### violation overview

#### Framing issue – can you comply? You can comply with the aff’s regulation, but you cannot comply with restrictions

**Mohammed 7**

Kerala High Court Sri Chithira Aero And Adventure ... vs The Director General Of Civil ... on 24 January, 1997 Equivalent citations: AIR 1997 Ker 121 Author: P Mohammed Bench: P Mohammed

Microlight aircrafts or hang gliders shall not be flown over an assembly of persons or over congested areas or restricted areas including cantonment areas, defence installations etc. unless prior permission in writing is obtained from appropriate authorities. These provisions do not create any restrictions. There is no total prohibition of operation of microlight aircraft or hang gliders. The distinction between 'regulation' and 'restriction' must be clearly perceived. The 'regulation' is a process which aids main function within the legal precinct whereas 'restriction' is a process which prevents the function without legal sanction. Regulation is allowable but restriction is objectionable. What is contained in the impugned clauses is, only regulations and not restrictions, complete or partial. They are issued with authority conferred on the first respondent, under Rule 133A of the Aircraft Rules consistent with the provisions contained in the Aircraft Act 1934 relating to the operation, use etc. of aircrafts flying in India.

### ground

#### Neg ground outweighs aff ground on this topic – 6 energies multiplied by 2 mechanisms and the number of potential incentives and restrictions

#### Precision – only direct prohibitions are restrictions – it must completely shut off production – prefer our Sinha ev – it’s comparative between regulations and restrictions, and it cites the Oxford English Dictionary – key to predictable negative ground

#### Anell defines ‘restriction on production’ – they don’t – resolutional context is key to predictability

Haneman 59, justice – Superior Court of New Jersey, Appellate Division, 12/4/59

(J.A.D., “RUSSELL S. BERTRAND, ET AL., PLAINTIFFS-RESPONDENTS, v. DONALD T. JONES, ET AL., DEFENDANTS-APPELLANTS,” 58 N.J. Super. 273; 156 A.2d 161; 1959 N.J. Super. LEXIS 569)

HN4 In ascertaining the meaning of the word "restrictions" as here employed, it must be considered in context with the entire clause in which it appears. It is to be noted that the exception concerns restrictions "which have been complied with." Plainly, this connotes a representation of compliance by the vendor with any restrictions upon the permitted uses of the subject property. The conclusion that "restrictions" refer solely to a limitation of the manner in which the vendor may [\*\*\*14] use his own lands is strengthened by the further provision found in said clause that the conveyance is "subject to the effect, [\*\*167] if any, of municipal zoning laws." Municipal zoning laws affect the use of property. HN5 A familiar maxim to aid in the construction of contracts is noscitur a sociis. Simply stated, this means that a word is known from its associates. Words of general and specific import take color from each other when associated together, and thus the word of general significance is modified by its associates of restricted sense. 3 Corbin on Contracts, § 552, p. 110; cf. Ford Motor Co. v. New Jersey Department of Labor and Industry, 5 N.J. 494 (1950). The [\*284] word "restrictions," therefore, should be construed as being used in the same limited fashion as "zoning."

### conditions violation

#### Conditions and restrictions are distinct – key to predictability and precision

Pashman 63 - justice – New Jersey Supreme Court (Morris, “ISIDORE FELDMAN, PLAINTIFF AND THIRD-PARTY PLAINTIFF, v. URBAN COMMERCIAL, INC., AND OTHERS, DEFENDANT,” 25 March 1963. 78 N.J. Super. 520; 189 A.2d 467; 1963 N.J. Super. LEXIS 479)

HN3A title insurance policy "is subject to the same rules of construction as are other insurance policies." Sandler v. N.J. Realty Title Ins. Co., supra, at [\*\*\*11] p. 479. It is **within** these **rules of construction** that this policy must be construed. Defendant contends that plaintiff's loss was occasioned by restrictions excepted from coverage in Schedule B of the title policy. The question is whether the provision in the deed to Developers that redevelopment had to be completed [\*528] within 32 months is a "restriction." Judge HN4 Kilkenny held that this provision was a "condition" and "more than a mere covenant." 64 N.J. Super., at p. 378. The word "restriction" as used in the title policy cannot be said to be synonymous with a "condition." A "restriction" generally refers to "a limitation of the manner in which one may use his own lands, and may or may not involve a grant." Kutschinski v. Thompson, 101 N.J. Eq. 649, 656 (Ch. 1927). See also Bertrand v. Jones, 58 N.J. Super. 273 (App. Div. 1959), certification denied 31 N.J. 553 (1960); Freedman v. Lieberman, 2 N.J. Super. 537 (Ch. Div. 1949); Riverton Country Club v. Thomas, 141 N.J. Eq. 435 (Ch. 1948), affirmed per curiam, 1 N.J. 508 (1948). It would not be inappropriate to say that **the word "restrictions," as used** [\*\*\*12] **by defendant** insurers, **is ambiguous.** The rules of construction heretofore announced must guide us in an interpretation of this policy. I find that the word "restrictions" in Schedule B of defendant's title policy does not encompass the provision in the deed to Developers which refers to the completion [\*\*472] of redevelopment work within 32 months because (1) the word is **used ambiguously** and must be strictly construed against defendant insurer

### “economic benefits” violation

#### Restrictions must be a formal prohibition, not a financial inducement

**Groves 97**

GROVES 97

Sourcebook on Intellectual Property Law

Dr Peter J Groves, LLB, MA, PhD, MITMA, Solicitor

 Then I come to the word 'restrict', A person though not prohibited is restricted from using something if he is permitted to use it to a certain extent or subject to certain conditions but otherwise obliged not to use it, but I do not think that a person is properly said to be restricted from using something by a condition the effect of which is to offer him some inducement not to use it, or in some other way to influence his choice. To my mind, the more natural meaning here is restriction of the licensee's right to use the article and I am fortified in that opinion by two considerations. If I am right in thinking that 'require' and 'prohibit' refer to legal obligations to buy or not to use, I see nothing to suggest that 'restrict' is used in quite a different sense which has nothing to do with legal obligation but which relates to financial disadvantage. And, second, to say that the effect will be to restrict seems to me much more appropriate if restriction refers to restriction of the licensee's right to use than it would be if restriction refers to an inducement not to use. The legality of the condition has to be determined at the time when the licence is granted and if the terms of the conditions are such as to restrict the licensee's right to use an article in certain circumstances then it can properly be said that its effect will be to restrict him from using it. But if, as in the present case, all that can be said is that the effect of the condition in some circumstances will be to offer a financial advantage, which may be considerable or may be small, if the licensee uses the licensor's goods, I do not see how it can be said that its effect will be to restrict the licensee from using other goods. The licensee may be influenced by this financial advantage or he may, perhaps for good reason, choose to disregard it; it is impossible to say in advance what the effect will be.

