The United States federal government should reduce restrictions on the production of crude oil on federal lands.

Advantage One—Economy

The account deficit will spiral out of control wrecking the dollar and the economy. Strengthening energy reserves is key—

Mohi-uddin 12—Mansoor Mohi-uddin is managing director of foreign exchange strategy at UBS, Dollar bears in for shock if US cuts energy imports, Financial Times, 2-14

The future of the dollar is more likely to be determined in the shale gas and oilfields of Dakota and Texas than in the sovereign wealth funds of Asia and the Middle East. This is because striking new technological developments are set to transform America’s energy supplies, significantly improving the US balance of payments and the long-term outlook for the greenback.

The US’s current account deficit has been a longstanding drag on the dollar. At the height of the credit boom in 2006, it reached $800bn or 6 per cent of gross domestic product. Though the deficit has halved as the credit crunch has lowered imports, it still stands at 3 per cent of GDP, largely because the US, like the eurozone, Japan, China and India, remains a major energy importer, with annual net foreign oil purchases of $300bn a year. As the US economy slowly recovers, the International Monetary Fund expects the US current account deficit to start rising again. That would lead to foreign central banks accumulating greater reserves of dollars. But such straight-line forecasts are likely to be challenged as the US’s shale gas and “tight oil” reserves are commercially exploited over the next few years. The US has vast reserves of shale gas but, until recently, energy companies were unable to tap the gas trapped in shale rock. Now, through hydraulic fracturing or ‘fracking’, US reserves of economically available gas supplies have started to rise sharply. Already the ratio of US gas reserves to annual production has increased from eight years to 12 years. This may not appear substantial when compared to other regions of the world. Qatar, for example, has proven gas reserves well above 100 years of current production. But fracking may allow the US to soon count up to one hundred years of gas reserves relative to current production. That would lead to a major shift in the US’s energy outlook.

In addition the exploitation of tight oilfields through new technology is increasing the US’s domestic oil production relative to imports. This marks a significant departure from the past three decades, when the share of US oil consumption accounted for by foreign supplies rose from around 30 per cent in the 1980s to over 65 per cent by the time the credit crunch began in 2007. In 2010 imports had already declined to 61 per cent of total US oil consumption and are set to decrease further.

More strikingly, the US is starting to export oil again given its increased domestic oil production. Ten years ago, US oil exports were less than 10 per cent of the country’s oil imports. Now they are close to 20 per cent of US imports as local oil output surges. For example, North Dakota yielded more than 500,000 barrels of oil a day at the end of last year, exceeding the production of Opec member Ecuador.

There remain significant environmental concerns regarding the use of fracking to exploit shale gas in commercial quantities. But if America is able to dramatically increase its energy reserves, then it can reduce its reliance on foreign supplies – particularly from volatile regions such as the Middle East.

Over time this would engineer a sharp improvement in the US current account deficit. As the US’s net oil import position accounts for the lion’s share of its balance of payments deficit, increased domestic production has the potential to reduce the US current account deficit from 3 per cent of GDP to lower levels, or even send it into a surplus over the next decade.

The US economy last ran a current account surplus at the start of the 1990s. If the US is able to return to a similar position over the next few years owing to reduced energy imports, it would have three important consequences for financial markets and the global economy.

First, in the foreign exchange markets, the dollar would continue its recovery against the euro and other major currencies that began during the financial crisis of 2008. Consensus forecasts that the greenback will keep on depreciating to rebalance America’s current account deficit will need to be torn up.

Second, the negative relationship between oil prices and the dollar would break down. China and India are still likely to be large consumers of Middle East energy but significantly reduced US foreign oil purchases will limit the growth of the region’s sovereign wealth funds. As a result, their dollar-diversifying activities, heightened when oil prices rise, will be constrained in future.

Third, stronger growth in the US on the back of a more balanced economy would call into question the Fed’s current stance of keeping monetary policy super-loose.

Thus the conventional wisdom of an ever-weakening greenback is likely to become obsolete. Over the next decade, the currency is set to benefit from the US’s reduced reliance on foreign energy. That will be a positive shock for US consumers and companies and a negative shock for long-term dollar bears.

Otherwise long term growth is impossible—

Bagley et al 12—Elizabeth Frawley, Ambassador to Portugal 1994-1997 and the Diplomatic Council for Energy Security, (alternately, I can list out all of the ambassadors), Oil and the Trade Deficit: Rising Energy Expenditures and U.S. Energy Security, May, <http://www.secureenergy.org/sites/default/files/DCES-Oil-and-the-Trade-Deficit.pdf>, Shree

NOTE: Figures 13 and 14 omitted

However, large and persistent trade deficits, growing ever higher, partly as a result of rising oil prices, can have a direct impact on the strength and long-term sustainability of U.S. economic growth. As the United States runs these deficits, it continues to accumulate liabilities and sell assets to foreign entities. These obligations take the form of either debt or equity.48 This diverts funds towards meeting interest payments on foreign-held debt that would otherwise be devoted to capital investment and future growth in living standards.49 The outflow of capital creates a compounding debt burden for future generations while also limiting their ability to afford those payments as profitable assets are sold.

For the past two decades, the United States has run annual trade deficits for both petroleum and nonpetroleum goods and services, thereby requiring it to sell physical and/or financial assets to foreign nations in exchange. The accumulated debt and transfer of wealth associated with these persistent trade deficits is substantial. As of the end of 2010, the U.S. net international investment position (NIIP), which represents the difference between the value of foreign investments held in the United States and the value of U.S. investments held abroad, totaled roughly negative $2.5 trillion.50 The U.S. NIIP has in fact been negative since 1986.51 Since 1983, when the United States began running trade deficits, the cumulative principal value of wealth transferred to other nations has been $7 trillion, approximately $3.4 trillion of which is attributable to oil imports.52

The foreign ownership of U.S. debt and equity to finance the trade deficit, including oil, impacts the long-term growth rate of U.S. GDP and standards of living. It has been estimated that if the trade deficit remains on its strong upward trajectory over the long run, the growing stock of U.S. indebtedness will create deficits in the balance between what U.S. foreign investments earn against what foreign investments in the United States earn. The result of this could be U.S. foreign debt service payments ultimately reaching or exceeding $100 billion.53 A $100 billion debt service obligation would amount to approximately 0.7 percent of U.S. GDP. If the long-term growth rate of real U.S output can optimistically be expected to average 3 percent annually, the rate of growth that is effectively available to the domestic economy would thereby be reduced to 2.3 percent. Such a change in the long-term growth rate would represent a significant decrease in the rate of improvement of living standards. At a growth rate of 3 percent, national income doubles about every 24 years, whereas at growth rate of 2.3 percent, doubling occurs only every 30 years.54 Practically, as it relates to investment potential, the same is true for resources once devoted to a wide variety of other purposes that must now be diverted to cover the higher cost of oil and petroleum products—a driver behind the recent declines in domestic saving.

Large and persistent trade deficits can also have particularly acute and damaging effects on certain industries or sectors of the economy. In recent years, the decline of output and employment in domestic manufacturing serves as a clear example. Conversely, output and employment in more credit-sensitive industries, such as real estate, has increased, stimulated by lower interest rates afforded by foreign capital inflows.55

Drilling solves prices and the economy—Multiple internal links—

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Over a year ago, I published an article titled, “The Global Energy Superpower,” in which I included links showing the vast extent of U.S. reserves of fossil fuels. It turns out that the United States is not only “the Saudi Arabia of coal,” as has been accepted for decades, but in light of recent developments, we have a chance to be the Saudi Arabia of natural gas and even the Saudi Arabia of oil.

That was the assessment a year-and-a-half ago, Since then, the Congressional Research Service has tabulated the totals and acknowledges that the United States currently has the largest known fossil fuel reserves in terms of total oil equivalent—almost three times as much as Saudi Arabia—and it seems that every month the new gets better: The reserves continue to swell.

The benefits to our country of allowing our superabundant energy resources to be developed are manifold. Let me try to explain them in terms that show why Democrats as well as Republicans should abandon Obama’s anti-drilling policies:

1) Increased oil production will benefit all Americans economically, but especially those with lower incomes—the ones who have taken the brunt of the pain from high fuel prices in recent years. Team Obama and others on the left who oppose domestic oil production like to claim that they care about “the little guy.” Well, prove it. Let the experts tap into our immense petroleum reserves, increase supplies, and push oil prices lower.

2) The more oil we produce domestically, whether for domestic consumption or for export, the more we will reduce the merchandise trade deficit. For years, politicians on the left and right have bemoaned our enormous trade deficit. In some years, imports of oil have accounted for more than half of that deficit, so one way to take a hammer to the trade deficit would be to crank up domestic production.

