. While Minxin Pei views china through a dark lens, Barry Naughton and his cohort tend to take a cautiously optimistic view. To adequately evaluate their respective predictions (to the extent that Naughton et al predict) we must evaluate the weight and quality they assign to given variables, and the degree to which they believe the intentions of the CP inform the political and economic outcomes their policies produce. Minxin Pei believes Chinese growth and stability is the product of a “bubble” inside which corruption, malfeasance, and injustice are temporarily suspended until a genuine crisis, be it economic or political, punctures the bubble. Thus he uses the term :dot-communism” as a pejorative, to imply that the system is headed for a dot-com style collapse. Loaded rhetoric aside, he shares a degree of Dingxin Zhao’s skepticism that the CCP can maintain a lon-term mandate based on “performance legitimacy” alone. To Pei, the fact that both growth and reform are being produced by a “neo-Leninist” state ultimately dooms both, because the nature of such a state is to render genuine reform impossible. Neo-Leninism, per Pei, cannot abide meaningful checks on its power. In Pei’s view, reform efforts in China are merely “tactical” efforts by the CCP to preserve its rapidly eroding mandate to rule. He believes the CCP is losing its mandate and points to a series of metrics to support his thesis; the CCP no longer conducts mass campaigns (because it has no legitimacy,) it doesn’t compensate the losers of economic reforms, and it can’t control the localities or itself. The result is increasing waves of social unrest which he sees as precursors to a tsunami of discontent.

### The CCP is inherently adaptable- slow deterioration is inevitable- multiple factors

Cheng 08 (Joseph Y.S., Book Review of David Shambaugh, China’s Communist Party: Atrophy and Adaptation,http://chinaperspectives.revues.org/4755//sb)

Shambaugh argues that the CCP as an institution has been in a progressive state of atrophy. Globalisation has undermined its control over society. It also faces serious challenges of increasing social stratification and inequality, widespread corruption, pervasive unemployment, rising crime, and rural unrest. At the same time, however, the CCP is also showing itself capable of significant adaptation and reform in a number of key areas**.**In practice, the CCP in recent years has been engaging in a historically unprecedented political experiment. 4This experiment is partly based on the lessons absorbed by the Chinese leadership from the collapse of the Soviet and East European regimes, and partly based on its study of other modernising and newly industrialised states such as Singapore.Chinese leaders today realise that economic growth alone is inadequate to maintain the legitimacy of the regime; a basic social security net and a range of core public goods plus improvement in governance are called for. Is this formula for political stability going to succeed? The Tibetan riots in March 2008 seem to suggest the negative, given that since 1999, Tibet has enjoyed above-average economic growth rates relative to other provincial units, better social security because of substantial subsidies from the central government, and arguably better governance because local cadres are more restrained from in dulging in corruption and the abuse of power. At the same time, the Chinese people clearly realise that there is no credible alternative to CCP rule in the foreseeable future**.** 5Shambaugh observes widespread agreement over the CCP‘s state of atrophy, but sharp disagreement among analysts over how successful the CCP’s reform attempts have been in re-legitimising its rule. The author labels the two groups “optimists” and “pessimists” and offers a summary of their views while avoiding taking sides. 6Shambaugh analyses in detail the views of six Chinese scholars from official think-tanks regarding the collapse of the Soviet Union and the East European regimes. While the analysis is interesting, it is not possible for the author to trace what impact these views have had on the Chinese leadership, and he has not taken the trouble to establish links between the release of these views and the introduction of relevant domestic and foreign policies. 7As CCP analysts have not limited their studies to authoritarian or single- party states, Shambaugh could only limit himself to a small sampling of their discourse on the lessons drawn from a wide variety of ex-communist systems, including “colour revolutions,” single-party authoritarian systems, multiparty authoritarian systems, and multiparty democratic systems. These analyses have been remarkably eclectic, and Shambaugh’s important observation is that the Chinese party-state is evolving into an eclectic entity. However, maintaining the CCP in power remains the bottom line, and maintaining as well as improving its legitimacy and “ruling capacity” is the principal challenge.