### “economic consequences” violation

#### Economic consequences are distinct from restrictions

Caiaccio 94

Student note

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In essence, the court held that the word "restrict" referred only to outright prohibitions, and that a mere "economic consequence" does not equal a prohibition. n143

### indirect restrictions violation

#### Restrictions are direct governmental limitations

Viterbo 12 (Annamaria, Assistant Professor in International Law – University of Torino, PhD in International Economic Law – Bocconi University and Jean Monnet Fellow – European University Institute, International Economic Law and Monetary Measures: Limitations to States' Sovereignty and Dispute, p. 166)

In order to distinguish an exchange restriction from a trade measure, the Fund chose not to give relevance to the purposes or the effects of the measure and to adopt, instead, a technical criterion that focuses on the method followed to design said measure. An interpretation that considered the economic effects and purposes of the measures (taking into account the fact that the measure was introduced for balance of payments reasons or to preserve foreign currency reserves) would have inevitably extended the Fund's jurisdiction to trade restrictions, blurring the boundaries between the IMF and the GATT. The result of such a choice would have been that a quantitative restriction on imports imposed for balance of payments reasons would have fallen within the competence of the Fund. After lengthy discussions, in 1960 the IMF Executive Board adopted Decision No. 1034-(60/27).46 This Decision clarified that the distinctive feature of a restriction on payments and transfers for current international transactions is "whether it involves a direct governmental limitation on the availability or use of exchange as such\*.47 This is a limitation imposed directly on the use of currency in itself, for all purposes.

#### Indirect effects are not restrictions

Viterbo 12 (Annamaria, Assistant Professor in International Law – University of Torino, PhD in International Economic Law – Bocconi University and Jean Monnet Fellow – European University Institute, International Economic Law and Monetary Measures: Limitations to States' Sovereignty and Dispute, p. 167)

49 Measures having the indirect effect of limiting the ease of acquiring foreign exchange do not amount to restrictions (forms or applications to be filled in). The limitation may consist for instance in compulsory waiting periods for exchange.

###  2NC- Innovation Hub Solvency

#### The counterplan has the Economic Development Administration create industry-lead innovation hubs that create forums for advananced industries- solves long term competitiveness- that’s Saha

#### Spills over into all economic productivity- absent the counterplan the plan fails

Saha and Muro 1/14 (Devashree Saha and Mark Muro, Brookings, “Cut to Invest: Create a Nationwide Network of Advanced Industries Innovation Hubs”, <http://www.brookings.edu/research/papers/2013/01/14-federalism-series-advanced-industries-hubs>, January 14, 2013)

In the aftermath of the Great Recession, the United States needs to transition from an economic model focused on finance and consumption toward a “next economy” model oriented toward innovation, engineering, and production. Such a model promises to increase the nation’s productivity, drive export growth, and provide good-paying jobs. Advanced industries—characterized by dynamic R&D and engineering-intensive industrial concerns—must be a focal point of this new direction. Delivering products and services in industries ranging from aerospace and space to auto assembly, advanced energy systems, IT, and medical devices, AIs comprise over 10 percent of the overall economy, generate 45 percent of U.S. goods exports, and support over 4 million high-skilled, and several million more ancillary, jobs. All too often with advanced industries, companies fail to make adequate investments in innovation because the benefits are undetermined, the risks are too high, and the project timelines too extended. A national network of innovation hubs would address these challenges by greatly accelerating the pace of innovation and new-product development. Nor is that all. A prime site of R&D activity in the U.S. economy, AIs punch well above their weight in building and expanding national and regional economic competitiveness. Innovations in AIs—such as photonics technology with applications in optical communications, medical diagnostics, semiconductors, optical imaging, and the now ubiquitous GPS technology—tend to ripple across the economy and drive broader productivity. As a result, AIs contribute inordinately to the competitiveness of the nation’s critical traded sectors, which will be crucial in helping the United States to balance its foreign trade. Simply put, the U.S. economy will not regain its full vitality and preeminence without a strong push to extend the leadership of AIs.

#### Counterplan creates key innovation hubs- solves all necessary internal links

Saha and Muro 1/14 (Devashree Saha and Mark Muro, Brookings, “Cut to Invest: Create a Nationwide Network of Advanced Industries Innovation Hubs”, <http://www.brookings.edu/research/papers/2013/01/14-federalism-series-advanced-industries-hubs>, January 14, 2013)

Proposal Given these challenges, the Metropolitan Policy Program at Brookings proposes that Congress authorize the build-out of a national network of advanced industries innovation hubs by funding at least five more Energy Innovation Hubs and supporting the creation—with stable funding—of at least 20 institutes for advanced manufacturing innovation as proposed in the NNMI initiative. Such a build-out could at once scale-up two existing programs while packaging them appropriately as a single transformational initiative for renewing the U.S. economy. Concentrating innovation resources into a network of purpose-designed, collaboration-based regional applied research centers focused on industry-relevant product and process issues holds out great promise for accelerating technology advances and subsequent market-share growth in crucial U.S. industries. Such centers will tackle the toughest problems with the biggest commercial pay-offs in technology and process development, technology deployment, and platform establishment. Because they will be regional and intensely collaborative, with strong private-sector participation, the hubs will produce substantial economic spillovers into the regional advanced industry clusters amid which they will be sited. Form will follow function, moreover. To ensure the hubs foment intense collaborative activity, federal cost-shared funding will be allocated by means of competitive solicitations that stipulate extensive industry, state, and academic participation. To ensure the collaborations remain commercially relevant, federal support will be contingent on co-investment by businesses and other non-federal entities. Progress toward sustainable operations will be stipulated from the start and hubs must become financially sustainable within seven years. Finally, in order to ensure a robust attack on important problems and real results, each hub will require annual funding of $25 million for a period of at least five years. Possible themes for the new hubs could include carbon capture and storage, solar photovoltaics, and smart grid on the energy side and advanced materials, nanomanufacturing, and industrial robotics on the advanced manufacturing and engineering side. Funding would be contingent after five years on demonstrated progress and results and each hub would move toward self-sufficiency. No criteria for success would matter more than industry willingness to partner and invest.

