EMS pushes IMF aside

# EXECUTIVE INTELLIGENCE REVIEW

March 13-19, 1979

## Giscard, Lopez summit:


## the EMS turns to the developing sector

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# EXECUTIVE INTELLIGENCE REVIEW

## The EMS turns to the developing sector

The history-making summit between France's President Valery Giscard d'Estaing and Mexican President José Lopez Portillo in Mexico is our INTERNATIONAL report this week. Our report tells you what the U.S. press did not: what France and Mexico agreed on—millions of dollars in oil and technology transfer deals; who will get Mexico's oil; and what U.S. business got with Carter's trip—nothing. Not only was Giscard's trip another milestone in North-South diplomacy by the EMS partners, France and Germany, but 15 years ago, then French President De Gaulle took to Mexico the same Grand Design strategy for North-South cooperation. We give you the details.

Our exclusive coverage also presents the documents of the summit—from the greetings at the airport to the final communiqué—and the data on France's deals with Mexico and the Third World, and Mexico's oil production potential.

## IN THIS ISSUE

### IMF on the ropes?

Chancellor of the Exchecquer Denis Healey and fellow attendees at the IMF interim committee meeting received a shock this week when the eight European Monetary System member countries of the EC announced that final agreement on a resolution to the agricultural policy dispute that has held up formal adoption of the EMS. It will go into effect at next week's EC ministers meeting — without Britain, came the announcement. At the same time, Mexico announced that it no longer considers itself bound to heed IMF dictates on financial policy. In our ECONOMICS section, together with reports on more U.S. armtwisting of Japan, why the price of gold is falling, and growing tension between U.S. bank regulators and the British banks which are attempting to take over important U.S. banks.

### More trouble for China

China's invasion of Vietnam has bogged down with heavy casualties, and Peking leaders are reported makig the humiliating admission — privately — that they are incapable of fighting a "modern war." Even more, however, reports are surfacing of deeper troubles for the Chinese economy than most had suspected, leading to increased speculation that the Vietnam invasion was an attempt to divert attention from domestic difficulties. A full report, focusing on indications China will cut back its industrialization drive and the possibility the Chinese are not yet ready to end their invasion, in our ASIA section.

# EXECUTIVE INTELLIGENCE REVIEW

THIS WEEK



INTERNATIONAL



ECONOMICS

Vol. VI, No. 10
March 13-19, 1979



## Enforcing IMF policy in Africa

Leading British spokesmen are predicting a breakdown in social order over major portions of Africa; our AFRICA report this week looks at indications a wave of tribalism and regional conflicts in Africa is due to deliberate efforts to enforce International Monetary Fund austerity strictures on African nations which are seeking to develop industrial capability of their own in defiance of the Fund. Our two-part report, by Africa desk chief Douglas DeGroot and correspondent Peter Buck, examines the growing social disturbances — punctuated by attacks on black-ruled African nations by Rhodesia, South Africa, and groups of European mercenaries — and concurrent efforts by the IMF to pressure African nations to cut back their development plans.

## What's happening in Congress

This week's U.S. REPORT introduces a new feature for our readers: Congressional Calendar, a weekly column which pinpoints major issues where pending legislation is likely to affect the activities of businessmen, traders, industrialists, and others. This week's expanded premier edition focuses on the GATT negotiations, trade law proposals being prepared by Sen. Adlai Stevenson, criminal code reform, and the Energy Department budget. Also in U.S. REPORT: House Subcommittee quashes evidence of vote fraud against Parren Mitchell.


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# Carter trip seeks axis vs USSR

## *Administration goes for confrontation over Mideast*

To the sound of press raves about his "boldness" and "courage," President Carter this week opened the newest phase in his hapless Middle East policy — a Henry Kissinger-style shuttle to Cairo and Jerusalem which the London-centered architects of U.S. foreign policy hope will result in a tripartite Washington-Cairo-Jerusalem military axis against the Soviet Union and against oil-producing Arab states.

What the American press has chosen to ignore in its endorsement of Carter's trip is what is known to all inside circles in Paris, Bonn, Riyadh, and Moscow. The shuttle — and any "treaty" it may produce — has no chance at all of bringing the Middle East closer to general peace — *nor is it intended by its architects to achieve that purpose.* Instead the visit will trigger a wave of unrest, leading either to a direct U.S.-Soviet showdown or to a catastophic loss of American influence and credibility in the Middle East.

### Saudis: Carter Strategy a "sham"

This is evidenced, first, by the Arab reaction to the Carter trip. Not only did the Palestine Liberation Organization, Syria, and Iraq issue attacks on Carter's aims, but Jordan's King Hussein, an erstwhile American ally, warned on March 8 that the trip would only fuel instability and polarization throughout the Middle East. From the Saudi ruling elite, Prince Mohammed Feisal, during a March 6 speech in New York, called Carter's strategy a "sham," because it avoided, rather than aided, a comprehensive Middle East settlement. The March 7 English-language Saudi Arab News editorialized that Carter's "framework" for a settlement in the area "simply ignored most of the basic ingredients in a permanent and meaningful settlement."

The dangers of Carter's trip are indicated secondly by heat-up of crisis points in the Middle East, particularly Lebanon and the Yemens.

On the eve of Carter's March 5 announcement of his trip, the Israeli Defense Ministry revealed, according to the March 6 New York Times, that Falangist militia fighters in the South were officially being put on the Israeli payroll! This revelation occurred as fighting with heavy artillery and tanks broke out between Syrian peacekeeping forces and Falangist militias in Beirut after a months-long lull. France's Le Figaro March 8 reported growing concern among French commanders of the United Nations forces in southern Lebanon that an Israeli-led Falangist force is about to drive north to join the Falangists in central Lebanon, provoking renewed civil war throughout the country. Le Figaro linked this danger to the newest developments in American Middle East policy.

### Manipulation over Yemen

In the sensitive Red Sea-Horn of Africa region, a superpower crisis is being rigged in order to draw the Saudis into approval of Carter Administration diplomacy out of "fear of the Soviets." Yet, despite a State Department "get tough" attitude toward the Soviets over Yemen, including the dispatch of the carrier Constellation to the Arabian Sea area as, in the formulation of State Department sources, "back-up" for Saudi action in defense of North Yemen against "Soviet-backed" South Yemen, the Saudis are refusing to become embroiled in a superpower showdown. They are trying to mediate the crisis through the Arab League and, through Iraqi and Syrian good offices, directly with the Soviets.

But neither the loss of U.S. credibility nor the growing chances of U.S.-Soviet war are dissuading Carter from manically pushing on his course. Both the Baltimore Sun and Christian Science Monitor of March 8 report from Washington that Carter and his retinue — which includes Defense Secretary Harold Brown and National Security Council head Zbigniew Brzezinski — are seeking to develop a "regional security plan" which not only includes potential U.S. bases in the Sinai area and at the Israeli port of Haifa but also the establishment of U.S. basis in Bahrain, Dubai, and Masirah Island in the Persian Gulf — three historical staging areas for British policing operations in the Persian Gulf.

These bases would serve as the stopping-points for a mooted U.S. "Fifth Fleet" that is to be created to police the sensitive Indian Ocean region.

— *Mark Burdman*

# BRD Parliament debates NATO

West German Defense Minister Hans Apel declared March 8 that during the government's pariamentary debate on security this week, he will "take off the gloves" in dealing with all those who are exaggerating "the Soviet threat," a direct slap at NATO.

During the course of the debates, it is also expected that West German Chancellor Helmut Schmidt will issue an official reply to the recent election speech by Soviet President Leonid Brezhnev, who called on the signatories of the Helsinki Accords — which include West Germany and the United States — to repudiate any nuclear first strike.

NATO officials have downplayed the speech as propaganda not worth reply, but in West Germany, as reported by government spokesman Klaus Bölling on March 6, "The government sees many interesting aspects in it (Brezhnev's speech — ed.), and is viewing it very scientifically..." Another source close to Schmidt commented that "one would not be doing justice to the speech if one treated it as propaganda."

The pressure on NATO is in opposition to plans by General Alexander Haig and his British-linked cronies in the Carter Administration to increase military hardware directed at the Warsaw Pact from West Germany. After the United States, West Germany is the second strongest industrial power in NATO, and its 500,000-man Bundeswehr is the largest single NATO contingent in Europe. West German government officials are opposed to NATO provocations that would make West Germany a target for Warsaw Pact retaliation.

In a related move to counterattack NATO's line that the Warsaw Pact is preparing for a war of aggression, Herbert Wehner, the parliamentary caucus chairman of the ruling Social Democratic Party, will speak with Schmidt and Apel to provide the government's reply to Hungarian concerns about preventing the outbreak of world war. Schmidt last week sent Wehner to Hungary to discuss the Chinese invasion of Vietnam as the beginning of the process leading to World War III.

# France, BRD on terror alert

Through both confidential and public sources, *Executive Intelligence Review* has confirmed that the governments of France and West Germany have placed their intelligence services on alert in anticipation of an imminent escalation of terrorist activity. The coincidence of these unofficial alerts with the coordinated moves by these same governments to push through to final implementation the European Monetary System indicates that the terrorist threat is being viewed as an effort by anti-EMS forces to stall the starting date by "surrogate warfare" means.

* In the Federal Republic of Germany, the Interior Ministry has issued statements to the effect that terrorists associated with the Baader-Meinhof Gang have been smuggled back into the country from Cyprus. The Mediterranean region has been identified for years as a safehouse for such terrorist networks. Additionally, *Frankfurter Allgemeine Zeitung* London correspondent Grudinski filed a story this week indicating a recent activation of the "Friends of Astrid Proll," a terrorist support committee housed in London and involved in fighting the extradition of Baader-Meinhof founder Proll to Bonn. The committee, according to the *FAZ*, is financed by Oxford University legal professor Herbert L. A. Hart, and was involved last year in similar support activity on behalf of the Jesuit-trained British Intelligence agent Philip Agee.

Agee himself is now in the Federal Republic, where he is working closely with Baader-Meinhof circles around terrorist-lawyer Kurt Groenewald and with expatriate members of the pro-terrorist National Lawyers Guild (U.S.).

* Five bombs were set off at different locations in France on March 6, marking the first significant incidence of terrorism in months. All five attacks were claimed by the Breton Liberation Front. As of last summer, the group had been effectively shut down by French intelligence services. Of a half dozen Front members arrested at the time, none were from the Brittany region. In fact, authorities identified the group as being predominantly former Vichyite fascists and several Irish terrorists, indicating a profile identical to the Permindex-Israeli intelligence operation behind the DeGaulle assassination attempts of the 1960s.

* After several weeks of inactivity, the ETA (acronym for "Basque Motherland and Freedom") carried out its fifteenth assassination of a Spanish military figure since the first of the year on March

* According to reports in *Newsweek*, the general lull in terrorist deployments by the ETA was the direct result of West German special anti-terror units being sent in to advise the Spanish government.