### Collapse is inevitable- HOST of other reasons- but there is no impact even if it does happen

Cheng 08 (Joseph Y.S., Book Review of David Shambaugh, China’s Communist Party: Atrophy and Adaptation,http://chinaperspectives.revues.org/4755//sb)

8Since 1978, the CCP has been adapting its ideology to suit policy decisions taken on non-ideological grounds. The author gives special attention to four recent political campaigns: Jiang Zemin’s “Three Represents” campaign launched in 2001, Hu Jintao’s “Scientific Development” and “Socialist Harmonious Society” campaigns, launched in 2003 and 2005 respectively, and a campaign launched in 2004-5 on the CCP’s “Governing Capacity.” Shambaugh has not, however, analysed the evolution of these campaigns in response to major challenges to the CCP at various stages; nor has he attempted to assess how the campaigns have contributed to the CCP’s survival in power in the foreseeable future. 9Shambaugh argues that the essence of a Leninist party is its organisational penetration and domination of society, and he believes that most of the initiatives in this area occurred since 2002, and especially after 2004, i.e., in the era of Hu Jintao. Shambaugh does not explain why such organisational initiatives did not emerge under Jiang Zemin or Deng Xiaoping. Fighting corruption, for example, certainly isn’t a recent challenge. 10The author considers that **the leadership of Hu Jintao and Wen Jiabao “appears to be very stable**” (p. 157). He is correct in stating that it has done nothing to loosen coercive controls on dissent, the Internet, or other political challenges to CCP rule. This stability is expected to last until at least 2012. The CCP provides protection and resources to the government and the military in exchange for corporatist professionalism and allegiance. At the membership and organisational level, however, the CCP encounters major problems of corruption, cronyism, and nepotism, as well as the declining appeal of its ideology and the growing moral vacuum in society. The Chinese government attempts to improve its governance capacity, while the CCP tries to create better channels for articulation of interests, but there is no convincing vision for future direction; in its stead, the Hu-Wen regime offers a populist agenda. 11On this basis, Shambaugh rules out the scenario of Western-style democracy coming to China. **Systemic collapse is also unlikely**, as is prolonged stagnation, devolution into a fascist-type system, or a return to the Maoist system. Adaptation alone, however, may not rescue an atrophying regime. The author’s recommendation is to institute greater political competition within the political system, with the expectation that the CCP will pursue political reform incrementally.

# SPACE LEADERSHIP GENERAL

## Space Leadership – Now Key

### Now is key – leadership in exploration capabilities are key – China and Russia are looking to outpace the US

Wolf US Representative and Ranking Member – House Appropriations Committee 2010 Frank, “Don’t Forsake US Leadership in Space”, Space News, 4-25, http://spacenews.com/commentaries/100425-dont-forsake-leadership-space.html

Space exploration has been the guiding star of American innovation. The Mercury, Gemini, Apollo and shuttle programs have rallied generations of Americans to devote their careers to science and engineering, and NASA’s achievements in exploration and manned spaceflight have rallied our nation in a way that no other federal program — aside from our armed services — can.

Yet today our country stands at a crossroad in the future of U.S. leadership in space. President Barack Obama’s 2011 budget proposal not only scraps the Constellation program but radically scales back U.S. ambition, access, control and exploration in space. Once we forsake these opportunities, it will be very hard to win them back. As Apollo astronauts Neil Armstrong, Jim Lovell and Gene Cernan noted on the eve of the president’s recent speech at Kennedy Space Center, Fla.: “For The United States, the leading space faring nation for nearly half a century, to be without carriage to low Earth orbit and with no human exploration capability to go beyond Earth orbit for an indeterminate time into the future, destines our nation to become one of second or even third rate stature.”

In terms of national security and global leadership, the White House’s budget plan all but abdicates U.S. leadership in exploration and manned spaceflight at a time when other countries, such as China and Russia, are turning to space programs to drive innovation and promote economic growth.

Last month, China Daily reported that China is accelerating its manned spaceflight development while the U.S. cuts back. According to Bao Weimin with the Chinese Academy of Sciences, “A moon landing program is very necessary, because it could drive the country’s scientific and technological development.”