#### Solve perception links

Saha and Muro 1/14 (Devashree Saha and Mark Muro, Brookings, “Cut to Invest: Create a Nationwide Network of Advanced Industries Innovation Hubs”, <http://www.brookings.edu/research/papers/2013/01/14-federalism-series-advanced-industries-hubs>, January 14, 2013)

Along these lines, the creation of 25 advanced industries innovation hubs combined with stable funding for all would: Send a strong signal that the United States remains fiercely committed to investing in game changing breakthroughs and cultivating a vibrant innovation ecosystem Accelerate the pace of applied research in advanced industries Drive down the cost of advanced industries technologies and accelerate their deployment Contribute to workforce development not just at the Ph.D. level but at all levels Spawn new, good-paying jobs and industries and aid the nation’s recovery through its huge employment multiplier effects Boost exports and enable the United States to compete effectively in global markets, which in turn will ensure a vibrant national economy

### 2NC/ 1AR Wall

#### Most qualified economist agree- reason to prefer- our guy is the Nate Silver of economic predictions since the 70s - you cannot trust contrarian economic reports

Droke 12/20 (Clif Droke is the editor of the daily Gold & Silver Stock Report. Published daily since 2002, the report provides forecasts and analysis of the leading gold, silver, uranium and energy stocks from a short-term technical standpoint. He is also the author of numerous books, including 'How to Read Chart Patterns for Greater Profits’, “The Coming China Economic Crisis”, http://www.marketoracle.co.uk/Article38147.html, Dec 20, 2012)

When Bert Dohmen talks, smart investors listen. In 2007 when most investment analysts and economists were downplaying the developing credit market troubles, Bert warned investors that the probability was very high that the troubles would escalate into full-blown crisis and would produce a crash of historic proportions. He chronicled the developing credit crisis in the pages of his newsletter and also published a book in early 2012 entitled, The Coming China Crisis, which provided his insightful views on the emerging crisis in depth. Dohmen writes the widely read Wellington Letter and China Boom-Bust Analyst investment advisories. His Wellington Letter has provided top-notch forecast and analysis of U.S. and global financial and economic trends since January 1977. His newsletter has received many #1 ratings by the top ratings services and has forecasted every bear market using sophisticated technical analysis. Bert also frequently appears as a guest on financial television, including CNN's Moneyline, CNBC and FOX News. Over the last 30 years he has been a favorite speaker at the largest investment conferences. On December 18, I spoke with Bert concerning his forecast of the coming China crisis, the global economy, the U.S. "fiscal cliff" and the likelihood of another worldwide financial crisis. Following is a transcript of that interview. Q: You just returned from a trip to China. What can you tell us about it? Dohmen: I learned something that just confirmed what I already knew. You can learn a lot more from a country from your desk using the Internet than you can visiting a country and being wined and dined. I spoke with hedge fund managers, institutional investors, heads of corporations, etc. The first story they give you is that 'everything is wonderful in China' and that the country is only experiencing a short-term lull with the economy. But when they find out you know more, they open up and give you the true story: 'We're stagnating, the economy is weakening, etc.' Q: In your book, The Coming China Crisis, you mentioned that your work strongly indicates China is now going through what the U.S. did in 2007-2008. Dohmen: Yes they are, but it will be a different kind of crisis because China's institutions are different. What we experienced was a financial crisis where institutions went out of business or had to be bailed out. The repercussions were actually a downturn in the U.S. economy. In my opinion, the next crisis will be an economic crisis for the U.S. and globally where all the stimulus that has been put into system is wearing off and has less and less effect in helping the economy. I see signs that it's being counterproductive. Q: Please elaborate. Dohmen: The Fed's monetary policy is destructive if you look behind the scenes. It gives the central banks no way out. The Chinese government is doing everything it can to keep its banks afloat. For instance, the banks in China have 21 trillion dollars worth of loans. That's a huge amount considering there are only 3 trillion in China's reserves. It's estimated by accounting firms that bad loans on banks' books is as much as 40-50 percent of total loans. That's 10 trillion in bad loans on the books total and it's unsustainable. This could cause a huge crisis. The Chinese government may not be able to continue these bailouts eventually. In the future that will be the limiting factor. Emerging markets like China have always been a problem when money starts flowing out. Foreign capital flows out and then the problems begin. We saw this late last year and earlier this year and discussed it in our China Boom-Bust Analyst newsletter. Foreign direct investment has since gone from largely positive to negative. Money is flowing out of China. For emerging markets that's always the first big warning sign of an approaching crisis. China has more foreign currency reserves than others; it will delay the problem but not cancel out an eventual crisis. When China goes into severe contraction, the world economy will suffer. Q: Chinese industrial demand obviously influences the price levels of major commodities. Where do you see commodity prices headed in 2013? Dohmen: Raw material prices will be on the weak side. China will start new stimuli for various sectors. But they can only build infrastructure that use raw materials and they don't use enough of it. They have huge stockpiles of copper and steel and are still producing but unable to sell it. Many larger cities have populations of more than 1 million people. These cities have steel mills and are large employers. Governments of these cities hesitate to shut down because they don't want unemployment, so they keep producing. When you're analyzing China don't look at production numbers, look at sales numbers which are much harder to get. There's a big difference between steel production and steel sales. For instance, a big headline a few months ago was that car sales hit new records in the U.S. But the fine print is that these sales are by manufacturers which stuff the cars into retail channel and sell to auto shops. The retailers were screaming, 'Stop sending us these cars, we can't unload them!' It's called channel stuffing in the U.S. and they do it in other countries, too. These are the numbers you see reported, not the actual numbers. Q: Can China become truly great under its present Communist regime? Dohmen: A year-and-a-half ago we wrote that the Great Leap Forward had hit the Great Wall of Communism. For China the easy stuff is over, such as low labor rates and wages. They were able to get all this wonderful Western technology free of charge. The Western multinationals all signed over the details of their patents to their Chinese partners. That's gone now. China got about 100 years of development in the West for free. Now there's a point in the lifecycle of any country where