# LaRouche speaks to Mexican press

*The following is an excerpted text of a statement delivered by 1980 presidential candidate Lyndon H. LaRouche in Mexico City March 7. Mr. LaRouche is in Mexico as the representative of the U.S. Labor Party, which was officially invited to attend the 50th anniversary celebrations of Mexico's ruling PRI party. The press conference was attended by 14 Mexican television, radio, and newspaper representatives, and received broad media coverage.*

In the first place, I want to express my great joy in participating in the 50th anniversary of the PRI. I am not a diplomatic person. I am a political person; I assure you that there is no exaggeration when I express concurrence with Giscard d'Estaing of France in regarding President Lopez Portillo's government as one of the few great governments of this period.

As I said, there is no exaggeration. This is not a diplomatic compliment. It is not diplomatic, it is factual. A party such as the PRI, which can produce presidents — Lopez Portillo is not the only one — so consistently in the tradition of the Mexican Revolution, such a party I am delighted to be with.

**Fight against war**

It should also be emphasized that at the time I came to Mexico, I was engaged — I am engaged — in a struggle within the U.S. to prevent the U.S. from following a policy which would mean war, general thermonuclear war. Let me underline that my knowledge is that there was no exaggeration, no diplomatic rhetoric in the agreement between President Giscard of France, and President Lopez Portillo: that the choice of the world today is between the new world economic order or apocalpyse. It could be that a general thermonuclear war will occur within a matter of hours, days, or that the war will be postponed for months. That the war danger will continue until, first, the new world economic order is coming into being, and second, until the policies of the U.S. are brought into conformity with the new world economic order, these are certainties.

Therefore, although I am leading the fight in the U.S., through TV, newspapers, radio and other campaigns against the war danger, against the U.S. putting a nuclear umbrella over Peking, it was important to me to take this opportunity to be in Mexico at this time, because although the government of Mexico is not a power by the ordinary standard of world powers, it is at this moment, one of the most important moral forces in the world, and it is at this moment, one of the leading forces of the new world economic order on behalf of the developing nations.

**Expresses solidarity**

In view of the many hideous things that the U.S. government under Carter has already proposed against the nation of Mexico, it was important to take the opportunity to express my solidarity, as the leading opponent of war within the U.S. at this moment, with the leading forces in Mexico. The policy that I have is essentially the same policy that the government of Mexico has, which is also the policy of the European Monetary System as understood by President Giscard of France and by Chancellor Helmut Schmidt of the BRD. I know that Mexico is limited politically by historical and geographical circumstances from doing what it would like to do. But those of us who have the means must use all means to prevent war and to bring the new world economic order into being.

The American Revolution was made with the aid of international forces such as LaFayette, the forces of Europe, the same humanist forces whose Spanish fraction laid the seeds for the Mexican Revolution.... When our forefathers made a revolution in the U.S., we made one because we could not tolerate the British oligarchy, the British system of law. We could not tolerate being denied the right to high technology for our manufacturing and our agriculture. Our constitution was founded by people dedicated to natural law. The key to natural law is that man is distinguished from the beasts only by his ability to advance technologically, to advance in science and technology, and thus to increase his willful power to master the lawful order of the universe. When man is denied that right, the right to education, the right to the material means of progress, man is reduced to the condition of a beast.

**Hamilton and the Constitution**

Let me say to my Mexican friends that the fundamental policy of the U.S. was underlined by the Secretary of the Treasury, Alexander Hamilton, who disproved the entire British theory of political economy and demonstrated that the only source of wealth is the development of the productive powers of a nation. As Mexico knows better than any other nation in the world, the U.S. has many times deviated from that policy, but that is the constitutional principle on which the United States was founded. In different forms but to the same Principle, that was the secret of the Mexican Revolution.

Those within the United States that are attacking Mexico now, I denounce, as traitors to the American Revolution.

# Giscard, Lopez summit:

# The EMS turns to the developing sector

Last week's meeting between French President Valery Giscard d'Estaing and Mexican President José López Portillo in Mexico City is easily the most important summit thus far of 1979, and takes its place in a series of extraordinary diplomatic events, beginning in May 1978, which define the geometry of a new world economic order.

The core institution of the new order is the European Monetary System (EMS), put into place by Giscard and West German Chancellor Helmut Schmidt in July 1978 in the wake of Schmidt's historic agreements with Soviet President Leonid Brezhnev in Bonn two months earlier. Thus, the basis for an "East-West" axis for development was firmly established.

The importance of the Feb. 28-March 3 Mexico summit lies in the EMS-centered new order now rapidly and boldly moving to consolidate a North-South axis as well. Yet nowhere in the American press were these critical developments reported.

The two Presidents repeatedly stressed that the basis for relations between the advanced sector (North) and the developing world (South) must be transfer of capital goods, nuclear, and other advanced technology to the Third World, and generalized policies of science and progress.

The final communiqué of the López-Giscard summit was a virtual economic manifesto dedicated to this conception and major economic deals were signed in the course of the visit.

At the same time, the two leaders warned that the alternative to this new world economic order is nothing short of "apocalypse." Emerging from an initial review of world conflict points, including the Far East and the Mideast, López Portillo warned that "the horsemen of the apocalypse are galloping." It is not a question of an accumulation of separate problems, he stated; there are "brutal underlying energies" at work driving the world into conflagration. It is either "the beginning of an era or the end of all eras."

López Portillo went on to explain that this new order cannot be based on "partial solutions," it must be based on a global perspective — a "Grand Conception" — in which "reason illuminates reality."

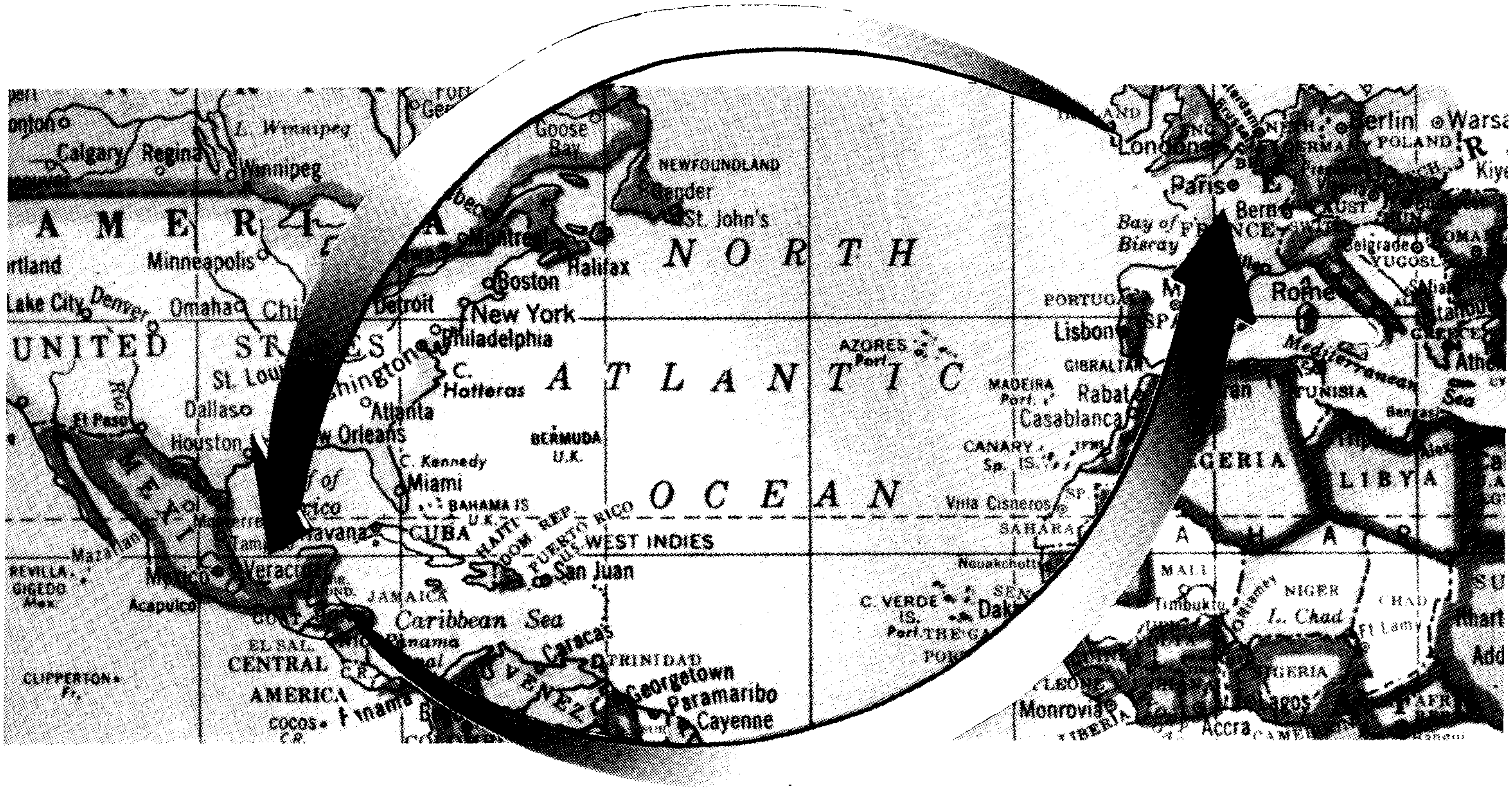
Giscard traced this quality of world statecraft back to the time of Alexander the Great and called for a resurgence of "humanist societies" based on science and advancing technology today.

This is a "great task," Giscard said, "the construction of the world.... I reflect upon it with joy" and welcome collaboration with "you, Mr. President ... as we renew our work together," referring to Giscard and Lopez Portillo's personal collaboration and friendship dating back to the early 1970s when both were finance ministers of their respective countries.

### Contrast with Carter visit

The contrast between Giscard's trip to Mexico and Jimmy Carter's visit two weeks earlier, is one to sadden and enrage all Americans. Carter, after three months of intense "policy review" among high circles of his Administration, took with him one strategic aim: to take Mexican oil out of the service of the Grand Design conceptions advanced by López Portillo and the EMS forces, and instead to incorporate Mexico's oil as a U.S. strategic reserve for war.

The U.S. President offered not one word about U.S.



collaboration with Mexico in its giant industrialization effort, much less about U.S.-Mexico economic cooperation serving broader North-South relations and development.

Not one economic deal was signed during the Feb. 14-16 Carter visit. The only agreements of any sort to emerge were the agreement to reinitiate talks on a natural gas deal, a promise that the United States would stop delaying its obligations to enrich Mexican uranium, and the agreement to schedule another summit for early summer.

Ironically, it is the "EMS method" rather than Carter's pressure and blackmail tactics which is already paying off in the possibility of greater production of Mexican oil. President López Portillo has placed two conditions on continued oil expansion: progress toward the new economic order in which oil is not a weapon but "inseparable from development," and second, fully developed Mexican industrial and infrastructure projects to absorb the increased oil revenue.

Both conditions were met by Giscard's visit and, the day after Giscard left, Mexico Petroleos Mexicanos (Pemex) Director Jorge Diaz Serrano announced during a tour of one of Mexico's premier petrochemical complexes that "we are looking at the necessity of increasing production" beyond the 1980 2.25 million barrel per day target levels. For the first time ever, he suggested the next possible production goal of 4 million barrels a day and declared that the decision would be made in early 1980.

This contrast between the Carter and Giscard trips has been systematically and shockingly denied to the U.S. population. Aside from a short, disorienting article in one edition of the *New York Times*, not a word on the Giscard visit was reported in the major national press.