In a recent special advertising section in The Washington Post, the Russian government boasted of its renewed commitment to human spaceflight and exploration. Noting the White House’s recent budget proposal, the piece said, “NASA has long spent more money on more programs than Russia’s space agency. But President Barack Obama has slashed NASA’s dreams of going to the moon again. … At the same time, the Russian space industry is feeling the warm glow of state backing once again. There has been concerted investment in recent years, an investment that fits in well with the [Vladimir] Putin doctrine of trying to restore Russian pride through capacity.”

Manned spaceflight and exploration are one of the last remaining fields in which the United States maintains an undeniable competitive advantage over other nations. To walk away is shortsighted and irresponsible. Our global competitors have no intention of scaling back their ambitions in space.

James A. Lewis with the Center for Strategic and International Studies recently said that the Obama administration’s proposal is “a confirmation of America’s decline.”

The 2011 budget proposal guarantees that the United States will be grounded for the next decade while gambling all of our exploration money on unproven research-and-development experiments. Although I am an ardent supporter of federal R&D investments, I believe it is unacceptable that the administration would gamble our entire space exploration program for the next five years on research.

The dirty little secret of this budget proposal is that it all but ensures that the United States will not have an exploration system for at least two decades. That is a fundamental abdication of U.S. leadership in space — no matter how much the administration tries to dress it up. Our international competitors are not slowing down, and neither should we.

## Space Leadership – Warfighting/Terror Impact

### Space leadership is key to warfighting capabilities

Young Chair – Institute for Defense Analyses Research Group, et al., 2008 A. Thomas, “Leadership, Management, and Organization for National Security Space”, July, http://www.armyspace.army.mil/ASJ/Images/National\_Security\_S pace\_Study\_Final\_Sept\_16.pdf

Today, U.S. leadership in space provides a vital national advantage across the scientific, commercial, and national security realms. In particular, space is of critical importance to our national intelligence and warfighting capabilities. The panel members nevertheless are unanimous in our conviction that, without significant improvements in the leadership and management of NSS programs, U.S. space preeminence will erode to the extent that space ceases to provide a competitive national security advantage. Space technology is rapidly proliferating across the globe, and many of our most important capabilities and successes were developed and fielded with a government technical workforce and a management structure that no longer exist.

### Lack of US superiority 🡺 multiple scenarios for nuclear conflict and terrorism

Arbatov Russian Academy of Sciences and Editor 2007 Alexei, Member Russia in Global Affairs, “Is a New Cold War Imminent?”, Russia in Global Affairs, 5(3), July / September, http://eng.globalaffairs.ru/numbers/20/1130.html

However, the low probability of a new Cold War and the collapse of American unipolarity (as a political doctrine, if not in reality) cannot be a cause for complacency. Multipolarity, existing objectively at various levels and interdependently, holds many difficulties and threats. For example, if the Russia-NATO confrontation persists, it can do much damage to both parties and international security. Or, alternatively, if Kosovo secedes from Serbia, this may provoke similar processes in Abkhazia, South Ossetia and Transdniestria, and involve Russia in armed conflicts with Georgia and Moldova, two countries that are supported by NATO. Another flash point involves Ukraine. In the event of Kiev’s sudden admission into the North Atlantic Alliance (recently sanctioned by the U.S. Congress), such a move may divide Ukraine and provoke mass disorders there, thus making it difficult for Russia and the West to refrain from interfering. Meanwhile, U.S. plans to build a missile defense system in Central and Eastern Europe may cause Russia to withdraw from the INF Treaty and resume programs for producing intermediate-range missiles. Washington may respond by deploying similar missiles in Europe, which would dramatically increase the vulnerability of Russia’s strategic forces and their control and warning systems. This could make the stage for nuclear confrontation even tenser. Other “centers of power” would immediately derive benefit from the growing Russia-West standoff, using it in their own interests. China would receive an opportunity to occupy even more advantageous positions in its economic and political relations with Russia, the U.S. and Japan, and would consolidate its influence in Central and South Asia and the Persian Gulf region. India, Pakistan, member countries of the Association of Southeast Asian Nations and some exalted regimes in Latin America would hardly miss their chance, either. A multipolar world that is not moving toward nuclear disarmament is a world of an expanding Nuclear Club. While Russia and the West continue to argue with each other, states that are capable of developing nuclear weapons of their own will jump at the opportunity. The probability of nuclear weapons being used in a regional conflict will increase significantly. International Islamic extremism and terrorism will increase dramatically; this threat represents the reverse side of globalization. The situation in Afghanistan, Central Asia, the Middle East, and North and East Africa will further destabilize. The wave of militant separatism, trans-border crime and terrorism will also infiltrate Western Europe, Russia, the U.S., and other countries. The surviving disarmament treaties (the Non-Proliferation Treaty, the Conventional Armed Forces in Europe Treaty, and the Comprehensive Nuclear Test Ban Treaty) will collapse. In a worst-case scenario, there is the chance that an adventuresome regime will initiate a missile launch against territories or space satellites of one or several great powers with a view to triggering an exchange of nuclear strikes between them. Another high probability is the threat of a terrorist act with the use of a nuclear device in one or several major capitals of the world.