entrepreneurs would be taking over and helping develop, but in China they don't have freedom. In China you see it every step of the way; everything is controlled by the government. Unless China finds someone like Gorbachev to dismantle the Communist regime, China will languish and its growth will decelerate. The private sector is over there is already in recession. The GDP numbers which they advertise at 7 percent is totally phony. The government says people shouldn't use it as being accurate, but as a 'guideline' [laughs]. It's being overstated and the numbers are unreliable. To measure what's really happening we use private sector numbers like electrical consumption, which has declined for 1 ½ years. How can this be if China's economy is growing? Q: How big is the real estate bubble in China and has it burst? Dohmen: Yes. People are still talking about Beijing apartment prices being sky high, but the rest of country has had big declines. Development companies have been selling units and dropping prices 30-50 percent. This makes prior buyers angry and they want to cancel sales. There are no land sales in China because only government can own land. They're 50 year leases, long-term leases. Recently there have been very big new leases at record rates. These are also phony. Companies take lands and lease to developers, which gives them 50% revenues to run hospitals, fire departments and other municipal services. In the real estate plunge last year developers weren't buying anymore and municipalities lack of income. So they make deals with developers. The lease rates has to be at new highs so people get enthused and think real estate is rising. It's another form of market manipulation. Q: On page 119 of your book you noted that the growth rate in China's money supply had declined from a hefty 30% annual rate of growth to around 12.5% in late 2011. What does China's current money supply growth rate look like? Dohmen: I don't have the numbers in front of me right now but it continues to decline, money velocity is declining. Everything is ratcheting down. The only entities getting bank loans are State Owned Enterprises (SOEs). The 'princelings' in China are the children of high party officials, and it's only they who get the loans. It's total corruption. Small entrepreneurs have a difficult time competing with larger companies and can't get these favorable bank loans or any loans. When they start encroaching on SOE territory, the SOEs have a way of getting them out of business. Credit lines get cut. They're better connected and can eliminate competition easily. You can't have a growing economy with this going on. Q: Recently there have been signs of a Chinese economic rebound. Do you see this as being a temporary "dead cat bounce" or can this reversal be sustained? Dohmen: The head of the Communist Party Congress will manipulate a bounce with statistics, as we said last month in our Wellington Letter. When you compile the numbers you can make the economy do whatever you want. The real economy doesn't respond to that, however. In March 2013 China will have a new 5-year plan. Until then things will look rosier, then reality will hit. You just have to look at free market numbers like freight indices. The Baltic Dry Freight Index is a good one to look at. That is now scraping at the bottom of 2008 crisis. In 2008 that index collapsed 93 percent. Freight rates dropped by that much. You could rent a large 1,000 foot carrier at that time for the same cost of a 35-foot boat on Lake Tahoe in 2008! When goods aren't being shipped they're not being used. Freight rates are a much better indicator than GDP numbers. Q: If China goes into a major recession, what effects will this have on the U.S.? Dohmen: This will be like a tsunami going through the economies of the globe. China has been the big locomotive for the world economy. China's stimulus was four times the size per GDP than that of the U.S. They were four times as aggressive as the U.S. Fed in stimulating their economy. This caused a commodities rebound, stock market rebound, etc. Australia was also affected by China's demand for commodities. Looking forward, I can't understand where any good news is going to come from. We have our analysis and scenarios we go through and every day we review everything and ask if anything has changed that would make us wrong in our predicdtions or confirm our analysis. Today we found out that China has cancelled a 300 ton soybeans order from the U.S. What does it mean? Does China have too many soybeans? Are the Chinese people not hungry? Are prices too high? Another factor is that we have some proverbial 'canaries in the mine' in that China is trying to conserve foreign currency outflows. When China buys goods from West they pay in foreign currency, not renminbi. Are they starting to conserve foreign currencies because they're being depleted of all that's leaving the country? We're seeing cancellations and reductions in China left and right. One of our clients sells high grade seafood to China. He told us recently that a big order from a major client from China was cancelled because they couldn't get dollars, foreign currency, from their bank. So when demand from China goes down it effects the global economy. You don't see this in the daily newspapers or on TV. You don't get this information from a visit to China, either. The China bulls are always touting the fact that China has 1.3 billon people and those numbers will supposedly translate into obscene riches. But the number of people doesn't necessarily mean the country in question will have a beautiful economy. Q: Before we go I have to ask you the question of the hour. What are your views on the U.S. "fiscal cliff"? Dohmen: In our Wellington Letter for December we discussed that. Nobody knows if there's going to be an agreement among the Democrats and Republicans. The popular view is that there will be a compromise by year end. But as you know, the popular view is usually wrong. I can see a situation where there's a lot to be gained by Democrats by letting the country go over the cliff and then blaming the Republicans. 'The Republicans made us do it' will be the excuse. I just don't see why so many analysts are bullish on 2013. Companies are going to be hit by huge new costs for employees. There have already been huge price increases for restaurants, etc., with prices up 20-30% in the last six months. I think we'll continue to see inflation in supermarket prices and deflation in good we can do without, durable goods. For instance I've noted that Costco has made price increases of 25 to 35 percent recently. How will the Federal Reserve deal with this? A trillion dollars next year they'll put into the system. It's nothing to them. This new stimulus, how are they ever going to exit this policy of zero percent interest rates? Someday the market will put an end to that and paper money will become worthless and the market will know it. Right now we have 80 to 90 percent of Treasury securities purchases being conducted by Fed through their stimulus. When the Treasury finances all their expenditures with freshly printed money, you can see in history how this will end. There will be no happy ending to this. Can you imagine when you see real inflation rising, could be 10% or higher, what will people say? Finally they'll have to stop inflation. When there's the smallest sign that the Fed is reversing course you'll see a collapse in financial markets. Whenever it comes, be it next year, 5 years or more; it's coming.