Much of this same U.S. press argued that the lesson of Carter's fiasco in Mexico was that he "wasn't hard enough" in trying to grab the oil. Numerous accounts hinted at redoubled U.S. pressure against Mexico's undocumented workers in the United States.

In the following sections, the *Executive Intelligence Review* presents in depth, the economic accords worked out, extensive excerpts from all major speeches and the final communiqué, a review of EMS-centered summitry over the past nine months, plus a quick background report on the historic 1964 trip to Mexico of Gen. Charles de Gaulle, referred to repeatedly by both leaders last week as the precedent for their efforts.

We present this record in particular detail, in view of the press blackout otherwise prevailing in the U.S.

But we also present the record in detail with an eye to Third World readers who have at time expressed doubt about the commitment of the EMS members to extend full-scale development policies on a North-South basis, and who have questioned whether the EMS indeed provides the alternative to the antidevelopment International Monetary Fund.

That question can now be answered in the affirmative. With Giscard's visit to Mexico, the full depth of the commitment to high-technology industrialization in the Third World as the core element of the new world economic order now takes on its full dimension.

*—Tim Rush*

# The model for North-South deals

The final communiqué issued March 3 by Mexican President José López Portillo and French President Valery Giscard d'Estaing, represents an economic manifesto on the strategy for North-South development in the context of the new European Monetary System. In the context of what both leaders called an "active peace," which means not only cessation of hostilities that threaten world peace, but the elimination of hunger, sickness, illiteracy, ignorance, poverty and injustice, the communiqué goes well beyond an oil-for-technology focus on cooperation. It establishes an extraordinary array of areas of cooperation between the two nations that extends from scientific training to aerospace and nuclear technology.

The emphasis of the discussions between Mexico and France is to make Mexico an exporter of "products with high domestic value added," as was stressed by Mexican Minister of Industries Jose Andres de Oteyza and echoed by Mexican Ambassador to France Horacio Flores de la Pena. Overall, the Mexican diplomat said, the deals signed or those to be signed shortly between Mexico and France can be seen as "one huge factory" that will allow Mexico to export high technology goods, 90 percent of which would go to "the U.S., Canada, and Latin America."

The day before Giscard arrived in Mexico, President López Portillo stated in an exclusive interview with the French daily *Le Monde* what he was expecting from the first direct Mexico-France contact since General de Gaulle visited Mexico in 1964: "We want to be a developed country which also has oil, like Russia or the United States, not an oil country as some special category of the underdeveloped world."

### French exports to Mexico* (total 1,138.1MF)

| | |
|---|---|
| Steel products | 399.7 |
| Industrial mech. equip. | 169.3 |
| Semi-finished & chemical | 142.3 |
| Auto | 137.9 |
| Equipment goods, elect. | 106.7 |
| Dairy | 31.5 |
| Optical | 30.4 |
| Beverages | 27.5 |
| Aluminum | 20.0 |

### Mexican exports to France* (total 328.6MF)

| | |
|---|---|
| Coffee | 74.4 |
| Precious metals | 63.9 |
| Semi-finished & chemical | 27.5 |
| Textile & shoes | 26.5 |
| CKD | 18.3 |
| Metallurgical metals | 16.3 |
| Fruit | 15.3 |
| Cotton | 13 |
| Electrical & mech. equip. | 12.5 |

Source: Moniteur du Commerce International, Feb. 26, 1979

### The deals

The following is a grid of the numerous deals that have either been signed or are in the process of negotiation between Mexico and France since Jan. 1, the date when the new European Monetary System went into effect.

**Oil** — Starting in 1980, Mexico will export to France 5 million tons of oil per year of 100,000 barrels per day. French officials expressed their desire to increase their imports of Mexican oil if and when Mexico increases its oil production in the future.

**Nuclear** — During his press conference in Mexico City, Giscard said that the nuclear deal with Mexico embodies three aspects: 1) France will provide technology to help Mexico explore for, and exploit uranium resources, 2) France will guarantee Mexico enriched uranium, 3) both nations would eventually participate in the construction of Mexican nuclear plants. Mexican officials stressed that if the United States does not fulfill its commitment to enrich Mexican uranium, Mexico will accept France's offer to do so.

Mexico and France will eventually sign a deal that will provide Mexico with the know-how, construction, and implementation of the "phoenix" nuclear reactor.

**Electric power industry** — France will provide Mexico with technical aid in the areas of hydroelectric turbines, generators, and turbogenerators for the electrical industry. The deals were signed between the Commission Federal de Electricidad (CFE) and the French enterprise Electricite de Francia.

The French company Altshom-Atlantique has made an offer for the construction of a turboalternator of 300 Megawatts, jointly with the Mexican company ICA, to be ready by 1987.

**Machinery and equipment plants** — Mexico has just signed a threefold agreement with the French steel company Creusot-Loire: 1) for the creation of two joint companies, in which the French group will ensure technical direction with a minority share of the capital — Clemex for the construction of heavy equipment, and Clemsa, specializing in engineering; 2) a transfer-of-technology accord for the production in Mexico of a wide array of goods, from compressors to hydraulic presses and industrial turbines (Clemex will import from France certain goods to compliment its own production); 3) Creusot-Loire Entreprises, associated with Clemsa, will sell the Clemex heavy machinery plant, permitting the export of French machine tools.

Both countries also concluded several agreements for the construction of more furnaces for the state-controlled steel cartel, Altos Hornos, Fundidora de Hierro, and Acero de Monterrey.

Also, Mexico will begin six projects for the construction of machine tools and specialized steel industries. Eighty

will be imported. Mexican officials announced that these six industrial projects will operate with 60 percent Mexican capital and 40 percent French.

capital and 40 percent French.

**Aerospace** — France offered Mexico cooperation on aerospace technology and even offered the "supersonic" Concorde jet for the state-owned Mexican airline, Aeromexico. The French company Thomson-CSF is interested in equipping Mexico's radar system and supplying an air navigation system.

**Communications** — French industry has completed the first phase of the construction of the Mexican subway system, is in the process of completion of the second phase, and is in negotiation for the third phase which should begin within one year and covers an additional 41 kilometers (worth one billion francs).

In the field of telecommunications, CIT-Alcatel and Thomson-CSF are vying to take part in the development of the telephone system. (3.3 million lines by 1982 planned, against 1.9 existing), competing with ITT's CGCT.

**Financial Cooperation** — The French government has opened a line of credit to Mexico that will extend until 1982. One billion Francs ($240 million) will be made available in 1979.

In coordination, France will support Mexico's plans to float bonds in the Eurofranc Market.

In addition, David Ibarra, the Mexican Finance Minister, was quoted in the Mexican daily *El Sol* on March 4 saying that France offered Mexico two credits for $500 million.

*—Dolia Pettingell*

# Mexico's oil: who will get it?

There is no question that Mexico has Saudi-sized oil reserves. But how fast will Mexico increase production? *Financial Times'* correspondent in Mexico Alan Riding and other British outlets have claimed that the Mexican government has decided to halt production at the 2.25 billion barrels per day target set for 1980 because of fear of an "inflationary explosion" that could lead to "Iran-style social chaos."

### The facts

But, these statements are nothing but the product of classic British misinformation techniques. The facts of Mexican oil are these:

Mexico's oil production is now two years ahead of the government program President Lopez Portillo first set in 1977.

Mexico is willing to move well beyond the 2.25 million barrels per day figure, and quickly, if two conditions are met:

1) If there are sufficient projects domestically to absorb the higher oil income. The way Lopez Portillo put it in a Jan. 4 press conference is that Mexico "will increase oil production as much as we can digest its revenues."

Jorge Diaz Serrano, answering skeptical reporters' questions in mid-February, made it clear that Mexico has a big industrial appetite. "If you realize that we have increased our production 60 percent in the last two years, it shows that in Mexico things can be done very fast if there is enough support, enough resources....The more we industrialize the country, the more we will require funds, resources; the more we change the infrastructure, the more we build ports, the more we build highways, the more we build schools, the more we build hospitals, *the more we have a better country, the more we will need resources, and the more we will produce oil.*

2) If a new international economic order, providing for distribution of production according to international development criteria takes increasing effect. Lopez Portillo inserted in the joint communiqué he signed with Carter on Feb. 16 that "it is not possible to separate energy resources from economic development" and urged that "production, distribution and consumption of (energy) resources be made in an orderly and rational fashion and that all alternative sources of energy be developed, including the financing and transfer of technologies...to all developing countries."

This was the precise approach brought by Giscard to Mexico this week.

### Who gets it?

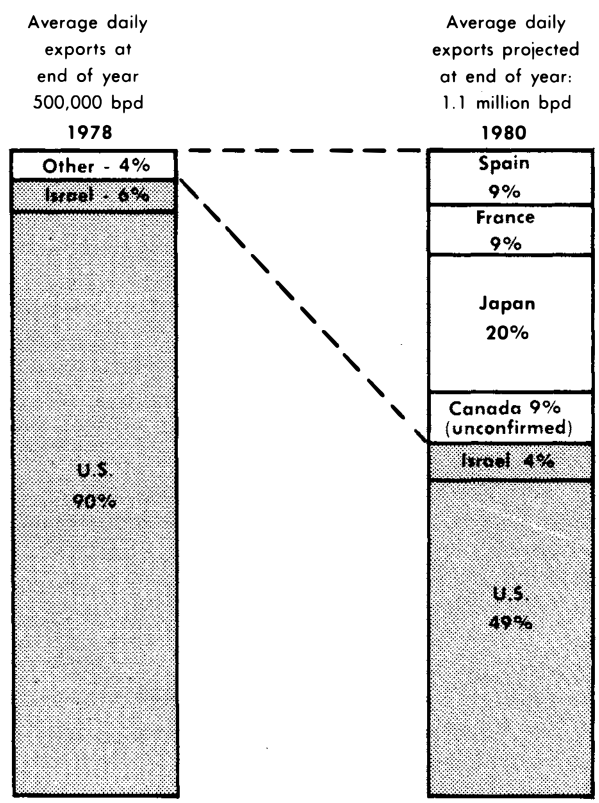
Who will get the oil? Mexico has repeatedly stated its goal of maximum diversification of markets, so as not to be locked into just one client. Diaz Serrano has pegged target percentages at 60 percent exports to the United States, 20 percent to Europe, and 20 percent to Japan. Mexico now has negotiations underway or signed to export 100,000 bpd each to France, Spain and Canada as of 1980, and 220,000 to Japan.

What is the U.S. perspective? If it continues to play blackmail games to gain control of Mexican oil as a strategic reserve, and continues to discourage Mexican industrialization in favor of labor-intensive rural "job creation" programs, the consequence is that it won't get much, if any, oil.

If it adopts the kind of approach taken by Giscard, all statements from the Mexican government indicate it will be able to import from Mexico in constantly growing, hefty volumes, at the same time Mexico diversifies its overall export picture.

**The changing composition of Mexico's oil in export distribution 1978-1980**

Based on current commitments either signed or in advanced negotiation.*




* Further export contracts, most notably to Brazil, are under consideration.