### Nuclear terrorism causes extinction

Sid-Ahmed 04 (Mohamed Sid-Ahmed, Al-Ahram Weekly Online, Extinction!, August 26- September 1, 2004, http://weekly.ahram.org.eg/2004/705/op5.htm)

What would be the consequences of a nuclear attack by terrorists? Even if it fails, it would further exacerbate the negative features of the new and frightening world in which we are now living. Societies would close in on themselves, police measures would be stepped up at the expense of human rights, tensions between civilisations and religions would rise and ethnic conflicts would proliferate. It would also speed up the arms race and develop the awareness that a different type of world order is imperative if humankind is to survive. But the still more critical scenario is if the attack succeeds. This could lead to a third world war, from which no one will emerge victorious. Unlike a conventional war which ends when one side triumphs over another, this war will be without winners and losers. When nuclear pollution infects the whole planet, we will all be loser.

## Space Leadership – Capitalism Internal Link

### Beating China to the Moon is key to free market capitalism

Spudis MS in Planetary Geology PhD Geology 2010 Paul Space Ref http://www.spaceref.com/news/viewnews.html?id=1376

The struggle for soft power projection in space has not ended. If space resource extraction and commerce is possible, a significant question emerges - What societal paradigm shall prevail in this new economy? Many New Space advocates assume that free markets and capitalism is the obvious organizing principle of space commerce, but others might not agree. For example, to China, a government-corporatist oligarchy, the benefits of a pluralistic, free market system are not obvious. Moreover, respect for contract law, a fundamental reason why Western capitalism is successful while its implementation in the developing world has had mixed results, does not exist in China. So what shall the organizing principle of society be in the new commerce of space resources: rule of law or authoritarian oligarchy? An American win in this new race for space does not guarantee that free markets will prevail, but an American loss could ensure that free markets would never emerge on this new frontier.

### INSERT IMPACT

## Space Leadership – Capitalism Impact – War

### Imperial wars pre-date capitalism by centuries, war is illogical under capitalism because it destroys wealth

MacKenzie 3D.W. MacKenzie graduate student in economics at George Mason University Does Capitalism Require War? Monday, April 07, 2003 http://www.mises.org/fullstory.asp?control=1201