#### Its past the point of no return

Winnifrith ’12 (Tom Winnifrith founded the share tipping website t1ps.com in 2000 after a ten year careeer as an analyst, journalist and TV presenter. He quit t1ps in September 2012 and now produces his own blog http://www.TomWinnifrith.com and writes at <http://www.advfn.com/newspaper/tom-winnifrith>, “China Crash 2012/2013 - Overcapacity And Bubbles (Part One)”, <http://seekingalpha.com/article/860921-china-crash-2012-2013-overcapacity-and-bubbles-part-one>, September 11, 2012)

There can be no doubt now that China is undergoing a "hard landing." But that hard landing will soon turn into a crash. Although this is not the consensus view of analysts, the experts have called the slowdown badly wrong so far and are still wrong. No amount of fiscal and monetary stimulus to the domestic economy can dodge the pending crash. That is because the crash will be driven by chronic overcapacity (driven by capital misallocation) in the production of commodity goods for export; structural weakness in the domestic banking system and the existence of vast speculative bubbles, which must at some stage burst. Hence, stimulating domestic consumption will change nothing. Many of us have invested in China based or exposed assets because we have been told "you must have some China exposure, long-term growth, etc, etc." There may be long-term growth but not for a while and ahead of a violent crash the sensible China asset allocation is 0%. I have already offered up five small-cap China shorts on SeekingAlpha here, here, here and here) but in a second article later this week I shall outline a specific list of larger investment calls based on the inevitability of China suffering a great economic crash during the next 12 months. The debate during the summer was whether China would suffer a soft landing or a hard one. In the soft landing camp were most of the sell-side economists and the Government of the PRC. Thus when second quarter GDP growth was announced at 7.6% in early July, Xianfang Ren, an economist at IHS Global Insight in Beijing told AP that "overall, this is a soft landing, but we can see that the Chinese economy is undergoing serious pain." Ren confuses a soft landing (official numbers) with serious pain (the real economy). That is a common error. The consensus among analysts was (and still is) that, as in 2008, the Chinese Government could revive economic growth by a combination of cutting base rates and starting huge infrastructure programs. This analysis is wrong on two counts: it fails to address the nature of the problems and, consequently, the policies are not working. There have always been grave doubts as to the reliability of Chinese GDP statistics anyway - they appear to be created in an overly optimistic manner. Thus, while second-quarter GDP was reported to have grown by 7.6% (down from 8.1% in Q1), Platts reported that demand for oil grew by just 0.5% year on year in May. That is hardly what one expects of an economy meant to be growing at 8% per annum. Meanwhile the China Coal Industry Asociation admits that coal stockpiles have been at record highs (and growing) since May - there simply is not the demand. That is not exactly what one expects in an economy meant to be growing at 8% a year. Electricity demand growth has now fallen to c5% per annum and is still falling. It is not just Western critics who seem to think that official GDP data and what is happening in the real economy do not add up. Li Keqiang, a Senior Chinese politician admitted in 2010 that the numbers are "man made." And so when I refer to a hard landing, I do not refer to Chinese GDP data but to what is happening in the real economy. Although, I do expect even the man-made GDP growth numbers to shrink rapidly. In the real economy, the issue China faces is that it has enjoyed a vast misallocation of capital. This is partly a result of Central Government diktats, the 5-year plans that identify growth industries. The truth is that Chinese politicians are as useless at picking winners as we are in the West. And it is partly due to the nature of the Chinese banking system, which is driven by state "encouragement" as to where it lends and which appears to have much looser lending criteria than banks in the West. Thus it takes $7 invested by debt in China to add $1 to GDP while in the U.S. that number is $4-5. China may have many attractions for investors but when it comes to allocating capital, it is highly inefficient. And this is particularly pertinent because what has driven Chinese economic growth in the past decade has been a combination of huge investment spending and exports - this is not an economy driven by domestic consumption. The practical result of the misallocation of capital is (if we ignore the trifling matter of large-scale theft and fraud) that there has been excessive real economy investment either in commodity markets where China has created global overcapacity or in industries where there really is no economic case at all. And as such, quite a lot of those banking assets will at some stage have to head off to money heaven. And so what is the state of the real economy? Over the past few months I have run a series of articles detailing the scale of the slowdown in everything from underpants and sock production to steel production to ship building. The story is the same across the board: record inventories, collapsing sales, factory shutdowns, order levels which were predicted just six months ago to rise by 10% this year actually falling by 10%. On a daily basis data comes out that shows that industry after industry in China is seeing a collapse in demand, although that is perhaps not yet reflected in actual GDP data. Shall we start with Steel? Courtesy of Proactive Investors: Raw steel production in China recorded a 2% increase in early August this year taking the country's steel production to a record 400% increase over a period of 10 years. In 2012 China's steel production is expected to touch 715 million tons. Despite production cuts, slackening demand and rising stockpiles China's output for 2012 is expected to be 5.2% up from 2011. The paradox here is that though the demand for steel is down and reaching lower levels daily, Chinese steel mills are still producing to achieve record steel output figures. According to China Iron and Steel Association (CISA), the country's steel stockpile is up by 26% from last year. The CISA also reports that the country's steelmakers saw profits fall by 96% on the back of slowing demand, triggering speculations about a possible revival of tax breaks for Chinese steel producers. However, the country's steel production shows no signs of letting up barring a few production cuts. Many analysts believe that perhaps the numbers don't reveal the full story as China's steel production figures are largely based on the output of state owned manufacturers whose primary objective is to meet the government's production targets, irrespective of market conditions. So just how is that sustainable? It is pretty much the same across all sectors. What has caused the slowdown? It is not that China is uncompetitive. Labor costs have risen a little (but are still pretty low) but it is that all key export markets have seized up. China's biggest export market is the EU. I do not need to elaborate on what is going on there. Then there is the U.S. where economic growth is anemic and there is growing anti-China rhetoric. A poor third is Hong Kong whose fate is pretty closely tied to that of China. In commodity markets, a slump in demand can only cause prices to slump and that can only be corrected by a loss of productive capacity. But that poses a secondary problem for China. Its banks. Charlene Chu from Fitch Ratings issued a note last week warning that China's banking sector assets are now almost $21 trillion, up from $9 trillion in late 2008. This is an extraordinary rate of banking growth. Even a modest shock could "wipe out the sector's entire earnings," she warned. In an earlier note from last December ( I give Chu gold stars for foresight) she warned: "Recent stress in informal lending and among property developers, SMEs, and local governments has not reached systemic levels. Nonetheless, Fitch Ratings believes these are not isolated cases of distress, but rather emblematic of excesses from the credit boom and a policy orientation that overly relies on credit controls and low fixed-interest rates; prioritises the state sector above private companies and savers; and favours forbearance and support over restructuring. In this light, recent problems could be only the beginning." And where could that shock come from? Well how about the collapse of tens of thousands of loss making producers of commodity products for export. A report out on September 9, about the crisis facing "Sock City," a new town that became the centre of China's sock industry demonstrates the problem. Sock producer Xu Liele claims "73 clothing firms have gone under this year, with some leaving behind debts of billions of yuan. Things have not been so bad since 2003, when foreign buyers stayed away because of the Sars crisis." Sock City is small but 73 sets of bad debts in socks in one small town can be multiplied many thousands of times across China as a whole as this crisis continues. At some stage the real economy crisis may well turn into a banking crisis as well. But there is a secondary aspect of the capital misallocation. I am ignoring the elements of political fraud and corruption raised by the Bo Xilai case. He salted away $1.3 billion and it is believed that some other senior party officials have trousered more (Mr 4%, the former Railway Minister, is believed to have relieved the PRC of $2.8 billion). This will provide much newspaper fodder but the real crisis is in the various bubbles China has created. The policy of loose money designed to recover from the 2002-3 and 2008 crises prompted some to invest in hard assets but others to back entirely speculative schemes. The Chinese banks have been only too willing to assist. The property market is an obvious disaster waiting to happen. All the major cities now contain office blocks that have never been occupied and never will be occupied but have been traded as speculative counters. Taking this lunacy one stage further China has allowed the construction of near ghost new Cities. In 2010 there were an estimated 64 million empty homes in China. And yet 20 new Cities were being built each year and property prices in established Cities moved ahead fast. In Shanghai between 2005 and 2012 second hand house prices increased in value by 73%. But the real lunacy is in the ghost towns - vast new creations of homes which lie empty. One million people were meant to live in Ordos in inner Mongolia. All the flats and houses have been sold to investors. But it lies empty. At what stage to the investors earning a negative yield (after maintenance costs) on an asset that will never generate a cent in cash realize that it is worthless? This is a bubble. But housing and office space is only one bubble of many. Perhaps the most ludicrous is the great walnut bubble. Prices of this nut (supplies of which are virtually unlimited) have gone up by 1000% in a decade as it has come to be regarded as a hot alternative asset class. This is the lunacy of the Dutch tulip bulb bubble of 1637 transplanted out East. The full gory details of this insanity can be found here. With all bubbles it is not if, but when they burst. When the various China bubbles do burst the knock on effects on both the real economy and the banking sector are not going to be good. For the latter it will be yet more bad debts to write off against balance sheets that look increasingly stretched. For the former it means ever weaker domestic demand. The China bulls argue that mammoth fiscal and monetary stimulus will turn things around. Neither policy will cure the problem of capital misallocation. If anything they will make it worse as cheap money is pumped into Walnut accumulation, etc. The bubbles may be sustained and allowed to grow a bit more (making their final implosion even more dramatic) but the real economy needs a revival of exports not domestic stimulus. Indeed given easy money but an economy that is facing a dramatic implosion there is no evidence that this cash will be invested or consumed. China bulls also argue that much of this is discounted in a domestic stock market valued on just 11 times historic earnings. I would disagree. In 2011 the economy was still growing rapidly. In 2012 and 2013 corporate earnings across most sectors will collapse. In many industries few firms are profitable at all. Earnings visibility for the Chinese market right now is minimal and thus it cannot be viewed as a value investment. I would add that, by weighting, 40% of the Shanghai composite Index is in financial stocks where there have to be real concerns about viability for many companies, let alone earnings visibility. As an investor I have never felt the need to have China exposure. I simply do not trust economies where capital is largely allocated by the state. And the one-child policy means that its long-term demographic profile is not that attractive either. But even if I believed in the long-term story, right now I'd be selling all my China-related assets and looking to return in early 2014 or perhaps a bit earlier, after the crash that lies ahead. In Part two of this piece I shall make some specific investment calls for those who share the view that a hard landing in China in 2012 will rapidly turn into a crash.