3) Cranking up domestic oil production would crank down the unemployment rate. After years of unemployment rates above 8 percent and masses of workers dropping out of the labor market, a boom in the oil patch would add large numbers of desperately needed, high-paying jobs. The true friends of American workers would be whatever president and Congress would reverse the current policy of suppressing job creation in the energy industry.

4) Starting to provide for our own energy needs would show more respect for other countries and win more respect for us. It has been pathetic that the president of the United States has traveled to Saudi Arabia and implored them to increase their production while we have refused to increase our own. Liberals are uncomfortable with American exceptionalism, but isn’t it a form of exceptionalism when we expect the rest of the world to produce our energy for us?

5) Increasing domestic oil production would enhance national security. The more energy we produce at home, the less vulnerable we are to disruptions in politically unstable oil-exporting countries. By increasing supply and lowering the price of oil, less money would go into the treasuries of such problematical regimes as the House of Saud—the principal funder of intolerant Wahabbism—and Venezuela’s Chavez.

6) The increased domestic economic activity would generate significant revenues to the government. It makes me uncomfortable to say this, because my primary goal is to shrink government, not to find ways to divert more wealth to government control. Still, as the lesser of evils, my own preferred way of balancing the budget would be through reductions in federal spending, but the additional tax revenues resulting from increased domestic energy production would shrink the deficit in a way that would be far less damaging than raising existing tax rates.

Obama likes to rail about the allegedly “obscene” profits of oil companies. Actually, there are dozens of industries (sometimes more than 100) that earn higher profit margins than oil’s 7 or 8 percent. Doesn’t Obama realize that by restricting the supply, he has raised the price and probably the profits of Big Oil? If he really wants to hack away at oil profits, he should turn them loose and let them produce oil to their hearts’ content. Under the resulting competitive pressures, prices would fall, consumers would rejoice, and oil company profits would be squeezed.

Superabundant fossil fuels have the potential to help snap us out of our economic doldrums and invigorate the economy. What we need is a change of energy policy. It’s time to reject Team Obama’s central planning. The Obama policy has been to impede, restrict, harass and attack producers of fossil fuels, while heavily subsidizing uneconomical renewable energies. An enlightened energy policy—one that I hope a President Romney would adopt—would be to replace government intervention with nonintervention and let the free market work. The United States would be “open for business” to energy companies, market prices would determine the economic winners and losers in that competition, and our energy woes would be alleviated.

Domestic production is key to job, growth, and manufacturing. Recovery is impossible without it –

Morici 9/11—Peter, economist and professor at the Smith School of Business, University of Maryland, and widely published columnist, Outside View: Trade deficit rises, stifles jobs creation and smothers growth, 9/11/12, http://www.upi.com/Top\_News/Analysis/Outside-View/2012/09/11/Outside-View-Trade-deficit-rises-stifles-jobs-creation-and-smothers-growth/UPI-46241347370424/print#ixzz26xuQIAUa

Imported oil and subsidized imports from China account for nearly the entire $500 billion trade gap and pose the most significant barriers to robust growth and jobs creation. The trade deficit on oil moderated a bit as economic activity slowed and prices fell from earlier in the year but the trade gap with China continues to increase and now exceeds $350 billion on an annual basis. The economic recovery began five months after President Barack Obama took office, and gross domestic product growth has averaged 2.2 percent. In October 2009, unemployment peaked at 10 percent but has fallen to 8.1 entirely because fewer Americans are seeking work.Ronald Reagan inherited a similarly troubled economy with unemployment cresting at 10.8 percent early in his presidency. When he sought re-election, the economy was growing at 6.3 percent, unemployment was 7.3 percent and a rising percentage of Americans were seeking work.

The U.S. economy suffers from too little demand. Consumers are spending, but too many dollars go abroad to pay for Middle East oil and Chinese goods that don't return to buy U.S. exports. Businesses remain pessimistic and don't hire.

Reagan encouraged the development of natural resources and endured much criticism from environmentalists and academics. Whereas Obama has talked repeatedly about developing the full range of energy resources but has bent to their pressure and imposed counterproductive limits on oil production in the Gulf of Mexico, off the Pacific and Atlantic coasts and Alaska. Merely replacing domestic oil with imports does little to improve air quality or curb carbon dioxide emissions.

These policies are premised on faulty assumptions about the immediate potential of electric cars and unconventional energy sources -- the failures of the government-subsidized Chevy Volt and Solyndra are two of many examples of failed government investments in alternative energy projects premised more on hope than solid business plans.

In combination, curbs on domestic conventional oil production and squandered resources on alternative technologies not yet ready for commercial application make the United States much more dependent than necessary on imported oil and destroy jobs by the millions. Oil imports could be cut by two-thirds by boosting U.S. oil production to 10 million barrels a day and immediately implementing more feasible solutions like the aggressive use of natural gas in fleet vehicles and more fuel efficient internal combustion engines. To keep Chinese products artificially inexpensive on U.S. store shelves, Beijing undervalues the yuan through government intervention in currency markets. It pirates U.S. technology, subsidizes exports and imposes high tariffs on imports. Reagan was a forceful advocate for U.S. economic interests with the pre-eminent rivals of his day, like Japan. Whereas Obama, like President George W. Bush, has sought to alter Chinese policies through endless pleadings and negotiations. Beijing offers token gestures, knowing Obama won't take the strong actions, advocated by economists across the ideological and political spectrum, to force China to abandon its mercantilist policies. It successfully cultivates political support for the American policy of appeasement among large U.S. multinationals and banks doing business and profiting from mercantilism in the Middle Kingdom.

Cutting the trade deficit by $300 billion, through domestic energy development and conservation, and forcing China's hand on currency manipulation and other protectionist practices would increase GDP by about $500 billion a year and create at least 5 million jobs.

Longer term, large trade deficits shift resources from manufacturing and service activities that compete in global markets to domestically focused industries. The former undertake much more research and development and investments in human capital.

Cutting the trade deficit in half would raise U.S. economic growth by 1-2 percentage points. But for the trade deficits of the Bush and Obama years, U.S. GDP would be 10-20 percent greater than it is today, per capital income as much as $5,000-$10,000 higher and unemployment not much of a problem.

Independently, manufacturing sector is critical to competitiveness and economic resilience – Heavy reliance on imported energy decimates this.