# Carter netted zero,

President Carter's trip to Mexico was a total failure, a fact widely acknowledged both within and outside the United States. Yet the media emphasis on Carter's obvious diplomatic blunders — like his references to his attack of "Moctezuma's revenge" during his prior visit to Mexico or his astonishingly banal speeches about his and President Lopez Portillo's "beautiful" wives and their common interest in "jogging" — are in fact misleading. There were far more serious blunders committed that have brought U.S.-Mexico relations to their lowest point in 50 years.

As we reported months ago, Carter's trip was condemned to failure from the moment it was admitted that his Administration had no economic program to take to Mexico.

Instead, Carter went to Mexico City with a packet full of offensive threats to Mexico and its right to development. The U.S. government "offers" included some armtwisting to make Mexico's oil a U.S. strategic reserve, an end to the flow of undocumented Mexican workers to the United States, and a proposal to make Mexico part of a North American "Common Market" wherein the Mexicans would give up their national sovereignty.

### What Carter had to offer

From the moment Carter and his entourage of National Security Advisor Zbigniew Brzezinski, Secretary of State Vance, and Undersecretary of State for Latin American Affairs Viron Vaky arrived in Mexico, Carter started putting pressures on the Mexican government to agree to the points recommended in a policy review document on U.S.-Mexico relations — Presidential Review Memorandum 41 (PRM-41) — elaborated by the National Security Council.

They proposed that the Lopez Portillo government make Mexico part of what PRM-41 called a "North American community" of Mexico, the United States and Canada. Mexico would have to surrender control over natural resources and would have to adapt economic programs to fit the role of a mere raw materials supplier.

The Mexican government said no. In an interview with *New York Times* columnist James Reston, President Lopez Portillo insisted that "there is still a lack of confidence and risks" in the proposal. In an interview with the Mexican daily *Excelsior*, Secretary of State Vance implied that although they pushed the idea very hard with the Mexicans, he thought "Mexico sees a number of problems in it."

It was with PRM-41's main policy aim — to make

## for business

Mexico's oil a strategic reserve for U.S. war preparations and a weapon against the OPEC oil producing countries — that the U.S. delegation faced the fiercest opposition from the Mexicans. In interviews with CBS President Lopez Portillo made his point to the U.S. population: "We would be very pleased if the most powerful nation on earth would pose the problem of energy resources not as a problem for the U.S., but rather as a fundamental factor to make the world economy more rational." Only in this way, he said, "will energy resources no longer be a factor of disequilibrium and a danger of war."

President Lopez Portillo's strategy to deal with the "behind doors" pressures from the Carter delegation was to bring the issue to both the U.S. and the Mexican population and to force "open diplomacy" in his talks with Carter. Let's rule ourselves by "good faith and clean play" he said in a now-famous speech before an embarassed Rosalynn Carter and a disconcerted U.S. President during a banquet for them. "It is difficult, especially among neighbors, to conduct cordial and mutually beneficial relations in an atmosphere of distrust or open hostility."

The Carter delegation reverted to open threats. At a luncheon the next day in the U.S. embassy, Carter angrily told the Mexican President that the U.S.-Mexican border was one of the "most indefensible in the world" and pledged to strictly apply U.S. laws against Mexican workers who emigrate to the U.S. in search of jobs.

Another aim of the Carter trip was to force Mexico to join the General Agreement on Tariff and Trade (GATT). This point was pushed by Brzezinski in an interview with Mexican television: "Mexico is the most important of the free countries of the world which has not joined GATT."

In exchange for lowering U.S. trade barriers to Mexican raw and semi-processed goods such as "vegetables and textiles," Mexico must liberalize its trade," measures that now protect its own industry, Viron Vaky told the Mexican press. One week after the trip, the U.S. government announced that it was taking 70 Mexican products off the list of preferential imports. Mexico had made no such promise to liberalize.

The Carter Administration not only did not offer any concrete deals to contribute to Mexico's industrial boom, but attempted to disrupt the deals Mexico has worked out with other countries like Japan.

On Feb. 6, the Mexican daily *Excelsior* made public a National Security Council document recommending that Alaskan oil be sold to Japan to replace oil for that country due from Mexico in 1980. Instead, Mexico would deliver their oil to the U.S. The document said that Mexico wouldn't oppose this deal. Mexico is not only opposed to U.S. mediation of its deals with Japan, but, in an interview with the *Washington*
12, Foreign Minister Santiago Roel said that although there is great discussion in the United States about that proposal, "the U.S. has not even consulted with us." This being the case, the three accords reached at the end of the Carter-Lopez talks were insignificant to say the least. The two governments agreed to start negotiations to establish gas price guidelines, with no indication or urgency on either side; to hold a new meeting between the two presidents in Washington in early summer; and to have the U.S. release an enriched uranium shipment that the Energy Department had embargoed last year waiting for Mexico to accept regular United States inspection of the nuclear facilities Mexico is now building. This is good news for Mexico, but the only reason the U.S. lifted the embargo was French offers to help Mexico rapidly develop a nuclear energy program.

The Mexican government's "no's" to the Carter Administration's offensive proposals were not directed at U.S. businessmen and exporters of advanced technologies. Interviewed by the U.S. press prior to the Carter trip, the head of Petroleos Mexicanos, Jorge Diaz Serrano, said that Pemex was only waiting for U.S. exporters to fulfill the tremendous capital goods demands the Mexican oil company will have in the coming years.

But, it was in the two president's final communiqué that the Mexican government made this offer more explicit to U.S. businessmen. In accordance with the Mexican government's demand of sticking to an "open diplomacy," the document reflects the differences that separate the two governments. Carter was able only to insert a few isolated threats to take strong action against undocumented Mexican labor and trade. Otherwise, the document reflected the Mexican President's economic and political viewpoints: "It is important to assure the adequate transfer of real resources to developing countries and to promote stable economic and social development throughout the world." On the necessity for a new world economic order, the final communiqué states that "an economic order should be sensitive to the necessity to provide for the needs of the poor, and investment should be directed so as to encourage their industrialization."

This is a challenge that U.S. businessmen must now face.

— *Alicia Fernandez*

# Milestones of EMS diplomacy

French President Valery Giscard d'Estaing's four-day visit to Mexico took place in the context of a previous nine months of extraordinary diplomacy on the part of Giscard and West German Chancellor Helmut Schmidt to bring into existence a European Monetary System.

We present below the milestones of the European Monetary System's North-South diplomacy, beginning with the historic meeting between Schmidt and Soviet President Leonid Brezhnev.

**MAY 6, 1978:**
**Schmidt-Brezhnev deal:**
The USSR and West Germany sign a 25-year agreement for economic cooperation.

**MAY 17-29:**
Mexican President Lopez Portillo travels to the USSR and Bulgaria. In a major statement May 18, Portillo spoke of "winning the peace" through cooperation and trade.

**JUNE 7-10:**
The Ibero-American Center of Madrid and the Center for Economic Investigations of Mexico holds a Spanish-Mexican Seminar to "deepen" an understanding of the economic reality of Latin American countries. Three topics are brought up: Carter's policy toward Latin America, and the performance of the Mexican economy, particularly during the 1950-77 period.

**JUNE 21:**
The Japanese Mitsubishi Research Institute spokesman, Masaki Nakajima, proposes a $500 billion World Peace Development Fund during an interview with the Japanese economic journal the *Nikon Keizai Shimoun.*

**JUNE 26-29:**
West German Chancellor Schmidt visits Nigeria and Zambia, the first visit to a Black African country by a West German Chancellor. "My trip should be understood as the announcement of our desire and will to seek with you a common way to bring our historical allies of Europe and Africa closer together."

**JUNE 28-JULY 1:**
French President Valery Giscard d'Estaing visits King Juan Carlos in Madrid. In an interview to the Spanish Catholic paper *Ya*, Giscard declares that he came to Spain to see how "we can tighten our cooperation and envision common actions, for example toward the Third World or Latin America."

**JULY 7:**
**Bremen summit of European Community heads of state:**

## De Gaulle in Mexico: French policy then as now

*In March 1964 Gen. Charles de Gaulle flew to Mexico to embrace that country as the natural ally in his Grand Design to rebuild the world monetary and economic system on a humanist basis. French President Valéry Giscard d'Estaing, in his Mexico trip exactly 15 years later, relaunched that effort against the same enemies: the Anglo-Saxon alliance and the International Monetary Fund.*

*We excerpt here two of General de Gaulle's speeches during his historic trip to Mexico 15 years ago, the first at Mexico's National Autonomous University, March 18, 1964, and the second, on March 17, before the Mexican Congress.*

...The continuity of your policy of the primacy of the mind manifests itself brilliantly before my eyes.... Higher learning no longer limits itself to merely ornamenting or enriching the mind. It actually constitutes what one might term the sole source, and the almost immediate artisan of progress in its every form. However, no matter how powerful and how precipitate is the moment which sweeps us on, nothing can prevent the fact that at the origin of everything discovered or accomplished is the human mind....

...Our two countries ... have chosen a similar direction, a similar ambition, that is to say: their development in all realms by way of modern civilization, in such a manner that it is the people in their entirety, and among them, each individual, who benefit from this progress....

...Unless humanity destroys itself some day in a

French President Giscard d'Estaing and West German Chancellor Schmidt announce the formation of the European Monetary System and the gold-backed European Monetary Fund to end world monetary instability and allow for a full economic recovery.

**JULY 16-17:**
Mexican Foreign Minister Santiago Roel comes to Paris to meet Prime Minister Raymond Barre. he convenes a three-day meeting of the Mexican diplomatic corps in Europe to "analyze the possibilities of increasing our links with the Common Market, particularly now that it has just held its meeting in Bremen."

**AUG. 3-4:**
ASEAN meeting is greeted by Philippine Foreign Secretary Carlos Romulo who states that the conference is taking place at the "appropriate time for the Bonn summit meeting has taken full cognizance of the needs of the developing sector."

**EARLY SEPTEMBER:**
Chancellor Schmidt is in Tokyo for talks with Japan's Premier Fukuda.

**OCT. 21:**
The first Ibero-Arab-Latin American economic summit is held in Madrid. Over 70 industrial projects are discussed. The stated objective of the meeting is to explore ways to channel Arab monies into Latin American development projects via Spain. The projects include steel, petrochemicals, food processing, and fertilizers.

**OCT. 23:**
Schmidt tells West German bankers that the EMF is to be the "basis for a new *world* monetary system."

**NOV. 1:**
Mexican President Lopez Portillo arrives in Japan for talks; Italy joins the EMS.

**NOV. 4-11:**
Franco-Spanish industrial cooperation committee meets in Bordeaux, France with delegations of industrialists from both countries. They discuss an agreement to the effect that Spain will help market French products in Latin America and France will do the same for Spanish products in Africa.

**Mid-NOVEMBER:**
Spanish King Juan Carlos I travels to Mexico, Peru, and Argentina. Reports an Agence France Presse wire on Nov. 15: "The most ambitious objective of Spanish foreign policy — the creation of an economic community and certain political planning between Latin America and Spain — will be the main topic" of the King's visit. Spanish Foreign Minister Marcelino Oreja, states to the press the same day that "Spanish efforts to create the Ibero-American Community of Nations" will not push aside Spain's entrance into the EEC. Mexico and Spain sign an agreement on energy, mining, industry, air transport and cultural cooperation.