#### Demographics

Moghein ’12 (Gaurav Moghein, Policy Mic, Online Policy Science Journal, “China Economy Will Collapse Eventually: The Glorious Days of the Dragon Are Over”, <http://www.policymic.com/articles/10871/china-economy-will-collapse-eventually-the-glorious-days-of-the-dragon-are-over>, June 2012)

China’s economic growth has been both impressive and stable since the 1980s, and many argue that the picture will remain same for decades to come. But this decade China will go through a massive negative transition, defying such argument. The negative transition will take roots in political institution, demography and export markets, the very elements that have carved the success story of China. Talking about political institution, China is the largest Communist regime which has aimed for ‘growth at any cost.’ This motto has largely helped China to grow at double digit pace, build world class infrastructure, road and rail networks, and telecommunication, but at the same time it has fuelled ire in China’s population for the regime as human rights are often disregarded, no check is in place on growing inequality, government spends less on social welfare, and the country has no such thing as ‘voice of the people.’ Of late, that ire has surfaced against one party rule and a growing wealth gap. Signs of political chaos are visible and it will only grow further as export market – a major source of economic growth and a cushion for China’s leaders in times of public protest– is likely to decline. China is the largest exporter in the world, with huge trade surplus. That golden age of China is on the verge of ending. Population has started growing old, which has led to the vacancy of many jobs; as a result, wages have gone up ending the period of cheap labors which played a crucial role in China’s growth story. With the rise in wages companies will elevate their products price to compensate the increased wages which will cause a damaging effect on export markets. The other damaging effect of aging population is the rise of pensioners. As the youth is almost disappearing, it will be a hard decade for China as it will confront the challenge of paying to an increased amount of pensioners at a time when productivity and export market is on the decline. A parallel challenge that will come with it, is public protest. Chinese govt. will try to stabilize political institution, suppressing protest by spending more on public welfare keeping economic growth at stake. China has definitely nothing in its favor right now. The deadly trio that is growing public protests against a communist regime, an aging population, and the rise in prices leading to decline in exports may cut China’s three-decade long growth streak. However, its economy will not collapse and will grow somewhere between 6% and 7%, given its strong economy. But for a country with such a large population, 6% growth looks like a dire situation. 2012 may be Year of the Dragon, but the coming decades will definitely be hard for the Dragon.

#### Boom goes the dynamite

Main 12/11 (Beth Main, Shanghaiist in News, “Experts: China's economy to crash (Make up your minds!)”, <http://shanghaiist.com/2012/12/11/chinas_economy_to_crash_make_up_you.php>, December 11, 2012)

In a stark contrast to this week's news that China is going to overtake the US economy within 20 years, a different group of experts have warned that China might actually be heading for a crash due to the strain on exports caused by the rest of the world's economic woes and China's over eager construction fever. The Chinese government and many economists are now expecting growth to slip below 8% this year and of course some are predicting a full on crash, just to keep things interesting. One major problem is that China has focused too heavily on construction (making up 25% of all activity and about 15% of all jobs) which while it provided jobs reportedly left four million apartments standing empty in Beijing alone. This has caused the property market to slow and land sales to collapse. A large proportion of the construction boom was funded by loans from state banks, still happy to lend to state owned enterprises (SOEs) at bargain rates. Due to its stimulus spending, China's total outstanding debt has increased by around 50 percentage points of gross domestic product over the past few years. The Chinese economy is also over reliant on exports. Domestic consumption needs to rise from its current level of little more than one-third of GDP if it is to compensate for falling international demand. However, it is unlikely that consumption will rise while the property bubble is deflating and construction jobs are being lost. In the worst case scenario the Eurozone debt crisis and a slow economic recovery in America dampens exports further and really leaves China up shit creek. Despite all the naysaying, the economy is still growing, albeit slowly. For one group the future is looking bright, with starting salaries for graduates expected to rise 13% in 2012.

### \*\*\*Russia-China War\*\*\*

No Russia/China war – deterrence and economics check

Garnett 1 (Sherman, Dean of James Madison College – Michigan State University, Washington Quarterly, Autumn, Lexis)

Perceiving this partnership as a reversal of the balance in the old strategic triangle is also a mistake. Such a view overestimates Sino-Russian leverage, especially given Russia's economic weakness and the current military balance. Most critically, it misdiagnoses an emerging security environment that cannot be reduced to a triangle. Japan, the two Koreas, key Central Asian states, India and many other countries have a direct say in many of the core issues of interest to Russia, China, and the United States. All three powers must adjust to these new actors and to the new patterns their actions will engender on important trade, energy, environmental and security questions. Such a view underestimates the continued leverage Washington has in its bilateral ties over both Moscow and Beijing, even in the aftermath of the Friendship Treaty and the crisis in Sino-U.S. relations over the downed spy plane earlier this year. Russia and China need trade and investment far in excess of what the other can provide.