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As befits a large, modern country, America's manufacturing sector remains very large and has been growing in absolute terms. In 2009, US manufacturing accounted for more than 18 percent of global manufacturing3 and its value was higher (when compared in nominal, exchange-rated terms) than the total GDP of all but seven of the world's economies (behind Brazil at $2 trillion and ahead of Canada at $1.6 trillion). The per capita value of manufacturing in 2009 was higher in the United States ($5,800) than in France ($3,900), Canada ($4,200), Italy ($5,100), and China ($1,500). When measured in constant monies, US manufacturing expanded by about 60 percent between 1990 and 2009, nearly matching the growth of overall GDP; it grew by 10 percent between 2000 and 2009, compared to a 15 percent increase in GDP.4 But these numbers can be deceptive. America's manufacturing sector has retreated faster and further in relative terms than that of any other large, affluent nation. US manufacturing as a percentage of GDP declined from 27 percent in 1950 to 23 percent in 1970 to 14 percent in 2000 to 11 percent in 2009. While manufacturing as a share of GDP has also declined in Germany and Japan, both countries have retained relatively larger manufacturing sectors at 17 and 21 percent, respectively. The contribution of manufacturing to per capita GDP is also higher in Germany ($6,900) and Japan ($8,300) than in the United States. The most shocking, but underemphasized, fact about global manufacturing is that Germany's share of global merchandise exports is actually higher than America's (9 percent vs. 8.5 percent in 2009), despite having an economy just one-quarter of the size. As a consequence, the United States is lagging as a global economic competitor. In 2009, Germany and Japan had large manufacturing trade surpluses ($290 and $220 billion, respectively) while the United States had a massive manufacturing trade deficit ($322 billion).5 The other key measure -- little known in popular discussions of manufacturing -- is export intensity, the ratio of a nation's exports to its total manufacturing sales. The global average export intensity is twice as high as that of the United States, which ranked 13th out of the 15 largest manufacturing countries in 2009, higher only than Russia and Brazil.6 Meanwhile, the leading EU countries had export intensities 2.5 times to 4 times higher than America's. Comparisons of the value of manufactured exports on a per capita basis are even more dramatic: they are higher in Spain ($3,700), Japan ($4,000), Canada ($4,600), and Germany ($11,200) than in the United States ($2,400). The US manufacturing sector is also badly trailing China's, though in order to fully appreciate this, one must calculate the real value of China's artificially undervalued currency (the yuan renminbi, or RMB). The 2009 data from the United Nations lists US manufacturing output at $1.79 trillion versus RMB 14 trillion or $2.1 trillion for China when converted at the official exchange rate for 2009 (about RMB 6.8/US dollar).7 But according to the purchasing power parity (PPP) conversion preferred by the International Monetary Fund, one RMB should be worth 29 cents, or RMB 3.4/US dollar. Even if the real RMB value were only 50 percent higher than the official rate, the total added by China's manufacturing in 2009 would be in excess of $3 trillion, or about 67 percent above the US total. America has historically been an effective mass-maker of low- to medium- quality products for its huge domestic market, but an inferior exporter. As long as America imported few manufactured goods, energy, and food, this weakness did not matter. Today, however, America has enormous manufactured imports, a huge energy import bill, and a lower surplus on its food trade. For the last 35 years, the US has had a positive and rising balance in service trade and, until 2006, a generally worsening balance in trading of goods (including food, fuels, and raw materials). Recent exports of manufactured products increased (in nominal terms) by nearly half between 2000 and 2008 before dropping by 25 percent in 2009 as a result of the economic downturn and then almost recovering in 2010. But the imports of manufactures also kept on rising -- by about 46 percent between 2000 and 2008.8 The United States has imported more than it has exported for so long that few remember the switch from net exporter to net importer. From 1896 to the early 1970s, the United States had a trade surplus. In 1976, America's trade deficit was just $6 billion, but by 1990, the trade deficit was more than 13 times larger at $80 billion (all in nominal terms). By 2006 it was almost 10 times bigger still: $759 billion. While the economic downturn reduced the annual total to $375 billion in 2009, it rose again in 2010 to nearly $500 billion. Indeed, America's trade deficit is larger than the individual GDPs of all but 19 countries in the world. The United States is failing even where it was once dominant. In 1950, American companies made about 95 percent of cars sold in the United States; 60 years later, the country that invented mass automobile production bought most of its light vehicles from foreigners. The crossover occurred in the summer of 2007 when the Detroit Three began to sell less than half of all passenger cars and light trucks bought in the United States. Three years later, the Detroit share had declined further. In 2010, roughly 45 percent of all light vehicles sold were from American makers while 55 percent came from foreign makers (with Japanese companies accounting for nearly 85 percent of the latter share).9 While Ford did eventually manage to improve its performance, General Motors, previously the world's largest auto manufacturer, lost its primacy and had to be salvaged by public funds. But the US automobile sector isn't the only one losing ground. While the conventional wisdom is that the United States has a strong comparative advantage in advanced technology, the reality is that in this sector, the US trade deficit grew nearly 50 percent from 2009 to 2010, when it was $81 billion, and by nearly 65 percent in the first three months of 2011 (compared to the first three months of 2010). The consequences, in terms of jobs, are plain to see. Today, unemployment in the United States is at almost 9 percent compared to around 7 percent in Germany and 5 percent in Japan. The loss of manufacturing jobs explains a hefty part of the difference. By the end of 2010 only 8.2 percent of American workers were employed in manufacturing, while about 19 percent of German workers and 18 percent of Japanese workers are employed in manufacturing. 2. The doggedly optimistic camp looks at these trends and sees little reason to fret. Declines in manufacturing jobs are due to higher productivity, they say, which is good for economic growth and economy-wide job creation. America's rising imports of manufactured goods can be easily afforded, they say, thanks to higher incomes generated by the service economy and expanding exports of services. To this camp, the US trade deficit is not a problem -- indeed, it is a sign of America's wealth and strength that it can afford to import so much more than it exports. Let us consider each of these arguments in turn. Manufacturing productivity has indeed been rising -- just not fast enough to explain the sector's rapid decline over the last decade. From 1990-2000 manufacturing productivity grew at nearly double the rate of other non-farm businesses. Annual increases in productivity have held stable since 1989 (at about 4 percent per year) but manufacturing employment declined only slightly, from 18 million jobs at the beginning of 1989 to 17.3 million jobs 11 years later, since output also increased during this period. But since 2001, manufacturing has seen much faster job losses, dropping to 14.3 million total manufacturing jobs in 2005 and to just 11.5 million in 2010.10 Thus, the problem is not productivity, which has been rising steadily for the past 20 years, but rather overall manufacturing output, whose growth rate has been falling at alarming rates. Between 1995 and 2000 the total value added by manufacturing to the US GDP rose by 25 percent. But between 2000 and 2005 the gain was less than 6 percent, and between 2005 and 2010 it was below 5 percent -- or barely 1 percent a year.11 While service exports have narrowed the country's overall trade deficit, alone they are insufficient to close the more than half-a-trillion dollar manufacturing-trade gap. Service exports doubled from $268 billion in 1999 to $543 billion in 2010 -- good news, to be sure. Even so, the gap between US service exports and imported goods and crude oil grew from $200 billion in 1980 to $1.6 trillion in 2008. Between 2000 and 2010, the United States lost 5.7 million manufacturing jobs but created only 4.9 million jobs in all service-providing sectors -- with 35 percent of that total filled by new government jobs.12 In fact, the government now employs twice as many people as the manufacturing sector. Even assuming an unchanged level of service imports (nearly $400 billion in 2010), the current positive balance in service trade would have to nearly quadruple in order to eliminate the 2010 trade deficit in manufactured goods. Another problematic argument is that job losses in manufacturing are the inevitable consequence of higher stages of economic development. According to this logic, since it is burdened by high labor costs and strong environmental regulations, the United States cannot compete with China and other low-income countries. But as both Germany and Japan demonstrate, high wages and high environmental standards are entirely compatible with continued manufacturing­­ success, if not in low-tech apparel manufacturing, then certainly in high-tech and high-end electronics, automotive, and machine tool manufacturing. Moreover, thanks to rising productivity, labor costs constitute a diminishing portion of overall manufacturing costs, particularly in high-tech sectors. In these sectors, China increasingly attracts manufacturing because of its established networks of suppliers and infrastructure -- both of which are comparative advantages created through government policies, not granted by nature. America's extraordinary appetite for foreign oil accounted for just over half of its trade imbalance in 2010. In nominal terms, crude oil imports grew from $5 billion in 1973 to $342 billion in 2008. The don't-worry-be-happy camp assures American policy makers that this dependence on energy imports is nothing to worry about; even the self-proclaimed enemies of America will continue to sell it more oil. But in 2010, half of America's refined liquid fuels came from imports of crude oil or oil products. Such a high degree of dependence makes the country vulnerable not only to price spikes, which are rare but deeply felt, but also to actual physical shortages whose likelihood is, unfortunately­­, much easier to contemplate given the recent upheavals in the Middle East. Why should Americans worry about the trade deficit if so many economists say it is a sign of wealth and is nothing to worry about? This rationalization of trade deficits is to be expected from a country that valorizes consumption above all else. But the only reason America has been able to sustain such a high trade deficit for so long is because the United States holds the world's reserve currency: foreigners buy US bonds, allowing Americans to buy foreign products. A smaller trade deficit would allow the United States to properly maintain and expand its substandard infrastructure, creating many new jobs and increasing US exports. Others argue that the problem isn't the trade deficit, but rather the low domestic savings rate and China's undervalued currency. They are partially right, but that still does not justify such a blasé attitude toward the US trade deficit. Savings rates have been falling through much of the industrial world -- including in Japan, a former big saver -- and any rapid trend reversal is unrealistic. And while China's undervalued currency is a major problem, its slow revaluation will not help the United States reach a desirable level for another 15 to 20 years -- not soon enough. 3. Given these realities, the most practical and proven way to reduce America's huge trade imbalance is to export more manufactured goods in well-established sectors. Consider that from 2000 to 2008, America's exports of medicinal and pharmaceutical products expanded nearly threefold, industrial chemicals grew 2.4-fold, primary plastics 2.2-fold, and sales of power-generating machinery equipment rose by 70 percent.13 These accomplishments point the way: we cannot boost manufacturing by trying to repatriate millions of lost apparel, furniture, or electronics jobs. These losses cannot be reversed rapidly and most of those jobs would not come back even if Chinese exports suddenly ceased, as other countries would fill that vacuum. Rather, the solution is to expand those manufacturing sectors that are already outstanding exporters. There is no reason the United States could not reverse the fortunes of its manufacturing sector as it did in the 1980s with semiconductors and as Germany did more recently with its high-end consumer and industrial products. German unemployment was much higher than the annual US mean during most of the 1980s, throughout the 1990s, and then until 2006. Mean unemployment between 2000-2006 was 10 percent in Germany and just 4-6 percent in the United States. Manufacturing produces a variety of economic benefits that finance and service sectors do not. The higher outputs from manufacturing create important backward-forward linkages that include many traditional jobs (from accounting to job training) as well as entirely new labor opportunities (in e-sales, global representation). As a result, sales of every dollar of manufactured products support $1.40 of additional activity, while the retail sector generates less than 60 cents for every dollar of final sales.14 In terms of job creation there is no comparison. Facebook is valued by Goldman Sachs at $50 billion, nearly as much as Boeing, but Boeing employs some 160,000 people, whereas Facebook only employs 2,000. Manufacturing acts as a powerful motivator for supporting and expanding suitable training and education because of its own demand for better-educated labor and because of its multiple linkages to intellectual services, transportation, and wholesale and retail operations. Losing manufacturing means reducing opportunities for skill-oriented education. And since more than two-thirds of research and development (R&D) occurs within manufacturing, losing manufacturing means losing R&D and with it a variety of multiplier effects for higher growth. In 2010, the US Department of Commerce released a new study quantifying the American jobs supported by exports: in 2008 that total reached 10.3 million, with nearly 2.8 million in services and 7.5 million in the production of goods. The study also showed how a post-2005 rise in exports increased the share of all manufacturing jobs supported by foreign sales from about 20 percent to more than 25 percent -- yet another confirmation of the substantial and realistic opportunities for expanding the sector.15