**DEC. 4-5:**
Heads of State meeting in Brussels officially launches the EMS.

monstrous self-destruction, the fact that will dominate the future is the unity of our universe. One cause, that of man; one necessity, that of world progress, and consequently assistance to all those countries who desire it in order to develop; one duty, that of peace; these constitute for our species, the very basis of existence....

**To the Mexican Congress**
...Our common effort can be applied to three domains. The first is, of course, the field of economy. Mexico appears to us Frenchmen as a country in full development, possessing great human and natural resources, gradually acquiring the necessary technological equipment, but ready, in its march forward, to receive considerable investments from the outside, while seeing to it that these investments should not all flow from the same source. France has attained a high productive capacity; she is continuing to progress and to export a growing part of her production. You Mexicans see her as capable of contributing to the important industrial equipment and to the vast infrastructure undertaken by certain states, in particular your own. Moreover, you see her as able to extend credit, within the limits of her means and obligations....

Here, on the one hand is France, in full ascent.... France who expects the equilibrium and the peace of the world to spring not from the ever higher ideological bidding indulged in by candidates of domination, but from the personality and responsibility of states; France who, through instinct as well as through reason, tends to turn toward the immense potential and the growing realities represented by Latin America. On the other hand, here is Mexico ... among the Latin American countries of the American continent, (which) has given a shining example of political solidity, of economic development, of social progress.

**DEC. 9:**
The Mexican oil company, Pemex, and its Spanish counterpart, CAMPSA, sign an agreement by which Spain will act as "Pemex's beach-head in Europe." The agreement is cemented and expanded one month later with Pemex's general director's visit to Spain.

**DEC. 12:**
French Foreign Trade Minister Deniau presents to the UDF (the party of French President Giscard d'Estaing) a program for a $100 billion development fund for the developing sector and Europe. The UDF officially accepted that program in January.

**DEC. 28:**
Schmidt tells the meeting of Commonwealth countries in Jamaica: "a new, more just world economic order, with full access to credit and technologies for the Third World and the industrialization of the southern hemisphere" must be put into effect in the coming months.

Before his departure, Schmidt informs Saudi Prince Fahd, who is in Bonn, that "we stand today before the historic task of linking North-South, industrialized and developing countries, as well as oil producers into a peaceful dialogue for long-term cooperation."

**JAN. 29-31:**
The First Ibero-American Conference on Science and Technology is held in Madrid. The meeting is called to discuss the scientific research priorities for Latin America as a whole. Attending were Research and Development ministers from 20 Latin American countries, Spain, Portugal and the Philippines. A Financing Fund is created to promote joint scientific investigations and, eventually, to act as an agent for the transfer of technologies.

**JAN. 12:**
French Foreign Minister Jean Francois-Poncet is guest of honor at a meeting of all the Latin American ambassadors. He calls for "arranging the complementarity between Europe and Latin America."

## Figure 2. French exports to North Africa (1977)

in thousands of francs

| Product | Amount |
|---|---|
| Agricultural products & food | 1,504,622 |
| Chemical, pharmaceutical, fertilizer, rubber & plastic | 2,148, 508 |
| Paper products and wood | 466,769 |
| Textile & clothing | 858,711 |
| Steel & cast iron | 2,151,636 |
| Other metals | 296,231 |
| Misc. products in metal | 376,285 |
| Mechanical equipment | 3,067,350 |
| Electrical and electronic equipment and instruments | 2,343,197 |
| Railroad equipment | 443,143 |
| Auto & tractors | 2,671,191 |
| Aerospace and related products | 427.935 |
| Ships and maritime products | 665,781 |
| Optical and medical equipment and products | 453,525 |
| **Total of above** | **19,417,509** |
| **TOTAL EXPORTS including other** | **20,557,255** |
| **TOTAL IMPORTS** | 9,154,233 |

French trade with North Africa (Algeria, Morocco, Tunisia, Libya, Egypt and the Sudan) is a key indicator of French export policy towards the developing sector generally, because of the key relationship between France and the Maghreb countries (Algeria, Tunisia, Morocco). As the above (in millions of Francs) shows, France runs a two to one surplus with this region. Major export emphasis is placed on capital goods, machinery, and other industrial products.

Source: I.N.S.E.E., 1977 French import-export statistics

## Figure 1. French aid to developing sector 1974-1976

| | 1974 | | 1975 | | 1976 | |
|---|---|---|---|---|---|---|
| | Amount | Evolution | Amount | Evolution | Amount | Evolution |
| Government aid | 7,774.8 | + 16.9% | 8,972.0 | +15.4% | 10,255.1 | + 14.3% |
| Other aid from | 916.3 | +164.8% | 1,430.3 | +56.1% | 1,231.8 | − 13.9% |
| public sector | 7,497.6 | + 35.9% | 6,503.4 | −13.3% | 13,921.1 | +114 % |
| Private sector aid | 16,188.7 | + 29.4% | 16,905.7 | + 4.4% | 25,408.0 | + 50.3% |

Total French aid to the developing sector (shown above in millions of Francs) has increased by over 50% between 1974 and 1976, the first three years of Giscard d'Estaing's Presidency. While the private sector is responsible for the greatest increase in 1976, French government aid has been steadily increasing by around 15% yearly.

Source: Les Notes Bleues, Service de l'Information du Ministère de l'Economie

# The documents of the summit

French President Giscard d'Estaing's four-day visit to Mexico not only included meetings with Mexico's President Jose Lopez Portillo to establish the parameters of cooperation between the European Monetary System and Mexico, but also major addresses before representatives of Mexico's business community, its university, professional, and intellectual layers, and before a specially convened session of the Mexican Congress. We present below the documents of the summit, from the airport greetings to the final communiqué — documents which have not been reported by any other U.S. press.

## Giscard, Lopez Portillo exchange greetings

*Following are excerpts of the greetings from both presidents on Giscard d'Estaing's arrival in Mexico City on Feb. 28. The statements previewed the tone of the four-day meeting.*

**José Lopez Portillo to Giscard:** "You have come to Mexico on the beautiful wings of concord. In the name of the people and government of Mexico, I extend the most cordial welcome.

"Fifteen years ago an unforgettable president of Mexico — now dead — Mr. Adolfo Lopez Mateos, received the also unforgettable President Charles De Gaulle. The bases of relations between our two countries was laid then: 'hand in hand,' President De Gaulle told us in a speech that remained impressed in the memory of our people....

"Welcome. This is your house."

**Giscard d'Estaing to Lopez Portillo:** "I bring to you the friendly and fraternal greetings of France....

"The French, like the Mexicans, have the same concept of democracy, the same national pride, and also the same love of peace.... Never have our peoples been so enterprising, so resolutely oriented toward the future.

"Whether the world society that is being built responds to the necessities of man depends in great part on countries like ours, on your responsibility, Mr. President and on mine.

"The future world society, in conformity with democratic nations, should be pluralist. No nation, no doctrine can have the pretension of dominating the others. Every perception, every culture should have the ability to express itself. Peace can be achieved by no other means.

"Mexico and France, each in its continent, possess the means to act in this way....

"Their dimensions, their political maturity, their talents and wealth equip them to assume, together with others, a preponderant role in the construction of the world.

"This is a great task and I am happy to reflect upon it and to work for it with you during the course of my visit, with the same fraternal friendship that unites us, Mr. President, and that draws our two peoples together."

"Viva Mexico."

## Lopez: 'let the reason of peace prevail'

*Mexican President Lopez Portillo emphasized that relations between his country and France will be aimed at complementing the economies of each. Excerpted here are portions of the speech the Mexican President made at the state dinner welcoming President Giscard d'Estaing on March 1.*

This meeting takes place at a conjuncture favorable to giving impetus to our interrelationship at higher levels.

France agrees with the conception of a new Europe which must, if it wants to continue to be the protagonist in history, overcome the limitations of the nation-state through the association of sovereign nations that maintain political, economic, and social responsibilities.

Through its commitment to sovereignty, Mexico...projects its nationalism, without hostilities or exclusions, onto an international order that responds politically to the efficiency of economic hegemonies which have no face, or center, or responsibilities, and which transnationalize and obscure all national destinies, just as Mexico also opposes submission imposed by another political power whatever its tendency or strength.

Partial agreements, whether they are between great powers or between groups of countries, do not resolve the present conditions because they marginalize the majority of men and resources which humanity could utilize with equilibrium.

All this demands a new political will to order, propose, and conceptualize interrelationships and interchanges.

The case of energy sources and their alternatives is most illustrative. The disorder of energy production, distribution, and consumption with all that involves and touches upon has humanity on the brink of collapse.

It is urgent to utilize the grand conception, which makes energy sources the patrimony of humanity and which inscribes them into a universal method. This may sound like wishful thinking. All we need to sustain this is our offered commitment as a potential producing country. And we believe that either we have an order in which all have just and fair access to alternative sources or we have the apocalypse. The horsemen of the apocalypse are galloping. I hope it's not too late.

.... It is advantageous for France and Mexico to make an effort to increase our interchange, since we have similar problems of dependence, and to do so without harming our economies by exclusivity, but advancing through the possibilities of complementing them. There is much to explore and to do: raw materials, capital markets, currency co-investment, technology, projects, opportunities in which we must join eliminating the phantom of a new monetarist mercantilism that favors capital above labor, and that is dramatically present between the powerful and the weak countries....

The democratic culture to which we belong demands this. For France, as for Mexico, politics and economics are a living part of the culture, and not an expression of natural forces. To legitimize the struggles of opponents; to order interests to integrate the forces of the society as a function of the values of democracy, demand that the state gives primacy to reason over the limitations of pragmatism.

Thus, I believe that we have to understand each other by speaking the new language that our circumstance demands: cancelling the conventional rhetoric no one believes in, to pose our problems with frankness and clarity and to resolve them with equanimity. Honesty and clarity of spirit today have to substitute for the old tools of diplomacy.

Thus we have spoken and are understood. Thus we will continue understanding. To consider what makes us different; to strengthen that which draws us closer; to respect the identity of each person; to seek harmony and balance; to illuminate reality with reason.

We would like those virtues, so French and consequently so universal, and thus common to us, to be present in our dealings and agreements. In the same way we would like to see them at work in a world that is plunging toward an absurd violence which — propelling humanity before it because of brutal underlying energies — betoken the beginning of a new era or the end of all eras.

Let the reason of peace prevail, and let France and Mexico join in it.

## 'Our future presumes advanced technologies,' says Giscard

*While in Mexico, France's President Giscard d'Estaing addressed a group of bankers and business, tracing his country's economic growth to its commitment to advancing the application of technology and the population's living standards. Excerpts from that speech, delivered March 1, follow.*

... During the past 20 years, France has known the most rapid economic growth of the industrialized countries other than Japan.... This economic growth, without any precedent of this type in history, has carried us to the ranks of the primary economic powers of the world....

French agriculture, which in 1950 employed 30 percent of the active population of our country, today does not employ more than 10 percent, and yet, French agricultural production has not only been maintained, but has notably increased in volume.

We have concentrated our efforts in a few economic sectors, and here I am only going to note aeronautics, the space industry, satellites, telecommunications, rail transport (particularly high velocity), and the complete dominance of the nuclear energy cycle.