Negotiations solve

Chicago Tribune 4 (10-15, Lexis)

China and Russia settled the last of their decades-old border disputes Thursday during a visit to Beijing by President Vladimir Putin, signing an agreement fixing their 2,700-mile-long border for the first time. The struggle over border areas resulted in violent clashes in the 1960s and 1970s, when strained Sino-Soviet relations were at their most acrimonious, feeding fears abroad that the conflict could erupt into nuclear war. Beijing and Moscow had reached agreements on individual border sections as relations warmed in the past decade. But a stretch of river and islands along China's northeastern border with Russia's Far East had remained in dispute.

Fear of escalation checks

Moriarty 4 (Tom, Military Intelligence Analyst – U.S. Air Force, World Affairs, 9-22, Lexis)

However, the Soviet Union ultimately chose to forgo a preemptive attack and attempted to defuse tensions through diplomatic channels. Numerous reasons led Soviet leaders to decide against preemptive attack. The main reason was the Soviet Union's fear that even if they could destroy all of China's nuclear weapons capability (which, in itself, was a big assumption), they feared a conventional attack by China. Like the United States during the Cuban missile crisis, the Soviet Union understood that they would lose the ability to prevent the crisis from escalating into a full-blown war. Soviet leaders grew concerned that China would respond with a prolonged people's war against the Soviet Union. Knowing that a prolonged war against a country with more than one billion people and a proven resiliency would exhaust the Soviet Union and would require forces to be withdrawn from Eastern Europe, Soviet leaders chose to ignore the Chinese provocations and let the confrontation defuse naturally. (12)

China will not invade Russia – they would lose

Open Democracy 8 (“Russia-China: Axis of Convenience”, http://www.cer.org.uk/articles/lo\_opendemocracy\_20may08.html)

The real threat is this: China's rise will lead to Russia's steady marginalisation from regional and global decision making. The Chinese do not intend to invade Russia militarily, because they would lose. The consequences would be too horrific to be contemplated. They are not going to fill the Russian Far East with lots of Chinese. Those northern regions have always been considered a barbarian outland. The Chinese who go there want to make a quick buck before returning home. Although they receive half the salary of local Russians, it is still much more than they would get in northeastern China or in the countryside. But very few Chinese go to the Russian Far East to live there.

Russia/China tension inevitable

Aron 98 (Leon, Resident Scholar, American Enterprise Institute, Weekly Standards, 4-20, Lexis)

To be sure, there will be periods of Sino-Russian rapprochement. Today, Russia sells China submarines and MIGs, and Chinese migrant workers and entrepreneurs flood the Far East and Siberia, setting up Chinese-language schools for their children and opening the best restaurants in Ekaterinburg, Irkutsk, and Vladivostok. Russia will try to play the Chinese card in its dealings with Washington, just as China will try to play the Russian card -- but the United States will remain far more important to both than they will be to each other. Just as certainly, rapprochement will alternate with periods of Sino-Russian tension and perhaps outright hostility.

No anti-U.S. balancing

Yang 2 (Jian, Member of the Politics Department – University of Auckland, New Zealand International Review, 9-1)

While China believes that it is in its interest to rally with Russia in its anti-hegemonic strategy, it has no intention of entering a formal military alliance with Russia. In fact, Chinese analysts have all along been careful in defining 'Sino-Russian Co-operative Strategic Partnership'. They play down its role as a counter-balance against the United States and the West. '"Partnership" is a popular word in recent international relations,' a Chinese analyst noted. 'So long as there is no enemy-us relationship (diwo guanxi) between two countries or groups, then the relationship could be called partnership... It is another name for friendly relationship.' (4)

### XT: Not Important

#### Don’t buy the spin- its exaggerated

Thomsen, 9-5 -- Credit Agricole Private Banking senior economist

(Marie, "Myth and menace in the markets," The Asset, 9-5-12, mobile.theasset.com/inside.php?tid=22603, accessed 10-3-12, mss)

There are many common myths in the markets that investors would do well to look beyond. Take for example the idea that Europe is politically ineffective. Even if the pace of progress is frustratingly slow for market participants' taste, the EU has put in place in several countries unprecedented fiscal austerity, they have voted for a new treaty (the treaty on stability, coordination and governance, otherwise known as the fiscal compact), the ESM will be operational in September, and a banking union is under construction. Meanwhile, the US has not voted a budget since 2009 (the 2013 budget was voted down on 16 May), and a fiscal tightening of potentially US$700 billion can hit the US economy if no offsetting decisions are taken. Europe stands out as a well-oiled machine in comparison to the US' political stalemate. A further misconception is that the Eurozone economy is a basket case. It is important to stress that the Eurozone's primary budget deficit is close to 4 % of GDP whereas that of the US is 8 % - twice as high. The Eurozone generated 9.800 trillion euros worth of GDP in 2011, equivalent to around 20 % of world GDP - undoubtedly rich enough to solve its own problems. The idea that Europe's monetary union is untenable is also odd. In spite of the financial rescues that have taken place, and including those that might take place, we could hypothetically put the total cost of the rescue of the European Monetary Union at 10% of Eurozone GDP. Compared to the cost of the US monetary union, this would be cheap. The US has paid almost 2% of GDP to its deficit states on average for each of the past 20 years, dwarfing the European outlays. Many claim that Germany is the biggest obstacle to a solution in Europe. That is to overlook the fact that Germany has concluded the highest wage deals since 1992: IG Metall's 3.6 million workers will get a 4% wage increase and the public sector a 3% annual gain - both well ahead of the 1.7% rate of inflation. This is in recognition of the need to rebalance the German economy away from net exports and towards household consumption as the driver of GDP growth; something that has already started to happen as the current account has dropped around 3 percentage points from its 2007 peak. The importance of manufacturing is also **grossly exaggerated**. The service sector has outpaced manufacturing in OECD countries since 1900. The service sector has been larger than the manufacturing sector since the 1950s. The US, the UK, Switzerland and Luxemburg have greater shares of world exports in services than in manufacturing. Even in world GDP, services dominate, representing over 60% of the total. This is why liberalizing services is so important, and if it this were to happen in Europe, as set out per the Maastricht Treaty, it would undoubtedly give the continent a sorely needed boost.