US is key to growth globally—

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IN THE aftermath of the G-20 summit, most observers seem to have missed perhaps the most crucial statement of the entire event, made by United States President Barack Obama at his pre-conference meeting with British Prime Minister Gordon Brown: 'The world has become accustomed to the US being a voracious consumer market, the engine that drives a lot of economic growth worldwide,' he said. 'If there is going to be renewed growth, it just can't be the US as the engine.' While superficially sensible, this view is deeply problematic. To begin with, it ignores the fact that the global economy has in fact been 'America-centred' for more than 60 years. Countries - China, Japan, Canada, Brazil, Korea, Mexico and so on - either sell to the US or they sell to countries that sell to the US. This system has generally been advantageous for all concerned. America gained certain historically unprecedented benefits, but the system also enabled participating countries - first in Western Europe and Japan, and later, many in the Third World - to achieve undreamt-of prosperity. At the same time, this deep inter-connection between the US and the rest of the world also explains how the collapse of a relatively small sector of the US economy - 'sub-prime' housing, logarithmically exponentialised by Wall Street's ingenious chicanery - has cascaded into the worst global economic crisis since the Great Depression. To put it simply, Mr Obama doesn't seem to understand that there is no other engine for the world economy - and hasn't been for the last six decades. If the US does not drive global economic growth, growth is not going to happen. Thus, US policies to deal with the current crisis are critical not just domestically, but also to the entire world. Consequently, it is a matter of global concern that the Obama administration seems to be following Japan's 'model' from the 1990s: allowing major banks to avoid declaring massive losses openly and transparently, and so perpetuating 'zombie' banks - technically alive but in reality dead. As analysts like Nobel laureates Joseph Stiglitz and Paul Krugman have pointed out, the administration's unwillingness to confront US banks is the main reason why they are continuing their increasingly inexplicable credit freeze, thus ravaging the American and global economies. Team Obama seems reluctant to acknowledge the extent to which its policies at home are failing not just there but around the world as well. Which raises the question: If the US can't or won't or doesn't want to be the global economic engine, which country will? The obvious answer is China. But that is unrealistic for three reasons. First, China's economic health is more tied to America's than practically any other country in the world. Indeed, the reason China has so many dollars to invest everywhere - whether in US Treasury bonds or in Africa - is precisely that it has structured its own economy to complement America's. The only way China can serve as the engine of the global economy is if the US starts pulling it first. Second, the US-centred system began at a time when its domestic demand far outstripped that of the rest of the world. The fundamental source of its economic power is its ability to act as the global consumer of last resort. China, however, is a poor country, with low per capita income, even though it will soon pass Japan as the world's second largest economy. There are real possibilities for growth in China's domestic demand. But given its structure as an export-oriented economy, it is doubtful if even a successful Chinese stimulus plan can pull the rest of the world along unless and until China can start selling again to the US on a massive scale. Finally, the key 'system' issue for China - or for the European Union - in thinking about becoming the engine of the world economy - is monetary: What are the implications of having your domestic currency become the global reserve currency? This is an extremely complex issue that the US has struggled with, not always successfully, from 1959 to the present. Without going into detail, it can safely be said that though having the US dollar as the world's medium of exchange has given the US some tremendous advantages, it has also created huge problems, both for America and the global economic system. The Chinese leadership is certainly familiar with this history. It will try to avoid the yuan becoming an international medium of exchange until it feels much more confident in its ability to handle the manifold currency problems that the US has grappled with for decades. Given all this, the US will remain the engine of global economic recovery for the foreseeable future, even though other countries must certainly help. This crisis began in the US - and it is going to have to be solved there too.

Collapse destabilizes the entire international system –

Burrows and Harris 9- Mathew J. Burrows is a counselor in the National Intelligence Council (NIC), the principal drafter of Global Trends 2025: A Transformed World, Jennifer Harris is a member of the NIC’s Long Range Analysis Unit, “Revisiting the Future: Geopolitical Effects of the Financial Crisis”, The Washington Quarterly, April, http://www.ciaonet.org/journals/twq/v32i2/f\_0016178\_13952.pdf

Increased Potential for Global Conflict Of course, the report encompasses more than economics and indeed believes the future is likely to be the result of a number of intersecting and interlocking forces. With so many possible permutations of outcomes, each with ample opportunity for unintended consequences, there is a growing sense of insecurity. Even so, history may be more instructive than ever. While we continue to believe that the Great Depression is not likely to be repeated, the lessons to bedrawn from that period include the harmful effects on fledgling democracies andmultiethnic societies (think Central Europe in 1920s and 1930s) and onthe sustainability ofmultilateral institutions (think League of Nationsin thesame period). There is no reason to think that this would not be true in the twenty-first as much as in the twentieth century. For that reason, the ways in which the potential for greater conflict could grow would seem to be even more apt in a constantly volatile economic environment as they would be if change would be steadier. In surveying those risks, the report stressed the likelihood that terrorism and nonproliferation will remain priorities even as resource issues move up on the international agenda. Terrorism’s appeal will decline if economic growth continues in the Middle East and youth unemployment is reduced. For those terrorist groups that remain active in 2025, however, the diffusion oftechnologies and scientific knowledge will place some of the world’s mostdangerous capabilities within their reach. Terrorist groups in 2025 will likely be a combination of descendants of long established groups inheriting organizational structures, command and control processes, and training procedures necessary to conduct sophisticated attack and newly emergentcollections of the angry and disenfranchised that become self-radicalized,particularly in the absence of economic outlets that would become narrowerin an economic downturn. The most dangerous casualty of any economically-induced drawdown of U.S. military presence would almost certainly be the Middle East. Although Iran’s acquisition of nuclear weapons is not inevitable, worries about a nuclear-armed Iran could lead states in the region to develop new security arrangements with external powers, acquire additional weapons, and consider pursuing their own nuclear ambitions. It is not clear that the type of stable deterrent relationshipthat existed between the great powers for most of the Cold War would emergenaturally in the Middle East with a nuclear Iran. Episodes of low intensity conflict and terrorism taking place under a nuclear umbrella could lead to an unintended escalation and broader conflict if clear red lines between those states involved are not well established. The close proximity of potential nuclear rivals combined with underdeveloped surveillance capabilities and mobile dual-capable Iranian missile systems also will produce inherent difficulties in achieving reliable indications and warning of an impending nuclear attack. Thelack of strategic depth in neighboring states like Israel, short warning and missileflight times, and uncertainty of Iranian intentions may place more focus onpreemption rather than defense, potentially leading to escalating crises. Types of conflict that the world continuesto experience, such as over resources, could reemerge, particularly if protectionism grows and there is a resort to neo-mercantilist practices. Perceptions of renewed energy scarcity will drive countries to take actions to assure their future access to energy supplies. In the worst case, this could result in interstate conflicts if governmentleaders deem assured access to energy resources,for example, to be essential for maintaining domestic stability and the survival oftheir regime. Even actions short of war, however, will have important geopoliticalimplications. Maritime security concerns are providing a rationale for navalbuildups and modernization efforts, such as China’s and India’s development of blue water naval capabilities. If the fiscal stimulus focus for these countries indeed turns inward, one of the most obvious funding targets may be military. Buildup ofregional naval capabilities could lead to increased tensions, rivalries, andcounterbalancing moves, but it also will create opportunities for multinational cooperation in protecting critical sea lanes. With water also becoming scarcer inAsia and the Middle East, cooperation to manage changing water resources is likely to be increasingly difficult both within and between states in amoredog-eat-dog world.What Kind of World will 2025 Be? Perhaps more than lessons, history loves patterns. Despite widespread changes in the world today, there is little to suggest that the future will not resemble the past in several respects. The report asserts that, under most scenarios, the trendtoward greater diffusion of authority and power that has been ongoing for acouple of decades is likely to accelerate because of the emergence of new globalplayers, the worsening institutional deficit, potential growth in regional blocs,and enhanced strength of non-state actors and networks. The multiplicity of actors on the international scene could either strengthen the international system, by filling gaps left by aging post-World War II institutions, or could further fragment it and incapacitate international cooperation. The diversity in both type and kind of actor raises the likelihood of fragmentation occurring over the next two decades, particularly given the wide array of transnational challenges facing the international community. Because of their growing geopolitical and economic clout, the rising powers will enjoy a high degree of freedom to customize their political and economic policies rather than fully adopting Western norms. They are also likely to cherish their policy freedom to maneuver, allowing others to carry the primary burden for dealing with terrorism, climate change, proliferation, energy security, and other system maintenance issues. Existing multilateral institutions, designed for a different geopolitical order, appear too rigid and cumbersome to undertake new missions, accommodate changing memberships, and augment their resources. Nongovernmental organizations and philanthropic foundations, concentrating on specific issues, increasingly will populate the landscape but are unlikely to affect change in the absence of concerted efforts by multilateral institutions or governments. Efforts at greater inclusiveness, to reflect the emergence of the newer powers, may make it harder for international organizations to tackle transnational challenges. Respect for the dissenting views of member nations will continue to shape the agenda of organizations and limit the kinds of solutions that can be attempted. An ongoing financial crisis and prolonged recession would tilt the scales even further in the direction of a fragmented and dysfunctional international system with a heightened risk of conflict. The report concluded that the rising BRIC powers (Brazil, Russia, India, and China) seem averse to challenging the international system, as Germany and Japan did in the nineteenth and twentiethcenturies, but this of course could change if their widespread hopes for greater prosperity become frustrated and the current benefits they derive from a globalizing world turn negative.