## Giscard touts EMS to Mexico business

*During his speech to Mexican businessmen and bankers, French President Giscard d'Estaing was asked by the president of the Mexican Bankers Association about the composition of the new European Monetary System. His answer (excerpted below) reiterated the points he developed in a Feb. 26 interview on the Mexican television program "Twenty-four hours."*

It's a system designed to create a monetary stability zone in Europe, that is, among the countries of the European Economic Community.... To finance currency stabilizing interventions, the central banks will receive an instrument called the ECU.... The ECU will not be employable in commercial transactions, nor a reserve currency in terms of the international economy, since it can only be used by the central banks of the system and not by foreign central banks such as those of the American continent.

We hope to use it to stabilize the exchange relations

The characteristic of our economy is that we are 80 percent dependent on foreign sources of energy and raw materials. We intend to reduce this percentage appreciably, thanks to the development of production of nuclear energy....

On the other hand, we have an economy with a high level of social protection, in terms of social security for workers, with respect to illness, or age or the family....

This means that we are going to systematically orient our development to sectors of advanced technology and national value-added in such a manner as to be able to take into account our essential wealth, which is the French population's capacity for labor and invention.... Our future, our standard of living, and employment presumes an orientation to advanced technologies....

Mexico, on its side, has shown a willingness to diversify its international economic relations, and this we understand. This country is situated in the North American continent, where the power of the U.S. from the economic standpoint is considerable. It is logical that (Mexico — ed.) desires ties with the other countries which balance this influence. In this respect, I believe that our bilateral trade, situated as part of commerce between Mexico and Europe, should be conceived in accord with the fundamental orientations of our policies. At the same time ... this meeting should permit our two countries to play an essential role in the establishment of a new world economic order....

among the countries of Europe. Of course, exchange rates could change.... When a country undergoes important technological or social changes which transform its relations with its neighbors, a change in rates could be decided. But outside of that kind of change, the several currencies will fluctuate only within very narrow limits.

What will be the consequences for our partners, for example, the Latin American countries? This means that you should get used to thinking of the group of European currencies as a homogeneous group.... And trade should be conducted using the usual currency in the knowledge that there is no advantage or no special risk in using any one European currency instead of any other one.

Naturally, this system is part of an organizational principle which we call "the economic and monetary union" and it's true that in the future, the role and the function of the ECU will be called upon to develop further. And, down the road, we will have to analyze with our partners in the light of experience in what way the ECU could be used, eventually, for interventions in markets outside of Europe.

## Giscard addresses the Mexican Congress

*On March 2, French President Giscard d'Estaing addressed a specially convened session of the Mexican Congress. Excerpts from his remarks follow.*

...With emotion and fondness, I see that the representatives of this so diverse yet so tightly united nation are gathered here....

Mexican dignity and independence remain alive and will triumph in the agitated and dangerous world in which we live. France has profound respect for that independence. Our two countries, with mutual trust and on an equal footing, will know how to deal with the problems and the threats which affect them.

Mexico and France share the characteristic of being states based on law. President José Lopez Portillo, a statesman and at the same time a philosopher, has often stressed the irreducible primacy of the state of law, which does not assume the primacy of a class or a race, which is not based on messianism, but which as the author puts it, "is justified to the degree that it frees each man from hunger, from insecurity, from misery and from ignorance."

...Our two countries have identical points of view about the near future of the world and have the same will to peace. Neither of us has any form of blindness which blocks a clear vision.

...We ceaselessly seek without respite the paths which will permit us to establish a new international organization capable of overcoming and thus preventing a sterile confrontation of ideologies and hegemonies which could provoke an apocalyptic situation.

Rather, it is necessary to lay the foundations for a "detente" policy on a world scale, through open cooperation, and by getting beyond a simplistic manichean vision which counterposes some peoples against others, according to whether they participate in or submit to a given form of government or according to their level of wealth or misery.

In the face of these realities, Mexico and France reacted in analogous manners. In the same way that we recognize and proclaim that each human being, that each person, has the right to assume his own destiny, we base the concept we have of world policy on the right of each nation to choose freely its system of government and to organize itself with full autonomy in accord with its aspirations and the will of its people.

## Giscard on the role of the humanist statesman

*On March 2, French President Giscard addressed an audience representing Mexico's intellectual community. He chose this event as the forum to present his views on statecraft and the fundamental concepts of humanism. Excerpts from his address follow.*

...The problem of the relations between politicians, statesmen, and intellectuals has always been a sensitive and delicate one, (and one) which I consider to be essential. In the category of politicians and statesmen there are two groups: the first is what I would call adventurers —that's not a pejorative term—that is, those who conceive of political functioning in terms of exploiting the immediate circumstances.

There have been throughout history glorious adventurers and, as has frequently been the case, these adventurers have a certain intuition of the necessity of the times; and although their action is determined by circumstances and opportunities, it is inscribed within a longer term perspective. On the other hand, there are conceptual statesmen, that is, those whose idea is to transmit through their political action a certain conception of the economic, political, and social organization of their country, and a certain conception of the international organization of the world at that time.

This second category is more numerous and more brilliant. (In it) are all the statesmen whose actions are preceded by a certain form of deliberation or questioning. I would say that its founder was Alexander with his dream of "the marriage of Europe and Asia." He was followed by a series of great (leaders) who were inspired during the Renaissance and the Enlightenment by those who believed that political action should serve a certain apriori idea of the organization of social and political life.

In my case, I hope to belong to this second category...I only feel right in the relationships I have with politicians of this second category. That is, those who maintain the dialectic of reflection and action; and to conserve that dialectic it is very important to meet with the intellectuals of one's generation...to search with them for the fundamental questions of the time, for the perspectives and the degree to which political action can answer those questions or open (new) perspectives....

...I believe that we are moving increasingly toward a perception of the history of the species and therefore, one can ask global questions of the kind you are asking

# The final communiqué of the summit

*The presidents of France and Mexico concluded their talks by issuing a 23-point joint communiqué that was more striking for its emphasis on a shared policy perspective of world peace and development than for the particular bilateral agreements reached. We excerpt the communiqué's major points below.*

... They reaffirmed the complete adherence of their governments to the principles and aims of the United Nations Charter to insure a harmonious basis for international relations.

... They agreed to promote an active peace which means not only the absence of warlike hostilities, but requires the elimination of hunger, sickness, illiteracy, ignorance, poverty, and injustice, a task in which all members of the international community have a shared responsibility.

... (They) emphasized the urgency of finding solutions ... to resolve the problems of the Middle East, Namibia, Zimbabwe, and Belice, with strict observance of international conduct contained in the UN Charter .... They expressed their grave concern for the ... evolution of the situation in Asia, whose gravity constitutes a threat to international peace, and expressed the urgent need to find a rapid and just solution to the conflict....

... (They agreed on) the need for a general and complete disarmament under efficient international control ...

... (They) examined the evolution and perspectives of the world economy. They ... emphasized the need to avoid monetary and exchange instability, disequilibrium in the process of adjustment of balance of payments, protectionist commercial measures and a widening of the gap between industrialized and developing nations.

... (They) noted that the negotiations for implementation of the new world economic order, taking me. Can humanist societies contribute to the world of tomorrow?...

We are in quite a unique situation which is that of a certain globalization of the problems of the species and, at the same time, a desire for particular cultures to take root, and thus (a desire for) the fragmentation of cultures.

There is a solution... it's what we call, taking a word from the Mexican experience, the solution of "the dialogue of the cultures." From the moment we move toward a more global perception of the problems of humanity so that cultures are not lost in their particularisms, it is indispensable that (there be) a dialogue of cultures....

...We know what we perceive as humanism at this time: it is...the accumulation of knowledge and of behavior jointly inherited from the Renaissance founded in the Judeo-Christian tradition. From the rationalist reflections of the 18th century, their political and social expression in the institutions of the 19th century and the beginnings of the 20th, one sees the trajectory of these humanist societies, to which we as much as others belong.

What will that cultural contribution (of humanist societies) be? ...I'll mention four concepts: first, a democratic concept...that is, the search for political and social structures in which the individual will, on the one hand, and the service of individual rights, on the other, are at the center of the political and social mechanism....

The second fundamental concept is juridical. Humanist societies are societies of law...that is, they are not established on the basis of relations of force....

The third fundamental concept...is the concept of education. There is a kind of intimate symbiosis between the development of humanist societies and the development of concern with education. This was seen in the Renaissance and also in the 17th and 18th centuries in which the greatest humanist thinkers were at the same time extraordinarily concerned with education, in every sense of that term.

Lastly there is the scientific concept, which appears as a product of humanist societies....the idea of the progress of humanity or of societies develops especially ... and in certain respects, largely as a result of the progress of knowledge and the domination knowledge exercises over a certain number of situations or a certain amount of material data. This is the potential contribution of humanist societies: provide these two concepts to the common culture of the species.

place in the United Nations, should be accelerated for rapid application ...

... (They) indicated that the multilateral commercial negotiations going on under the auspices of the GATT, can provide an opportunity for bettering the world economic situation ... The President of Mexico indicated that his country would eventually contribute to the multilateral trade negotiations only to the extent made possible by its trade, finances, and development ...

... (They) examined the state of relations between Mexico and the European Economic Community and the different ways of strengthening them.

... (They) pointed out the advantage of taking all the measures necessary to increase commerce, especially a diversification of Mexican exports and increased sale of products with a high level of value-added.

... (They) noted with satisfaction ... the agreement between Petroleos Mexicanos and the French Petroleum Company for the purchase of oil by France.

... (They) considered a series of areas in which they could develop cooperative action ... which include ... training and technology transfer. The following areas were of particular interest: electric construction, mechanical equipment, automotive industry, air and rail transport, machine tools, petroleum equipment, air navigation and port equipment, food agro-industries....

... (They) noted with satisfaction conclusion of a financial agreement effective until the end of 1982, which anticipates for 1979 financing of a total sum of up to 1 billion francs by the French government....

... (They) agreed to use all the means at their disposal to develop industrial, technological, and scientific cooperation between the two countries.

... (They) signed protocols of cooperation in the following areas ... railroads, mining-metallurgy, scientific and industrial development in the utilization of nuclear energy for purely peaceful and not bellicose purposes. (...)

The president of the French Republic expressed his deep gratitude for the warm reception offered him by the people and government of Mexico throughout his stay and invited President Jose Lopez Portillo to visit France. Said invitation was accepted. The date of this visit will be set through diplomatic channels.

# EMS pushes IMF aside

## *Coup de main against London's austerity economics*

When France and West Germany made the historic announcement March 7 that the European Monetary System (EMS) will go into full official effect by March 12, the timing could hardly have been more acute or deliberate. The announcement coincided with the semi-annual meeting of the International Monetary Fund's Interim Committee meeting in Washington D.C., with public European signals that Britain may be read out of the European Community (EC) for its efforts to derail the EMS, and with Jimmy Carter's departure for the Mideast.