Perhaps the oddest aspect of these various, but similar, claims is that their proponents appeal so often to historical examples. They often claim that history shows how capitalism is imperialistic and warlike or at least benefits from war. Capitalism supposedly needs a boost from some war spending from time to time, and history shows this. Robert Higgs demonstrated that the wartime prosperity during the Second World War was illusory[i]. This should come to no surprise to those who lived through the deprivations of wartime rationing. We do not need wars for prosperity, but does capitalism breed war and imperialism anyway? History is rife with examples of imperialism. The Romans, Alexander, and many others of the ancient world waged imperialistic wars. The Incan Empire and the empire of Ancient China stand as examples of the universal character of imperialism. Who could possibly claim that imperialism grew out of the prosperity of these ancient civilizations? Imperialism precedes modern industrial capitalism by many centuries. Uneven wealth distribution or underconsumption under capitalism obviously did not cause these instances of imperialism. Of course, this fact does not prove that modern capitalism lacks its own imperialistic tendencies. The notion that income gets underspent or maldistributed lies at the heart of most claims that capitalism either needs or produces imperialistic wars. As J.B. Say argued, supply creates its own demand through payments to factors of production. Demand Side economists Hobson and Keynes argued that there would be too little consumption and too little investment for continuous full employment. We save too much to have peace and prosperity. The difficulty we face is not in oversaving, but in underestimating the workings of markets and the desires of consumers. Doomsayers have been downplaying consumer demand for ages. As demand side economist J.K. Galbraith claimed, we live in an affluent society, where most private demands have been met. Of course, Hobson made the same claim much earlier. Earlier and stranger still, mercantilists claimed that 'wasteful acts' such as tea drinking, gathering at alehouses, taking snuff, and the wearing of ribbons were unnecessary luxuries that detracted from productive endeavors. The prognostications of esteemed opponents of capitalism have consistently failed to predict consumer demand. Today, consumers consume at levels that few long ago could have imagined possible. There is no reason to doubt that consumers will continue to press for ever higher levels of consumption. Though it is only a movie, Brewster's Millions illustrates how creative people can be at spending money. People who do actually inherit, win, or earn large sums of money have little trouble spending it. Indeed, wealthy individuals usually have more trouble holding on to their fortunes than in finding ways to spend them. We are never going to run out of ways to spend money. Many of the complaints about capitalism center on how people save too much. One should remember that there really is no such thing as saving. Consumers defer consumption to the future only. As economist Eugen BÃ¶hm-Bawerk demonstrated, people save according to time preference. Savings diverts resources into capital formation. This increases future production. Interest enhanced savings then can purchase these goods as some consumers cease to defer their consumption. Keynes' claim that animal spirits drive investment has no rational basis. Consumer preferences are the basis for investment. Investors forecast future consumer demand. Interest rates convey knowledge of these demands. The intertemporal coordination of production through capital markets and interest rates is not a simple matter. But Keynes' marginal propensities to save and Hobson's concentration of wealth arguments fail to account for the real determinants of production through time. Say's Law of Markets holds precisely because people always want a better life for themselves and those close to them. Falling interest rates deter saving and increase investment. Rising interest rates induce saving and deter investment. This simple logic of supply and demand derives from a quite basic notion of self interest. Keynes denied that the world worked this way. Instead, he claimed that bond holders hoard money outside of the banking system, investment periodically collapses from 'the dark forces of time and uncertainty, and consumers save income in a mechanical fashion according to marginal propensities to save. None of these propositions hold up to scrutiny, either deductive or empirical. Speculators do not hoard cash outside of banks. To do this means a loss of interest on assets. People do move assets from one part of the financial system to another. This does not cause deficient aggregate demand. Most money exists in the banking system, and is always available for lending. In fact, the advent of e-banking makes such a practice even less sensible. Why hoard cash when you can move money around with your computer? It is common knowledge that people save for homes, education, and other expensive items, not because they have some innate urge to squirrel some portion of their income away. This renders half of the market for credit rational. Investors do in fact calculate rates of return on investment. This is not a simple matter. Investment entails some speculation. Long term investment projects entail some uncertainty, but investors who want to actually reap profits will estimate the returns on investment using the best available data. Keynes feared that the dark forces of time and uncertainty could scare investors. This possibility, he thought, called for government