Strong statistical support –

Royal 10 – Jedediah, Director of Cooperative Threat Reduction at the U.S. Department of Defense, 2010, “Economic Integration, Economic Signaling and the Problem of Economic Crises,” in Economics of War and Peace: Economic, Legal and Political Perspectives, ed. Goldsmith and Brauer, p. 213-214

Less intuitive is how periods of economic decline may increase the likelihood of external conflict. Political science literature has contributed a moderate degree of attention to the impact of economic decline and the security and defence behaviour of interdependent states. Research in this vein has been considered at systemic, dyadic and national levels. Several notable contributions follow. First, on the systemic level, Pollins (2008) advances Modelski and Thompson's (1996) work on leadership cycle theory, finding that rhythms in the global economy are associated with the rise and fall of a pre-eminent power and the often bloody transition from one pre-eminent leader to the next. As such. exogenous shocks such as economic crises could usher in a redistribution of relative power (see also Gilpin. 1981) that leads to uncertainty about power balances, increasing the risk of miscalculation (Fearon. 1995). Alternatively, even a relatively certain redistribution of power could lead to a permissive environment for conflict as a rising power may seek to challenge a declining power (Werner, 1999). Separately, Pollins (1996) also shows that global economic cycles combined with parallel leadership cycles impact the likelihood of conflict among major, medium and small powers, although he suggests that the causes and connections between global economic conditions and security conditions remain unknown. Second. on a dyadic level, Copeland's (1996. 2000) theory of trade expectations suggests that 'future expectation of trade is a significant variable in understanding economic conditions and security behaviour of states. He argues that interdependent states are likely to gain pacific benefits from trade so long as they have an optimistic view of future trade relations. However, if the expectations of future trade decline. particularly for difficult to replace items such as energy resources, the likelihood for conflict increases, as states will be inclined to use force to gain access to those resources, Crises could potentially he the trigger for decreased trade expectations either on its own or because it triggers protectionist moves by interdependent states.' Third, others have considered the link between economic decline and external armed conflict at a national level. Blomberg and Hess (2002) find a strong correlation between internal conflict and external conflict, particularly during periods of economic downturn. They write, The linkages between internal and external conflict and prosperity are strong and mutually reinforcing. Economic conflict tends to spawn internal conflict, which in turn returns the favour. Moreover, the presence of a recession tends to amplify the extent to which international and external conflict self-reinforce each other. (Blomber & Hess,. 2002. p. 84) Economic decline has also been linked with an increase in the likelihood of terrorism (Blomberg. Hess. & Weerapana. 2004). which has the capacity to spill across borders and lead to external tensions. Furthermore, crises generally reduce the popularity of a sitting government. 'Diversionary theory' suggests that, when facing unpopularity arising from economic decline, sitting governments have increased incentives to fabricate external military conflicts to create a 'rally around the flag' effect. Wang (1996). DeRouen (1995), and Blomberg, Hess, and Thacker (2006) find supporting evidence showing that economic decline and use of force are at least indirectly correlated. Gelpi (1997), Miller (1999). and Kisangani and Pickering (2009) suggest that the tendency towards diversionary tactics are greater for democratic states than autocratic states, due to the fact that democratic leaders are generally more susceptible to being removed from office due to lack of domestic support. DeRouen (2000) has provided evidence showing that periods of weak economic performance in the United States, and thus weak Presidential popularity, are statistically linked to an increase in the use of force. In summary, recent economic scholarship positively correlates economic integration with an increase in the frequency of economic crises, whereas political science scholarship links economic decline with external conflict at systemic. dyadic and national level, This implied connection between integration. crises and armed conflict has not featured prominently in the economic-security debate and deserves more attention.

Advantage Two—Energy Security

Demand for oil will only increase and renewables won’t solve. Opening federal lands solves energy security and independence—

IER ‘11. Institute for Energy Research “Fracking Will Enable North Dakota to Overtake California as a Major Oil Producer” 10-19-11. [http://www.instituteforenergyresearch.org/2011/10/19/11042/ ] [MG]

The Path the United States Should Take

What should the United States do to decrease future heating oil prices and emulate the economic and employment success of North Dakota? Obviously, oil imports from overseas add to the cost of energy in this country as the RAC costs above indicate. But, oil imports could be eliminated eventually just by taking steps to increase domestic production of oil off our coasts and on public lands in the lower 48 states and in Alaska, develop our shale oil resources, and increase the capability to import oil from Canada. Those oil development strategies have been continually blocked by the Obama Administration in preference to increasing renewable energy and continuing our dependence on oil overseas. Because most renewable energy pertains to the electric generation sector and because less than 1 percent of our generation is produced by petroleum, renewable policies do little to reduce our oil demand. That’s because most oil is used in the transportation sector where few alternatives are economic or desired by the American public. As a result, the United States will be dependent on oil for many, many decades to come. Traditionally, oil demand has been reduced by economic recessions and its growth has occurred during periods of economic recovery.

The United States has a wealth of oil resources though the Obama Administration likes to only tout the proven oil reserves of this country, which are about 2 percent of world reserves. But, proven reserves are always growing and world oil reserves are the highest they have ever been: 1.47 trillion barrels. Reserves grow because of continuing exploration and development, new technological development, and higher oil prices that make previously uneconomic sources of oil economic to develop. For instance, if North Dakota had not continued to drill, it would not have increased its reserve level that has grown over 150 percent between 2006 and 2009. The state’s oil reserves now total over 1 billion barrels. That increase has occurred even though we continue to use the state’s oil. Further, if the state’s oil companies had not turned to hydraulic fracturing, a relatively new drilling technology, they would not have been able to exploit North Dakota’s Bakken shale oil resources. And, of course, oil prices had to reach more than $50 per barrel to make oil production there economic. But that figure is a lot less than the current cost of oil imports from overseas.