What French President Giscard referred to as the imminent "state-to-state" institutionalization of the EMS is emphatically not a matter of fixing internal currency parities for the system's European members; as the *New York Times* conceded in its lead March 8 article on the EMS, these are already in effect. The overriding tenor of the EMS statements and circumstances is a *coup de main* against the International Monetary Fund's ability to impose self-contraction on the underdeveloped sector. The EMS leaders have attenuated the issues of IMF capital expansion and Special Drawing Right dollar substitution to the point of nullity; they have ended the British government's ability to veto the European industrial development packages for the Mideast and Third World envisaged by the EMS's European Monetary Fund (EMF), and they have delivered a healthy shock — retransmitted by heavy U.S. press coverage — to American bankers and industrialists. The questions now are how far and how fast Washington and U.S. business can be brought into alignment with this policy for world stabilization and growth, and how forcefully the EMS will follow up its shunting aside of the IMF in the Lomé talks and related discussions of North-South economic relations.

### IMF adjourns for EMS

The most startling confirmation that the Giscard-Portillo diplomacy on behalf of the EMS design (see INTERNATIONAL) was surrounding the IMF itself was the public statement March 7 by West German Finance Minister Hans Matthöfer that, at the close of the IMF meeting, the EMS finance ministers and central bankers would not wait to return to Europe to formalize the EMS nuts and bolts, but would hold a special session in Lashington that night. Matthöfer said that the EMS could begin to operate as early as March 9 based on this "startup" meeting. He added, "We're going to tie up the exchange rates tonight."

Earlier in the day, Giscard had appeared on French television to announce that France wants to officially begin EMS operations the week of March 11 — when the EC heads of state and government hold their latest summit. Giscard's statement was elaborated by presidential spokesman Pierre Hunt: "the eight countries that have agreed to form the EMS will receive a proposal from France to go ahead with the EMS as a state-to-state institution irrespective of British attitudes to the agricultural program."

By means of this agricultural reference, the Elysée Palace was formalizing what had emerged at the EC farm ministers' meeting March 5-6: a new "Eight" without, and outspokenly opposed to, Britain. Since the EMS was initiated ten months ago by France and West Germany, the deeply anti-EMS British government has played various puerile games within the EC around the farm question in particular, games which were tolerated to the extent that Schmidt and Giscard allowed Anglo-American pressures to decelerate full EMS-EMF operations. Now Britain has been told openly that an agricultural solution has readily been found and it can take or leave the results (see box). Far more, it has been told that its perennial worst fears have finally materialized of a continental alliance, out of London's control and bent on active entente with the Soviets and the post-colonial world. As *Le Monde* put it in a March 8 editorial headed "Realism and Joint Activity" (referring to France and West Germany): this week saw "the loss of England's influence over the old continent."

### G-24 and "The Eight" in Washington

What the U.S. press has not called attention to in its unusually full coverage of Matthöfer, Giscard and the EMS is the coordinated deployment at the IMF meeting that spun off Giscard's discussions in Mexico. The director of Mexico's central bank, Romero Kolbeck, declared March 6 that Mexico now will recognize no obligation to give even pro forma attention to the IMF's austerity-deindustrialization formulas, since it has repaid all its obligations to the IMF. In Washington at the IMF's meeting of the Group of 24 developing-nation spokesmen the same day, Mexican Finance Minister David Ibarra Muñoz pressed Mexico's 1978 call for a $15 billion international development banking institution to finance capital goods imports for the Third World. Ibarra stressed the long-term, low-interest, development focus of the proposed fund in caustic contradistinction to the IMF's practices.

The G-24 as a whole proceeded to issue a statement terming Third World indebtedness the main obstacle to the sector's economic growth, and endorsing Ibarra's proposal. It has been the lack of any EMS counter-institution to the IMF that in the past has prevented such initiatives from guiding the actual week-to-week diplomatic behavior of the G-24 and its constituents.

At the Interim Committee meeting itself, the Anglo-American contingent quickly lost hope of forcing some motion toward the IMF's goal of replacing the dollar as the international reserve currency. At the beginning of the sessions, the U.S. Treasury—frank and ardent supporters, under Blumenthal and Under Secretary Anthony Solomon, of using the SDR for that purpose — startled international backbenchers by announcing that, in view of the dollar's stabilization under the Nov. 1 international agreement, Washington no longer favors immediate creation of a $150 billion "substitution account" whereby central banks would trade dollar holdings for SDR's.

All too aware that the substitution account was dead, the IMF secretariat under Jacques de Larosière had prepared other gambits to keep antidollar proposals on the table. (1) It stressed in the meeting and the final communiqué that SDR's can be used as collateral and remittance for central bank credits and pledges. (2) It proposed that central banks queasy about holding dollars could put them into the IMF and receive guarantees against dollar depreciation measured vis-à-vis the SDR, which is a basket of currency values. (3) Alternatively, the U.S. could agree bilaterally with any central bank to make good on losses from dollar depreciation over a certain period of time. (4) At the close of the meeting, de Larosière added another twist: creating assets that "would not be proper SDRs, would not be issued in SDRs, but could be denominated in and

## Questions and IMF answers

*At the end of the IMF Interim Committee meeting in Washington, D.C., IMF Managing Director Jacques de Larosière and British Chancellor of the Exchequer Denis Healey held a joint press session. A transcript from EIR Washington correspondent Laura Chasen is excerpted here.*

**Healey:** (in opening remarks): Most important, we came to grips with the question of organizing the substitution account, which should be seen as a reinforcement for the SDR as the principal reserve, rather than as a buttress for reserve currencies that are under pressure....There are important technical problems to be solved on this....

**Q:** *The G-24 made two suggestions for a medium-term facility and for a facility for importing capital goods by developing countries. Why is this not mentioned in the Interim Committee communiqué?*
**De Larosière:** This question was not examined today. I think the development committee intends to have it studied....

**Q:** *Was the EMS discussed?*
**Healey:** No, except that (French Industry Minister René) Monory explained that it would not operate in a way which was either intended to or would jeopardize the operations of the IMF. The role of the European Currency Unit which is purely regional is not in any sense competitive with the SDR....As you know, Giscard withdrew his reservations and a meeting is taking place now to decide the modalities. Another UK delegate is replacing me there because I could not bear not to be with you here.

**Q:** *Was support for the substitution account unanimous?*
**Healey:** Yes.

**Q:** *Why has the U.S. view changed?*
**Healey:** You should ask them.

**Q:** *Is the link between the SDR and development finance still active?*
**De Larosière:** The concept is still around, but some governments have been hostile to it, so there has been no movement.

having the main characteristics of SDRs, with the very important characteristic of the SDR, its liquidity." This addendum appeared to refer to the 1978 IMF proposal for some "basket" that could be used instead of dollars to denominate oil payments in particular, a "basket" that would have a lesser dollar component than the SDR.

Item (1) simply celebrates the inconsequential fact that, under the West German-Swiss-Japanese pact of Nov. 1 whereby the U.S. agreed to take some dollar support measures, the West German Bundesbank received several hundred million SDRs in exchange for providing the Federal Reserve with deutschemarks for foreign exchange market intervention. Item (2) sounds innocuous, insofar as it involves no dollar substitution; but it is actually aimed against the EMS. The EMF was conceived as a way to absorb dollars from spot-market sellers, fearful investors and other dollar divestors, and rechannel them into productive gold-backed loans. The EMF's European Currency Unit (ECU) is the vehicle for accounting and clearing the gold and dollars involved — the antithesis of the SDR. The IMF would sit on those dollars or use them to expand its credit-blackmail powers en route to retiring them for SDRs.

The other two proposals are frankly variations of the hoary substitution account and thus overtly anti-EMS, since the EMS is not only recognized as determined to preserve the dollar as the world "key currency," but has every ability to do so. Both were shelved, with polite comments from the Japanese and others about their inappropriateness at this time, prompting a reporter from the West German business daily *Handelsblatt* to enquire at a press conference why the IMF maintains its Interim Committee meetings when all they ever do is defer matters for study.

West German government sources had already said privately to EIR — and, in the case of deputy finance minister Manfred Lahnstein, publicly to the March 5 *Handelsblatt* — that Bonn would come to Washington prepared to keep the IMF out of the "resource transfer" question, that is, North-South technological investment and trade, and press it later this month at the EC's ministerial talks with the Third World on Lomé trade agreements in Nassau. Secondly, sources have said that in the wake of Chancellor Schmidt's meetings with Turkish finance minister Ziya Müezzinoglu, the dimensions and conditions of aid to Turkey would be a key informal subject at and beyond the Interim Committee meeting. Both these discussions are expected to involve extremely heavy last-ditch deployments by Britain, through all still-available channels in the Third World and U.S. as well as Bonn and Paris, to confine the impact of "The Eight" on world credit flows.

— *Susan Johnson*

## Not talking about farmers

Under the conditions of virtually fixed currency rates achieved by the EMS, there is no need for the "monetary compensation" subsidies the EC pays to farmers whose sales have been affected by jagged appreciations in their national currency, especially in West Germany. The French have pushed hardest to abandon these MCAs, and the EC "Eight" agreed March 5-6 to do so over the next two years, with a temporary sop to German farmers, that if the mark appreciates within the EMS their MCAs will not be reduced. A small increase in agricultural prices was also arranged, plus a devaluation of the French and Italian "green" currencies used for intra-EC transactions, which will in principle promote their exports. The compromise is much less interesting and important than the prospect, raised since the July founding of the EMS by Giscard, of turning the EMS farm sector into agribusiness exporters to southern Europe and the Third World. The British hoped to wreck the compromise as a way of perpetuating the EC as a forum for petty wrangles instead of EMS implementation, and, as the following press coverage indicates, the crudity of their latest attempt — to "modify" the compromise with price freezes on surplus commodities, and deletion of the German sop — was used as a pretext to begin to boot the UK out of the Community altogether.

**Station One, French television, March 7:** The meeting of agricultural ministers agreed on all the proposals, with the exception of the British. There is now some consideration of a joint action of condemnation of Britain as a possible response.

**Financial Times of London, March 7:** The EEC agricultural ministers arguing here over farm pricing arrangements are **not** talking about farmers (emph. in original — ed.). The objections raised by Mr. Jon Silkin, the UK minister, to the compromise solution proposed by the commission indicate that Britain's concerns at the moment are not primarily agricultural.

Indeed, there is growing speculation in Brussels that the British, while not openly opposing introduction of the European Monetary System which is linked with farm finance, are keen to prolong the delay. It is suggested that while the EMS remains in the air, the British have more leverage for extracting concessions from the other eight on some of their longer-term demands, such as the redistribution of EEC resources in a way more beneficial to Britain....

# U.S.: no Tokyo dollar credit

## *Trade blackmail aimed against development loans*

New tough talk came from Treasury Secretary Michael Blumenthal during last week's talks in Tokyo — including the threat of a "forced-by-Congress" 15 percent import surcharge against Japanese goods. Behind the noise lies a critical shift in the focus of U.S. demands on Japan.

No longer are the primary goals — for which protectionist threats are a lever — forcing Japan to reflate, to reach current-accounts balance, and upvalue the yen. Now, the priority has shifted to the strategic sphere of international finance and monetary policy. Blumenthal is pressuring Japan to make the yen a reserve currency, to shift its international lending from dollars to yen, and to allow U.S. banks to increase inroads into a Japanese domestic banking system. This would entail a new high-interest rate structure for Japan itself.