intervention. However, government intervention (especially warfare) generally serves to increase uncertainty. Private markets have enough uncertainties without throwing politics into the fray. The vagaries of political intervention serve only to darken an already uncertain future. Capital markets are best left to capitalists. Nor is capital not extracted surplus value. It comes not from exploitation. It is simply a matter of people valuing their future wellbeing. Capitalists will hire workers up to the point where the discounted marginal product of their labor equals the wage rate. To do otherwise would mean a loss of potential profit. Since workers earn the marginal product of labor and capital derives from deferred consumption, Marxist arguments about reserve armies of the unemployed and surplus extraction fail. It is quite odd to worry about capitalists oversaving when many complain about how the savings rate in the U.S. is too low. Why does the U.S., as the world's 'greatest capitalist/imperialist power', attract so much foreign investment? Many Americans worry about America's international accounts. Fears about foreigners buying up America are unfounded, but not because this does not happen. America does have a relatively low national savings rate. It does attract much foreign investment, precisely because it has relatively secure property rights. Indeed, much of the third world suffers from too little investment. The claims of Marxists, and Hobson, directly contradict the historical record. Sound theory tells us that it should. The Marxist claim that capitalists must find investments overseas fails miserably. Larry Kudlow has put his own spin on the false connection between capitalism and war. We need the War as shock therapy to get the economy on its feet. Kudlow also endorses massive airline subsidies as a means of restoring economic prosperity. Kudlow and Krugman both endorse the alleged destructive creation of warfare and terrorism. Kudlow has rechristened the Broken Window fallacy the Broken Window principle. Kudlow claims that may lose money and wealth in one way, but we gain it back many time over when the rebuilding is done. Kudlow and Krugman have quite an affinity for deficits. Krugman sees debt as a sponge to absorb excess saving. Kudlow see debt as a short term nuisance that we can dispel by maximizing growth. One would think that such famous economists would realize that competition does work to achieve the goal of optimum growth based on time preference, but this is not the case. While these economists have expressed their belief in writing, they could do more. If the destruction of assets leads to increased prosperity, then they should teach this principle by example. Kudlow and Krugman could, for instance, help build the economy by demolishing their own private homes. This would have the immediate effect of stimulating demand for demolition experts, and the longer term affect of stimulating the demand for construction workers. They can create additional wealth by financing the reconstruction of their homes through debt. By borrowing funds, they draw idle resources into use and stimulate financial activity. Of course, they would both initially lose wealth in one way. But if their thinking is sound, they will gain it back many times over as they rebuild. The truth is that their beliefs are fallacious. Bastiat demonstrated the absurdity of destructive creation in his original explanation of the opportunity costs from repairing broken windows. Kudlow is quite clear about his intentions. He wants to grow the economy to finance the war. As Kudlow told some students, "The trick here is to grow the economy and let the economic growth raise the revenue for the war effort"[ii]. Kudlow also praises the Reagan Administration for growing the economy to fund national defense. Here Kudlow's attempts to give economic advice cease completely. His argument here is not that capitalism needs a shot in the arm. It is that resources should be redirected towards ends that he sees fit. Kudlow is a war hawk who, obviously, cannot fund this or any war personally. He instead favors using the state to tax others to fund what he wants, but cannot afford. He seems to think that his values matter more than any other's. Why should anyone else agree with this? Kudlow tarnishes the image of laissez faire economics by parading his faulty reasoning and his claims that his wants should reign supreme as a pro-market stance. Unfortunately, it is sometimes necessary to defend capitalism from alleged advocates of liberty, who employ false dogmas in pursuit of their own militaristic desires. Capitalism neither requires nor promotes imperialist expansion. Capitalism did not create imperialism or warfare. Warlike societies predate societies with secure private property. The idea that inequity or underspending give rise to militarism lacks any rational basis. Imperialistic tendencies exist due to ethnic and nationalistic bigotries, and the want for power. Prosperity depends upon our ability to prevent destructive acts. The dogma of destructive creation fails as a silver lining to the cloud of warfare. Destructive acts entail real costs that diminish available opportunities. The idea that we need to find work for idle hands in capitalism at best leads to a kind of Sisyphus economy where unproductive industries garner subsidies from productive people. At worst, it serves as a supporting argument for war. The more recent versions of the false charges against capitalism do nothing to invalidate two simple facts. Capitalism generates prosperity by creating new products. War inflicts poverty by destroying existing wealth. There is no sound reason to think otherwise.