This same oil development strategy can work in waters off our Atlantic, Pacific, and Gulf Coasts; in the Arctic; on federal lands in Alaska such as the Naval Petroleum Reserve and the Arctic National Wildlife Refuge; on federal lands in the lower 48 states that are not national parks; and on federal lands that hold the world’s largest oil shale resources of almost 1 trillion technically recoverable barrels, just under the estimate of total proven oil reserves in the world. With such a wealth of national oil resources, the United States should be able to eventually wean itself off of overseas oil provided it makes these American resources available to development.

A recent study has estimated that opening most of these resources to development, continuing the oil tax policies currently in place to encourage the investment needed to drill, and allowing a doubling of Canadian oil imports through construction of the Keystone pipeline would result in enough new oil production to displace the majority of overseas oil imports in 15 years.[x] It would also create 1 million new jobs over the next 7 years and 1.4 million by 2030 and generate more than $800 billion in new cumulative government revenues by 2030 without increasing taxes and government spending. The Unites States is currently encouraging and helping foreign countries such as Brazil to increase its oil exploration and production.[xi] Why not do it at home?

Conclusion

We are facing higher oil prices that have become sustained this year and record heating oil prices for this winter. But, the United States has a wealth of oil resources that can be developed to increase domestic oil production, create jobs, and increase government revenues to eventually wean us off overseas oil if only the U.S. government would provide those resources to development. Historically, U.S. industries have found the least cost solution for meeting American energy needs and our economy has grown to levels that no other country has matched to date. The U.S. government should look to North Dakota’s accomplishments and emulate them through encouraging oil exploration and development in this country rather than fostering it in other countries.

Makes hegemony sustainable & solves East Asian leadership—

Karl 6-23-12. David J. Karl, president of the Asia Strategy Initiative, an analysis and advisory firm that has a particular focus on South Asia. He serves on the board of counselors of Young Professionals in Foreign Policy and previously on the Executive Committee of the Southern California chapter of TiE (formerly The Indus Entrepreneurs), the world's largest not-for-profit organization dedicated to promoting entrepreneurship. “New World Coming: America the Energy Superpower.” [http://foreignpolicyblogs.com/2012/07/24/new-world-coming-america-the-energy-superpower/] [MG]

The energy boom upends arguments about the inevitability of U.S. strategic decline.

A previous post peered into the crystal ball to argue that America’s strategic prospects are dramatically brightening due to an unexpectedly improving energy outlook and the looming revitalization of its manufacturing base. This thesis cuts against the reigning anxiety about the nation’s economic course as well as the torrent of prophesying about how China is poised to eat America’s lunch.\* A subsequent post extended this theme to suggest that among the foreign policy implications of the U.S. energy boom would be the denouement of Russia’s great power aspirations and the restoration of U.S. soft power.

 In the few months since these two posts, other analysts have amplified these points and offered others worth pondering. The present post focuses on the energy side of the story, while my next one will pick up the manufacturing side.

As a starting point, consider the sheer magnitude of the U.S. energy bonanza. Over the last five years, there has been a marked surge in domestic oil and natural gas production, causing in turn a dramatic reduction in the level of oil imports. According to the Wall Street Journal, the United States will cut its reliance on Middle Eastern oil in half by the end of this decade and could end it altogether by 2035. Citigroup reports that for the first time since 1949, the U.S. has become a net exporter of petroleum products and has edged out Russia as the world’s largest refined petroleum exporter. Some experts even predict that the country will become the world’s largest producer of oil and gas by 2020.

 Just a few years ago, the fear was that America was quickly running out of domestic energy resources, but it now appears that it is sitting atop a staggering amount of natural gas, perhaps as much as a century’s worth supply. The International Energy Agency speaks of the “Golden Age of Gas” and just last month natural gas supplanted coal as the largest source of U.S. power generation. The new-found bounty is courtesy of key strides in extraction technology – namely, hydraulic fracturing (“fracking”) and horizontal drilling – as well as advances in seismic imagining that have unlocked gas and oil deposits previously thought inaccessible within tightly-packed shale rock formations.

A recent report by the Government Accountability Office concludes that oil deposits in the Green River Formation spanning parts of Colorado, Utah and Wyoming contain up to 3 trillion barrels of oil, half of which may be recoverable, which is about equal to the entire world’s proven oil reserves. The Bakken shale bed in North Dakota has been a bonanza (here and here), turning the state into the nation’s second-largest oil producer after Texas. The gas-rich Marcellus formation in the eastern U.S. has made Pennsylvania the site of the world’s second-largest gas field. The Congressional Research Service reports that total U.S. energy reserves now exceed those of all other countries, including the Middle Eastern nations that have long been our oil overlords.

The energy boom promises far-reaching, even astounding, economic reverberations. A new Bank of America Merrill Lynch study finds that the benefits are injecting as much as $1 billion a day into the U.S. economy and may be keeping the country out of another recession. According to the IHS Cera research firm, some 600,000 new energy-related jobs have already been created since 2008. The Citigroup study cited above predicts net job creation from 2.7 million to as high as 3.6 million across the entire economy by 2020 as manufacturers benefit from much lower energy costs. It also foresees an increase in real GDP by an additional 2 to 3 percentage points and a 60-percent reduction in the current account deficit as oil imports fall and energy exports rise.

The political ramifications are equally profound. As Walter Russell Mead sees it, growing prosperity in the American heartland will rework the domestic political landscape as the Middle West’s pragmatism reasserts itself and calms the nation’s roiling ideological divisions. Building on this point, one might add that the region’s Jacksonian values, which look askance at ideology-based exertions abroad, will also have a major effect on the nation’s foreign policy debates.

Peering beyond the nation’s shores, the decades-long centrality of the Middle East to the global economy and the U.S. foreign policy agenda is set to fade in the years ahead. A number of analysts (examples here and here) anticipate the irrelevance, if not outright collapse, of the OPEC oil cartel. A former president of Shell USA predicts that “OPEC will descend into chaos as an organization.” Another commentator foresees “the slow-motion collapse of the Middle Eastern oil empire,” an event that represents “a tectonic shift in the geopolitical balance of power, a strategically pivotal development only slightly less momentous than the fall of the Soviet Union.” A third expert terms the waning U.S. reliance on the region’s oil “the energy equivalent of the Berlin Wall coming down. Just as the trauma of the Cold War ended in Berlin, so the trauma of the 1973 oil embargo is ending now.”

To be sure, Saudi Arabia’s pivotal capacity for swing oil production and the continued dependence of key U.S. allies (Europe, Japan and South Korea) and partners (India) on the region’s petroleum means that the United States cannot become entirely indifferent to the Persian Gulf’s security dynamics. But the relative decline in strategic interest could enable Washington to move from its present role as an extra-regional hegemon to something like an off-shore balancer. And having been freed from needing to deploy on a permanent basis significant naval and air power assets in the region, the U.S. would be able to augment even further its ongoing military buildup in East Asia, helping in turn to address concerns that America’s deep fiscal challenges undercut the Obama administration’s much-ballyhooed regional “pivot.”

Solves Asia War and Nuclear terrorism

Kemp 10 Geoffrey Kemp, Director of Regional Strategic Programs at The Nixon Center, served in the White House under Ronald Reagan, special assistant to the president for national security affairs and senior director for Near East and South Asian affairs on the National Security Council Staff, Former Director, Middle East Arms Control Project at the Carnegie Endowment for International Peace 2010, The East Moves West: India, China, and Asia’s Growing Presence in the Middle East, p. 233-5

A third scenario, Asian Balance of Power, assumes that while economic growth on a global level resumes and India, China, and Japan continue to show economic strength, the overall prosperity of the Western world—particularly of the United States—weakens. That leads to increasing domestic pressures for the United States and Europe to pay less attention to security problems in the Middle East and Asia, given the high price that they already paid for intervention in the 1990s and the first decade of the twenty-first century. While the Western World still has an interest in stable energy markets, there is less inclination to intervene and play the role of policeman. In the United States, there is an equivalent of the East of Suez debate that took place in Britain in the 1960s, when Britain decided to draw down its military presence in both the Indian Ocean and the Gulf. With the unilateral decision by the United States to draw down its presence, the major Asian powers—given that they continue to have unresolved problems among themselves**—**expand their own military forces, particularly their nuclear and maritime capabilities, ultimately leading to a triangular Asian arms race among India, China, and Japan. Under those circumstances, Japan is likely to obtain nuclear weapons, especially if the crisis on the Korean peninsula remains unresolved, and the security of the region ultimately will be in the hands of the Asian powers themselves. The sorts of alliances and arrangements that they make with the Gulf states and other Middle East countries would be uncertain. In all probability, India would play a key role, particularly in the Gulf. Indeed, India would be most assertive if it felt that China was encroaching on a region in which India believes that it should have hegemonic control. A fourth scenario, International Cooperation, assumes that while the world economic situation may not be as rosy as outlined in the first scenario, there nevertheless remains a strong interest on the part of all the major industrial powers in ensuring secure energy supplies; as a result, the price of energy is kept at a reasonable level. The United States does not go through an East of Suez moment and continues to play a responsible and significant role in the maritime peacekeeping operations in the region. However, there is more pressure on the regional powers to share more of the burden and to participate in joint security operations ranging from sea control missions to cooperative ventures to curb terrorism, proliferation, and radicalism. Under these circumstances, the presence of the United S**t**ates is seen as beneficial and reduces the tendency of the Asian powers to compete among themselves. While the U.S. commitment is not open ended, it serves long—term U.S. interests, in much the same way that the U.S. presence in Europe today continues to serve U.S. national interests. In this cooperative environment, local conflicts are easier to manage since it is in the interests of the all major powers to resist the forces of radicalism and proliferation—particularly nuclear terrorism.