#### Economist consensus proves

Green, 12 -- Bloomberg Businessweek senior national correspondent

(Joshua, "The Manufacturing Myth That Both Parties Cling To," Bloomberg, 3-8-12, www.businessweek.com/articles/2012-03-08/the-manufacturing-myth-that-both-parties-cling-to, accessed 10-3-12, mss)

In the heat of the presidential primary season particularly, it seems as if Republicans and Democrats can’t agree on anything. But, although they may disagree vociferously on everything from tax policy to foreign conflicts, President Barack Obama and the Republican candidates do seem to share the common conviction that it is not just desirable but a matter of urgent national concern to revitalize U.S. manufacturing. During the State of the Union, Obama called on Congress to provide manufacturers with special tax breaks and other support. Mitt Romney would cut the corporate tax rate to 25 percent and crack down on China. Rick Santorum would eliminate corporate taxes outright for manufacturers. New jobs are always imperative, especially during a prolonged economic slump. But **few economists** show much enthusiasm for the ideas most often put forward to help America’s manufacturing sector: erecting trade barriers, investing directly in favored industries, or altering the tax code to privilege manufacturing over other sectors of the economy. Their skepticism derives from the fact that factory jobs have been declining for 30 years due to cheap foreign labor and steady productivity gains—a decline that steepened in the 2000s and, despite a recent uptick, is not expected to reverse itself over the long term. As Christina Romer, the former chairwoman of President Obama’s Council of Economic Advisers, put it recently: “So far a persuasive case for a manufacturing policy remains to be made, while that for many other economic policies is well established.’’ What’s driving the focus on manufacturing isn’t economics. It’s politics. Both parties believe they have much to gain by emphasizing their concern. Manufacturing evokes a blue-collar, Rust Belt ethos that’s long stood as an important component of American politics. The idea that a special virtue lies in “making something real”—as opposed to, say, financial engineering—is deeply embedded in the national psyche. For Obama and Romney, reverent paeans to manufacturing are a way of signaling solidarity with a socioeconomic class not naturally inclined to support either man; for Santorum it’s a way to revivify the class distinction between himself and the other candidates in a way that may redound to his benefit. This focus also fits into political messages that each party is eager to press: for Republicans, that cutting taxes on business is the best way to achieve a desirable goal; for Democrats, that corporate behavior harmful to workers can be reversed through government action. This plays into a larger narrative that voters in both parties have come to agree on strongly: that U.S. manufacturing jobs have departed to places such as China (largely true) and could be brought back if only political leaders would pursue certain policies (probably untrue). A corollary belief holds that China’s rise has come at our expense. In 2000 an overwhelming majority of Americans (65 percent) considered the U.S. to be the world’s leading economic power. China (10 percent) didn’t even rate second; Japan did (16 percent). But over the next 12 years, those numbers shifted dramatically. By the eve of the 2008 financial crisis, China had eclipsed Japan and pulled even with the U.S., and then rocketed ahead. When Obama declared in his State of the Union speech that “America is back,’’ most Americans probably disagreed. According to a February Gallup poll, 53 percent now consider China the reigning global economic power, and only 33 percent believe that title belongs to the U.S. This gloomy self-image, and the perception that foreign competitors are passing us by, explains the remarkable salience of measures to boost manufacturing. A Gallup poll last month showed that about 80 percent of Democrats and independents, and 90 percent of Republicans, support tax breaks for companies that repatriate manufacturing jobs from overseas despite serious doubts about their efficacy. Small wonder: Tax breaks have been held up as a cheap, easy response to economic weakness—why, even politicians who can’t agree on anything agree on that much! Sure enough, last year Gallup found they were the single most popular option for creating jobs. In fact, Americans’ faith in them goes even deeper. Many people seem to think tax breaks can reverse our national decline. A bipartisan poll from the Alliance for American Manufacturing last year found that voters believe manufacturing “will help restore America’s lost status as the world’s number one economy.’’ **That’s a fantasy**, but one so beguiling that few politicians would dare challenge it.

#### Not key to jobs

Heskett, 12 -- Harvard Business School professor emeritus

(James, "Are Factory Jobs Important to the Economy?," 3-28-12, hbswk.hbs.edu/item/6908.html, accessed 10-3-12, mss)

Several readers cited the challenge that a manufacturing revival may not translate into much new employment, given the need for significant productivity improvement necessary to reverse the outflow of manufacturing activity from a developed economy. Peter Hogan reminded us that "manufacturers' share of GDP (in the US) has been stable at just under 15% for the last 30 years, while manufacturing jobs as a share of total non-farm employment have fallen from 20% to 10% over the same time frame." Worse yet, there is the possibility that **the jobs created today** and tomorrow **may not be as good as the** factory **jobs of the past**. After writing the March column, I attended a board meeting at which the directors toured a newly-created "beauty park" in the US, where companies cooperating to create and manufacture new fashion beauty products are located together in one light industrial park. It is a reflection of colleagues Gary Pisano and Willy Shih's conclusion that manufacturing is part of the innovation process (as Pete Clekurs pointed out). The park is designed to create fast-response product development by linking product designers to manufacturers in a way that minimizes the need to ship liquid ingredients over long distances. It is expected to return at least 1,500 jobs to the area, some of them from other countries, including China. However, most of the jobs, in assembling and packing the components, are of necessity low-wage in nature.

#### Manufacturing not key to the economy

Wessel ‘12 (David Wessel, economics editor of The Wall Street, “Manufacturing Industry Gained Momentum In 2011,” 1-19-12, <http://www.npr.org/2012/01/19/145437593/are-more-u-s-manufacturing-jobs-being-created>)

WESSEL: Well, that's a good question. So basically, factories have added more than 300,000 jobs in the past two years, and that's pretty good news - certainly better than losing jobs. But it would take two million more jobs to get manufacturing back to where it was in 2007 before the recession. Factories are managing to produce more without hiring a lot more workers, because they're getting more productive; technology, reorganization, making people work harder, making them work smarter. It's all made for a remarkable surge of productivity. Factories get 40 percent more output out of every out of work today, compared to what they got 10 years ago. MONTAGNE: Still though, if sales keep growing, would factories not hire more? Maybe not as many workers as they had before, but more, and couldn't that be one part of the answer, at least, to the jobs problem? WESSEL: Well, it would definitely be one part, but it's a small part. For all the **romance about manufacturing**, **we are no longer a manufacturing economy when it comes to jobs.** **Only** **nine percent** of the jobs in America today are in manufacturing. It just isn't big enough to put Americans back to work. Even if factory employment doubled, which isn't going to happen, that **wouldn't be enough new jobs** to put all the 13 million unemployed people back to work. So yes, it's a plus. But no, it's not enough to solve our unemployment problem.