### Capitalism is key to peace – markets decrease the potential for war

Bandow**,** Senior Fellow at the Cato Institute, 11/15/2005Doug, Spreading Capitalism is Good for Peace, http://www.cato.org/pub\_display.php?pub\_id=5193

In a world that seems constantly aflame, one naturally asks: What causes peace? Many people, including U.S. President George W. Bush, hope that spreading democracy will discourage war. But new research suggests that expanding free markets is a far more important factor, leading to what Columbia University's Erik Gartzke calls a "capitalist peace." It's a reason for even the left to support free markets.

The capitalist peace theory isn't new: Montesquieu and Adam Smith believed in it. Many of Britain's classical liberals, such as Richard Cobden, pushed free markets while opposing imperialism.

But World War I demonstrated that increased trade was not enough. The prospect of economic ruin did not prevent rampant nationalism, ethnic hatred, and security fears from trumping the power of markets.

An even greater conflict followed a generation later. Thankfully, World War II left war essentially unthinkable among leading industrialized - and democratic - states. Support grew for the argument, going back to Immanual Kant, that republics are less warlike than other systems.

Today's corollary is that creating democracies out of dictatorships will reduce conflict. This contention animated some support outside as well as inside the United States for the invasion of Iraq.

But Gartzke argues that "the 'democratic peace' is a mirage created by the overlap between economic and political freedom." That is, democracies typically have freer economies than do authoritarian states.

Thus, while "democracy is desirable for many reasons," he notes in a chapter in the latest volume of Economic Freedom in the World, created by the Fraser Institute, "representative governments are unlikely to contribute directly to international peace." Capitalism is by far the more important factor.

The shift from statist mercantilism to high-tech capitalism has transformed the economics behind war. Markets generate economic opportunities that make war less desirable. Territorial aggrandizement no longer provides the best path to riches.

Free-flowing capital markets and other aspects of globalization simultaneously draw nations together and raise the economic price of military conflict. Moreover, sanctions, which interfere with economic prosperity, provides a coercive step short of war to achieve foreign policy ends.

### Capitalism is key for peace – business prevents conflict

Bandow**,** Senior Fellow at the Cato Institute, 11/15/2005Doug, Spreading Capitalism is Good for Peace, http://www.cato.org/pub\_display.php?pub\_id=5193

If market critics don't realize the obvious economic and philosophical value of markets - prosperity and freedom - they should appreciate the unintended peace dividend. Trade encourages prosperity and stability; technological innovation reduces the financial value of conquest; globalization creates economic interdependence, increasing the cost of war.

Nothing is certain in life, and people are motivated by far more than economics. But it turns out that peace is good business. And capitalism is good for peace.

## Space Leadership – Capitalism Impact – Warming

### Capitalism is key to solving global warming

**Whitman 8** (Janet, February 19, pg. http://www.financialpost.com/story.html?id=317551)

Global warming may soon get a saviour more effective than Al Gore and his doomsday Power-Point presentations: capitalism. The former U.S. vice-president, who was awarded the Nobel Peace Prize last year for his work on climate change, is credited with bringing widespread attention to the issue. But the huge moneymaking opportunity in going green will be the big driver that leads to the reining in of the release of greenhouse gasses, experts say. Money already is pouring into environmental initiatives and technologies in the United States. Experts expect investment in the area to explode over the next few years if, as anticipated, the government here imposes restrictions on the release of gases believed to be behind climate change. "Capitalism will drive this," said Vinod Khosla, founding chief executive of Sun Microsystems and a longtime venture capitalist. Mr. Khosla, speaking on a panel at a recent investment summit on climate change at United Nations headquarters here, said getting consumers to curb their energy use has never worked -- unless they've had a financial incentive. "If we make it economic, it will happen," he said. The expected government-mandated cap on carbon emissions already is fueling innovation. Venture capitalists, for instance, are investing in new technologies that would make cement -- a major producer of carbon emissions -- actually absorb carbon instead. Cement makers could practically give the product away and reap the financial reward from government carbon credits.

### Global warming leads to extinction

Oliver Tickell, Climate Researcher, 8/11/2008, On a planet 4C hotter, all we can prepare for is extinction, The Guardian, Proquest