These conflicts go nuclear─

Landy, National Security Expert @ Knight Ridder, 3/10/’2K

(Jonathan, Knight Ridder, lexis)

Few if any experts think China and Taiwan, North Korea and South Korea, or India and Pakistan are spoiling to fight. But even a minor miscalculation by any of them could destabilize Asia, jolt the global economy and even start a nuclear war. India, Pakistan and China all have nuclear weapons, and North Korea may have a few, too. Asia lacks the kinds of organizations, negotiations and diplomatic relationships that helped keep an uneasy peace for five decades in Cold War Europe. “Nowhere else on Earth are the stakes as high and relationships so fragile,” said Bates Gill, director of northeast Asian policy studies at the Brookings Institution, a Washington think tank. “We see the convergence of great power interest overlaid with lingering confrontations with no institutionalized security mechanism in place. There are elements for potential disaster.” In an effort to cool the region’s tempers, President Clinton, Defense Secretary William S. Cohen and National Security Adviser Samuel R. Berger all will hopscotch Asia’s capitals this month. For America, the stakes could hardly be higher. There are 100,000 U.S. troops in Asia committed to defending Taiwan, Japan and South Korea, and the United States would instantly become embroiled if Beijing moved against Taiwan or North Korea attacked South Korea. While Washington has no defense commitments to either India or Pakistan, a conflict between the two could end the global taboo against using nuclear weapons and demolish the already shaky international nonproliferation regime. In addition, globalization has made a stable Asia \_ with its massive markets, cheap labor, exports and resources \_ indispensable to the U.S. economy. Numerous U.S. firms and millions of American jobs depend on trade with Asia that totaled $600 billion last year, according to the Commerce Department.

Hegemony solves status competition—that’s the biggest cause of war.

Wohlforth 9 - William C. Wohlforth is a professor of government at Dartmouth College, “Unipolarity, Status Competition, and Great Power War”, World Politics, 61.1, Jan, MUSE