We need to get prepared for four degrees of global warming, Bob Watson told the Guardian last week. At first sight this looks like wise counsel from the climate science adviser to Defra. But the idea that we could adapt to a 4C rise is absurd and dangerous. Global warming on this scale would be a catastrophe that would mean, in the immortal words that Chief Seattle probably never spoke, "the end of living and the beginning of survival" for humankind. Or perhaps the beginning of our extinction. The collapse of the polar ice caps would become inevitable, bringing long-term sea level rises of 70-80 metres. All the world's coastal plains would be lost, complete with ports, cities, transport and industrial infrastructure, and much of the world's most productive farmland. The world's geography would be transformed much as it was at the end of the last ice age, when sea levels rose by about 120 metres to create the Channel, the North Sea and Cardigan Bay out of dry land. Weather would become extreme and unpredictable, with more frequent and severe droughts, floods and hurricanes. The Earth's carrying capacity would be hugely reduced. Billions would undoubtedly die. Watson's call was supported by the government's former chief scientific adviser, Sir David King, who warned that "if we get to a four-degree rise it is quite possible that we would begin to see a runaway increase". This is a remarkable understatement. The climate system is already experiencing significant feedbacks, notably the summer melting of the Arctic sea ice. The more the ice melts, the more sunshine is absorbed by the sea, and the more the Arctic warms. And as the Arctic warms, the release of billions of tonnes of methane – a greenhouse gas 70 times stronger than carbon dioxide over 20 years – captured under melting permafrost is already under way. To see how far this process could go, look 55.5m years to the Palaeocene-Eocene Thermal Maximum, when a global temperature increase of 6C coincided with the release of about 5,000 gigatonnes of carbon into the atmosphere, both as CO2 and as methane from bogs and seabed sediments. Lush subtropical forests grew in polar regions, and sea levels rose to 100m higher than today. It appears that an initial warming pulse triggered other warming processes. Many scientists warn that this historical event may be analogous to the present: the warming caused by human emissions could propel us towards a similar hothouse Earth.

## Space Leadership – Capitalism Impact – Transition Wars

### U.S. transition from cap sparks great power wars and omnicide

Nyquist 5 J.R. renowned expert in geopolitics and international relations, WorldNetDaily contributing editor, “The Political Consequences of a Financial Crash,” February 4, www.financialsense.com/stormw...2005/0204.html

Should the United States experience a severe economic contraction during the second term of President Bush, the American people will likely support politicians who advocate further restrictions and controls on our market economy – guaranteeing its strangulation and the steady pauperization of the country. In Congress today, Sen. Edward Kennedy supports nearly all the economic dogmas listed above. It is easy to see, therefore, that the coming economic contraction, due in part to a policy of massive credit expansion, will have serious political consequences for the Republican Party (to the benefit of the Democrats). Furthermore, an economic contraction will encourage the formation of anti-capitalist majorities and a turning away from the free market system. The danger here is not merely economic. The political left openly favors the collapse of America’s strategic position abroad. The withdrawal of the United States from the Middle East, the Far East and Europe would catastrophically impact an international system that presently allows 6 billion people to live on the earth’s surface in relative peace. Should anti-capitalist dogmas overwhelm the global market and trading system that evolved under American leadership, the planet’s economy would contract and untold millions would die of starvation. Nationalistic totalitarianism, fueled by a politics of blame, would once again bring war to Asia and Europe. But this time the war would be waged with mass destruction weapons and the United States would be blamed because it is the center of global capitalism. Furthermore, if the anti-capitalist party gains power in Washington, we can expect to see policies of appeasement and unilateral disarmament enacted. American appeasement and disarmament, in this context, would be an admission of guilt before the court of world opinion. Russia and China, above all, would exploit this admission to justify aggressive wars, invasions and mass destruction attacks. A future financial crash, therefore, must be prevented at all costs. But we cannot do this. As one observer recently lamented, “We drank the poison and now we must die.”

### So would a global transition

Kothari 82 Professor of political science at the University of Delhi, Towards a Just Social Order, p. 571

Attempts at global economic reform could also lead to a world racked by increasing turbulence, a greater sense of insecurity among the major of powers – and hence to a further tightening of the structures of domination and domestic repression – producing in their wake an intensification of the old arms race and militarization of regimes, encouraging regional conflagrations and setting the stage for eventual **global holocaust**.

## Space Leadership – Capitalism Impact – Poverty

### Capitalism decreases poverty – we’ll be the only ones with uniqueness because poverty is rapidly decreasing in the world of globalization

Norberg**,** author of In Defense of Capitalism, 2003

Johan, September 15, <http://www.cato.org/special/symposium/debate.html>

This is the revolution that is transforming the world today. As the United Nations Development Programme has observed, in the last 50 years global poverty has declined more quickly than in the previous 500. If we allow globalization to continue, this trend will continue as well. The World Bank has calculated that a substantial free trade agreement would add as much as $520 billion to global incomes by 2015, lifting 144 million people out of poverty.