 Do Great Powers Care about Status? Mainstream theories generally posit that states come to blows over an international status quo only when it has implications for their security or material well-being. The guiding assumption is that a state’s satisfaction [End Page 34] with its place in the existing order is a function of the material costs and benefits implied by that status.24 By that assumption, once a state’s status in an international order ceases to affect its material wellbeing, its relative standing will have no bearing on decisions for war or peace. But the assumption is undermined by cumulative research in disciplines ranging from neuroscience and evolutionary biology to economics, anthropology, sociology, and psychology that human beings are powerfully motivated by the desire for favorable social status comparisons. This research suggests that the preference for status is a basic disposition rather than merely a strategy for attaining other goals.25 People often seek tangibles not so much because of the welfare or security they bring but because of the social status they confer. Under certain conditions, the search for status will cause people to behave in ways that directly contradict their material interest in security and/or prosperity. Much of this research concerns individuals, but international politics takes place between groups. Is there reason to expect individuals who act in the name of states to be motivated by status concerns? Compelling findings in social psychology suggest a positive answer. Social identity theory (sit) has entered international relations research as a psychological explanation for competitive interstate behavior.26 According to the theory’s originator, Henri Tajfel, social identity is “that part of an individual’s self-concept which derives from his knowledge of his membership of a social group (or groups) together with the value and emotional significance attached to that membership.”27 Tajfel and his followers argue that deep-seated human motivations of self-definition and self-esteem induce people to define their identity in relation to their in-group, to compare and contrast that in-group with out-groups, and to want that comparison to reflect favorably on themselves. In a [End Page 35] remarkable set of experiments that has since been replicated dozens of times, Tajfel and his collaborators found that simply assigning subjects to trivially defined “minimal” in-groups led them to discriminate in favor of their in-group at the expense of an out-group, even when nothing else about the setting implied a competitive relationship. Although sit appears to provide a plausible candidate explanation for interstate conflict, moving beyond its robust but general implication about the ubiquitous potential for status seeking to specific hypotheses about state behavior has proved challenging. In particular, experimental findings concerning which groups individuals will select as relevant comparisons and which of many possible identity-maintenance strategies they will choose have proved highly sensitive to the assumptions made about the social context. The results of experimental research seeking to predict responses to status anxiety—whether people will choose social mobility (identifying with a higher status group), social creativity (seeking to redefine the relevant status-conferring dimensions to favor those in which one’s group excels), social conflict (contesting the status-superior group’s claim to higher rank), or some other strategy—are similarly highly context dependent.28 For international relations the key unanswered question remains: under what circumstances might the constant underlying motivation for a positive self-image and high status translate into violent conflict? While sit research is suggestive, standard concerns about the validity of experimental findings are exacerbated by the fact that the extensive empirical sit literature is generally not framed in a way that captures salient features of international relations. The social system in which states operate is dramatically simpler than the domestic social settings much of the research seeks to capture. Decision makers’ identification with the state is generally a given, group boundaries are practically impermeable, and there are very few great powers and very limited mobility. For states, comparison choice and the selection of status- maintenance strategies are constrained by exogenous endowments and geographical location. Natural and historical endowments—size and power potential—vary much more among states than among individuals [End Page 36] and so play a much larger role in determining hierarchies and influencing the selection of identity maintenance strategies. Assumptions built into most sit research to date generally do not capture these realities of interstate life. In particular, standard sit research designs beg the question of the expected costs of competing for status. Experiments do not generally posit situations in which some groups are endowed with demonstrably superior means with which to discriminate in favor of their own group at the expense of out-groups. Indeed, built in to most experimental setups is an implied assumption of material equality among groups. Yet international politics is notable as a social realm with especially large disparities in material capabilities, and decision makers are unlikely to follow identity-maintenance strategies that are demonstrably beyond their means. Nevertheless, there is no reason to doubt the relevance for states of sit’s core finding that individual preferences for higher status will affect intergroup interactions. Individuals who identify with a group transfer the individual’s status preference to the group’s relations with other groups. If those who act on behalf of a state (or those who select them) identify with that state, then they can be expected to derive utility from its status in international society. In addition, there are no evident reasons to reject the theory’s applicability to interstate settings that mimic the standard sit experimental setup—namely, in an ambiguous hierarchy of states that are comparable in material terms. As Jacques Hymans notes: “In the design of most sit experiments there is an implicit assumption of rough status and power parity. Moreover, the logic of sit theory suggests that its findings of ingroup bias may in fact be dependent on this assumption.”29 Status conflict is thus more likely in flat, ambiguous hierarchies than in clearly stratified ones. And there are no obvious grounds for rejecting the basic finding that comparison choice will tend to be “similar but upward” (that is, people will compare and contrast their group with similar but higher status groups).30 In most settings outside the laboratory this leaves a lot of room for consequential choices, but in the context of great power relations, the set of feasible comparison choices is constrained in highly consequential ways. [End Page 37] How Polarity Affects Status Competition sit is often seen in a scholarly context that contrasts power-based and identity-based explanations.31 It is thus put forward as a psychological explanation for competitive behavior that is completely divorced from distributions of material resources. But there is no theoretical justification for this separation. On the contrary, a long-standing research tradition in sociology, economics, and political science finds that actors seek to translate material resources into status. Sociologists from Weber and Veblen onward have postulated a link between material conditions and the stability of status hierarchies. When social actors acquire resources, they try to convert them into something that can have more value to them than the mere possession of material things: social status. As Weber put it: “Property as such is not always recognized as a status qualification, but in the long run it is, and with extraordinary regularity.” 32 This link continues to find support in the contemporary economics literature on income distribution and status competition.33 Status is a social, psychological, and cultural phenomenon. Its expression appears endlessly varied; it is thus little wonder that the few international relations scholars who have focused on it are more struck by its variability and diversity than by its susceptibility to generalization. 34 Yet if sit captures important dynamics of human behavior, and if people seek to translate resources into status, then the distribution of capabilities will affect the likelihood of status competition in predictable ways. Recall that theory, research, and experimental results suggest that relative status concerns will come to the fore when status hierarchy is ambiguous and that people will tend to compare the states with which they identify to similar but higher-ranked states.35 Dissatisfaction arises not from dominance itself but from a dominance that [End Page 38] appears to rest on ambiguous foundations. Thus, status competition is unlikely in cases of clear hierarchies in which the relevant comparison out-groups for each actor are unambiguously dominant materially. Applied to international politics, this begins to suggest the conditions conducive to status competition. For conflict to occur, one state must select another state as a relevant comparison that leaves it dissatisfied with its status; it must then choose an identity-maintenance strategy in response that brings it into conflict with another state that is also willing to fight for its position. This set of beliefs and strategies is most likely to be found when states are relatively evenly matched in capabilities. The more closely matched actors are materially, the morelikely they areto experience uncertainty about relative rank. When actors start receiving mixed signals—some indicating that they belong in a higher rank while others reaffirm their present rank—they experience status inconsistency and face incentives to resolve the uncertainty. When lower-ranked actors experience such inconsistency, they will use higher-ranked actors as referents. Since both high- and low-status actors are biased toward higher status, uncertainty fosters conflict as the same evidence feeds contradictory expectations and claims. When the relevant out-group is unambiguously dominant materially, however, status inconsistency is less likely. More certain of their relative rank, subordinate actors are less likely to face the ambiguity that drives status competition. And even if they do, their relative weakness makes strategies of social competition an unlikely response. Given limited material wherewithal, either acquiescence or strategies of social creativity are more plausible responses, neither of which leads to military conflict. The theory suggests that it is not just the aggregate distribution of capabilities that matters for status competition but also the evenness with which key dimensions— such as naval, military, economic, and technological—are distributed. Uneven capability portfolios—when states excel in different relevant material dimensions—make status inconsistency more likely. When an actor possesses some attributes of high status but not others, uncertainty and status inconsistency are likely.36 The more a lower-ranked actor matches the higher-ranked group in some but not all key material dimensions of status, the more likely it is to conceive an interest in contesting its rank and the more [End Page 39] likely the higher-ranked state is to resist. Thus, status competition is more likely to plague relations between leading states whose portfolios of capabilities are not only close but also mismatched. Hypotheses When applied to the setting of great power politics, these propositions suggest that the nature and intensity of status competition will be influenced by the nature of the polarity that characterizes the system. Multipolarity implies a flat hierarchy in which no state is unambiguously number one. Under such a setting, the theory predicts status inconsistency and intense pressure on each state to resolve it in a way that reflects favorably on itself. In this sense, all states are presumptively revisionist in that the absence of a settled hierarchy provides incentives to establish one. But the theory expects the process of establishing a hierarchy to be prone to conflict: any state would be expected to prefer a status quo under which there are no unambiguous superiors to any other state’s successful bid for primacy. Thus, an order in which one’s own state is number one is preferred to the status quo, which is preferred to any order in which another state is number one. The expected result will be periodic bids for primacy, resisted by other great powers.37 For its part, bipolarity, with only two states in a material position to claim primacy, implies a somewhat more stratified hierarchy that is less prone to ambiguity. Each superpower would be expected to see the other as the main relevant out-group, while second-tier major powers would compare themselves to either or both of them. Given the two poles’ clear material preponderance, second-tier major powers would not be expected to experience status dissonance and dissatisfaction, and, to the extent they did, the odds would favor their adoption of strategies of social creativity instead of conflict. For their part, the poles would be expected to seek to establish a hierarchy: each would obviously prefer to be number one, but absent that each would also prefer an ambiguous status quo in which neither is dominant to an order in which it is unambiguously outranked by the other. Unipolarity implies the most stratified hierarchy, presenting the starkest contrast to the other two polar types. The intensity of the competition over status in either a bipolar or a multipolar system might [End Page 40] vary depending on how evenly the key dimensions of state capability are distributed—a multipolar system populated by states with very even capabilities portfolios might be less prone to status competition than a bipolar system in which the two poles possess very dissimilar portfolios. But unipolarity, by definition, is characterized by one state possessing unambiguous preponderance in all relevant dimensions. The unipole provides the relevant out-group comparison for all other great powers, yet its material preponderance renders improbable identity-maintenance strategies of social competition. While second-tier states would be expected to seek favorable comparisons with the unipole, they would also be expected to reconcile themselves to a relatively clear status ordering or to engage in strategies of social creativity. General Patterns of Evidence Despite increasingly compelling findings concerning the importance of status seeking in human behavior, research on its connection to war waned some three decades ago.38 Yet empirical studies of the relationship between both systemic and dyadic capabilities distributions and war have continued to cumulate. If the relationships implied by the status theory run afoul of well-established patterns or general historical findings, then there is little reason to continue investigating them. The clearest empirical implication of the theory is that status competition is unlikely to cause great power military conflict in unipolar systems. If status competition is an important contributory cause of great power war, the1n, ceteris paribus, unipolar systems should be markedly less war-prone than bipolar or multipolar systems. And this appears to be the case. As Daniel Geller notes in a review of the empirical literature: “The only polar structure that appears to influence conflict probability is unipolarity.”39 In addition, a larger number of studies at the dyadic level support the related expectation that narrow capabilities gaps and ambiguous or unstable capabilities hierarchies increase the probability of war.40 [End Page 41] These studies are based entirely on post-sixteenth-century European history, and most are limited to the post-1815 period covered by the standard data sets. Though the systems coded as unipolar, near-unipolar, and hegemonic are all marked by a high concentration of capabilities in a single state, these studies operationalize unipolarity in a variety of ways, often very differently from the definition adopted here. An ongoing collaborative project looking at ancient interstate systems over the course of two thousand years suggests that historical systems that come closest to the definition of unipolarity used here exhibit precisely the behavioral properties implied by the theory. 41 As David C. Kang’s research shows, the East Asian system between 1300 and 1900 was an unusually stratified unipolar structure, with an economic and militarily dominant China interacting with a small number of geographically proximate, clearly weaker East Asian states.42 Status politics existed, but actors were channeled by elaborate cultural understandings and interstate practices into clearly recognized ranks. Warfare was exceedingly rare, and the major outbreaks occurred precisely when the theory would predict: when China’s capabilities waned, reducing the clarity of the underlying material hierarchy and increasing status dissonance for lesser powers. Much more research is needed, but initial exploration of other arguably unipolar systems—for example, Rome, Assyria, the Amarna system—appears consistent with the hypothesis.43 Status Competition and Causal Mechanisms

<Evidence Continues Several Pages Later>

Conclusion The evidence suggests that narrow and asymmetrical capabilities gaps foster status competition even among states relatively confident of their basic territorial security for the reasons identified in social identity theory and theories of status competition. Broad patterns of evidence are consistent with this expectation, suggesting that unipolarity shapes strategies of identity maintenance in ways that dampen status conflict. The implication is that unipolarity helps explain low levels of military competition and conflict among major powers after 1991and that a return to bipolarity or multipolarity would increase the likelihood ofsuch conflict. This has been a preliminary exercise. The evidence for the hypotheses explored here is hardly conclusive, but it is sufficiently suggestive to warrant further refinement and testing, all the more so given [End Page 56] the importance of the question at stake. If status matters in the way the theory discussed here suggests, then the widespread view that the rise of a peer competitor and the shift back to a bipolar or multipolar structure present readily surmountable policy challenges is suspect. Most scholars agree with Jacek Kugler and Douglas Lemke’s argument: “[S]hould a satisfied state undergo a power transition and catch up with dominant power, there is little or no expectation of war.” 81 Given that today’s rising powers have every material reason to like the status quo, many observers are optimistic that the rise of peer competitors can be readily managed by fashioning an order that accommodates their material interests. Yet it is far harder to manage competition for status than for most material things. While diplomatic efforts to manage status competition seem easy under unipolarity, theory and evidence suggest that it could present much greater challenges as the system moves back to bipolarity or multipolarity. When status is seen as a positional good, efforts to craft negotiated bargains about status contests face long odds. And this positionality problem is particularly acute concerning the very issue unipolarity solves: primacy. The route back to bipolarity or multipolarity is thus fraught with danger. With two or more plausible claimants to primacy, positional competition and the potential for major power war could once again form the backdrop of world politics. [End Page 57]