According to Washington sources, Blumenthal wants to suffocate the growing role of the Tokyo International Capital Market as a de facto partner to the European Monetary System (EMS) in stabilizing the dollar through recycling dollars into long-term-lower-interest development loans, increasingly. Instead, he is pushing yen-denominated loans as one transition to an economic order in which the dollar is replaced as the reserve currency by something like the SDRs (Special Drawing Rights) of the IMF (International Monetary Fund). Blumenthal has consistently denounced the Tokyo Capital Market's functioning as "credit dumping."

During his March 4-5 discussions in Tokyo, Blumenthal emphasized four main demands, according to reliable sources:

1) Increase Japanese loans to developing countries, but make them in yen rather than dollars, and turn the conditions over to such international institutions as the World Bank-IMF and the Asian Development Bank rather than the Tokyo commercial market. This demand was also presented publicly two weeks ago at a Washington conference by Phil Tresize of the Brookings Institution, a thinktank whose staff permeates the Carter Administration. Acceptance would strike at the heart of the Tokyo Capital Market and the EMS, since it is only by once again making the dollar an instrument of productive international investment and trade that its value can be maintained.

2) "Reform" Japan's domestic banking structure to allow greater inroads by U.S. and other foreign banks, e.g. through allowing U.S. banks to acquire large amounts of yen through issuance of certificates of deposits. At present, foreign banks are limited to a cumulative total of the equivalent of $3.5 billion in locally acquired yen in a market in which new loans total well over $100 billion equivalent per year. Japan's monetary authorities have long resisted such proposals as eroding their dirigist influence over credit allocation and interest rates.

3) Offer trade concessions, with a laundry list from U.S. Trade Ambassador Strauss now expanded to include the strategically key telecommunications and computer sectors.

4) Increase domestic consumer loans so as to direct demand away from exports, such as capital goods, into domestic demand .

Informed figures in Japan, as well as EMS spokesmen in France and West Germany, are well aware of the link between the revival of protectionist threats and the Blumenthal-Brookings pressure on international financial policy. On Feb. 12, the German daily *Frankfurter Allgemeine Zeitung* (FAZ) commented on President Carter's threat to boycott the Tokyo summit of Western heads of state this summer unless Japan capitulated on trade issues. *FAZ* charged that Washington's intention is to block a "still confidential" proposal Japan will make for a new credit system based on the principles of the European Monetary System, known as the "consolidation plan." This proposal first surfaced following the October 1978 meeting of then-Premier Takeo Fukuda and Chancellor Helmut Schmidt.

Japanese government sources told EIR: "Strauss presented a big list of trade demands very sternly (in February). He looks strong. But now we know Strauss; we're more used to him. Blumenthal appears more sincere but in reality his demands are stronger than Strauss's.... They are less concerned now with the internal economic policy of Japan or the 7 percent growth rate. Now, Blumenthal wants us to let in American banks." He added, "the U.S. still misunderstands Japan.... Japan will continue to explain to the U.S. its intentions...." In undiplomatic language, this mean Japan has no intention of going along with Blumenthal's demands. At the March 6-7 IMF meeting, Bank of Japan Governor Morinaga made the point softly, saying Japan has no objection to increasing yen-denominated international bonds, but he did not counterpose this to dollar loans, adding later that there was "no need to implement the substitution account at this time, given the strength of the dollar."

### The Administration and the Congress

Blumenthal told his Japanese hosts that unless they accede to his demands, there is "a real risk" of Congress pushing for an imports surcharge against Japanese goods. Tresize made the same warning three weeks ago; National Security Staffer Henry Owen, formerly of Brookings, and State Department official Robert Hormatz are expected to repeat it when they visit Japan March 16-19, ostensibly to help prepare the Tokyo summit. The Administration claims its hands are tied by Congress, but a staffer for the House Ways and Means Committee, which first raised the imports surcharge in a letter to Carter last year, reports, "it is the Administration, not the Congress, which has shifted on the need for a surcharge." Legally, under the 1974 Trade Act, the Executive, not the Congress, imposes any such surcharges.

Washington insiders described the "hard cop, soft cop" job being pulled on Japan as follows: at a meeting between Strauss and special emissary Ushiba, Strauss told Ushiba it was impossible to reach a definitive settlement but proposed a Kissingeresque three-to-four-year negotiating process. When Ushiba refused such "step-by-step" procedures, Strauss told his friends on Capitol Hill that nothing could be done for several years and the issue was now in the hands of Congress. Strauss's fellow Texan and "good friend", Sen. Lloyd Bentsen of the Joint Economic Committee thereupon ordered a study of Japan's trading practices.

Congressional sources report that the Administration, not Congress, then rushed to shout from the rooftops that Congress was about to impose import surcharges against Japan unless Japan acquiesced to Blumenthal's demands. Bentsen himself is a supporter of the "North American Common Market" proposal to make Mexico a strategic oil reserve for the U.S., keeping Mexico from industrializing while disrupting a potential Japan-Mexico economic partnership. A partnership that epitomizes Tokyo Capital Market policy. Other Administration backup has come from Congressman James Jones (D.-Okl), who last year ordered a study of foreign banking practices that singled out Japan for "lack of reciprocity" toward American banks.

### Stop the Tokyo Capital Market

Now, interest rate warfare on the Euromarket has enabled the Blumenthal group to partially achieve what Japan will not accept willingly. After a fivefold rise in dollar lending abroad in 1978 to $11 billion, the Bank of Japan estimated that January-March dollar lending will fall 30 percent to $3 billion from the October-December $4 billion level. In contrast February yen international lending rose to the equivalent of $1.5 billion, five times the monthly rate for 1978.

The Tokyo Capital Market has worked as follows: When billions of dollars flowed into Japan due to Blumenthal-instigated speculation, the Bank of Japan relent (approximately $500-600 million per month) at rates slightly but importantly lower than the London Interbank rates that have set the pace for international and domestic U.S. credit. The funds were then relent largely for productive development projects to Third World countries, the Mideast, and so forth. Japanese and European spokesmen propose to lend such dollars internationally at rates tied to their own domestic prime rates of 4-7 percent in order to establish a two-tier credit system that will ultimately force down the interest rates of the entire Euromarket structure. This means that Japan and Western Europe can proceed to do what they think the U.S. should join them in doing — exponentially expanding very-high technology industrial, infrastructural and energy-development exports to the rest of the world.

If the Carter Administration and London and New York strategists succeed in perpetuating the current short-term, high-interest skew in the capital markets, on the other hand, dollar-recycling development credits get squeezed out. At present, 70 to 80 percent of Japanese dollar lending comes from the Euromarkets. The bidup of Eurorates, along with some success for Blumenthal's "credit dumping" pressures, accounts for this year's first-quarter lending by Japanese banks.

And the Bank of Japan's ability to funnel to Japanese commercial banks relatively cheap funds for the other 20-30 percent of their loans is also in jeopardy. Commodity price hikes have now impelled a partially import-based inflation in Japan, leading to a tightening of credit there. After a year without wholesale inflation, January saw an 0.6 percent rise (of which half was due to imports) and an 0.8 percent monthly rate during February 1-10. This challenges the ability to make cheaper loans based upon domestic interest rates since domestic rates are being raised in response.

—*Richard Katz*

# Money supply measurement skewed, so is the banks' arbitrage policy

An article entitled "Impact of Money Market Funds: Rapid Growth Could Distort Fed's Statistics," in the March 6 *New York Times* reviews the fact that the ability of the Federal Reserve Board to control the size of the nation's money supply is out of whack.

This argument — that the Fed is unable to control, or at least to predict money supply growth — has been advanced by a variety of economists over the last two years. The possible causes of this problem, they say, range from the swelling of the federal budget deficit to the large run-up in commercial bank sales of Certificates of Deposit (CDs).

The actual reason for the haywire performance of money supply numbers is straightforward: over the last few years the U.S. banking system has not been generating profits, which translate into new reserves and credits, from net increases in tangible wealth output. Rather, U.S. bank profitability has been derived as a result of a kind of arbitrage, the raking of a middleman's cut on the intermediation of funds.

Increases in tangible wealth output are achieved as a by-product of investments which create and transmit technological innovations in industry, agriculture, and basic science. But as readily available flow of funds figures demonstrate, in 1978 the yearly increase of corporate debt and equity borrowing (net of mortgage borrowing) was $64.3 billion, just 18 percent of the $355 billion total volume of new funds raised by nonfinancial sectors in 1978.

However, when banks and other financial institutions are not making the bulk of their profits—and creating new money—through increased industrial development, then they perforce are making it through various secondary processes of arbitrage, that is, paper profits based on capitalizing on the short-term differentials in interest rates prevailing on various money market instruments. Whatever commodity or piece of paper has the fastest rising interest rate becomes the "hot item" for the moment, sucking in huge pools of short-term funds and causing violent and *unpredictable* swings in money supply.

Forecast of whether M1 or M2 will rise or fall or by how much under such generalized "arbitrage" conditions is virtually impossible.

### The growth of money market funds

One example of this arbitrage upsurge, the one that caused the fuss at the *New York Times*, is the spectacular increase in money market funds. A money market fund is a mutual fund that invests in short-term debt securities such as Treasury bills and commercial paper.

Between September 1978 and the present, money market funds have grown by $5.3 billion to a current level of $15.5 billion. The securities these funds purchase are currently yielding about 10 percent, more than double the 5 percent interest rate the Federal banking authorities allow commercial banks to pay on daily passbook accounts. In addition, small investors can buy into money market funds, which don't have the $10,000 minimum standards existing on such securities as CDs. Under these conditions, demand deposits at commercial banks declined by $4.2 billion to $261.7 billion, while saving deposits were falling by $5.9 billion, during the same September-to-March period.

### More arbitrage

Yet if money market funds were the only arbitrage problem facing the U.S. credit markets, the markets would not be in their present shape. Since November 1978, nationwide Commercial and Industrial (C & I) loans, instead of rising by $5 to $10 billion, have actually fallen by nearly $2 billion.

At the same time, other arbitrage-type practices have contributed to unhinging the ability for accurate prediction of money supply:

- Various corporations have forsaken the long-term bond market and term-loans from banks, where prime rates charged best corporate customers are around 11.75 percent, for the issuance of commercial paper—30 to 270 day unsecured promissory notes. The advantage for corporations is the "arbitrage difference"; 30 to 60 day commercial paper rates are currently between 9.63 and 9.98 percent. However, this hampers corporate ability to plan and make long-term capital formation and plant and equipment investments.
- Various banks have shifted their lending portfolios to give wider investment to straight-out foreign exchange arbitrage. During 1978, such arbitrage accounted for between one-quarter and in some cases, 45 percent of money-center banks' profits.
- In October 1978, savings institutions were given permission to offer six month certificates linked to Treasury bill yield, which allowed savings institutions to hold onto depositors. But this arbitrage trick cut so deeply into savings institutions' profits, as rates went up, that the savings institutions recently have cut back considerably on their issuance of these certificantes.

*—Richard Freeman*

# Open tension between British takeover strategists and U.S. authorities

Following New York State Banking Superintendent Muriel Siebert's call last week for a "national policy review" of foreign bank takeovers in the United States, tensions between the would-be incoming British banks and the U.S. regulatory authorities have grown to just short of public outbursts. Provoking this were press releases March 5 by the Hong Kong and Shanghai Bank and its target Marine Midland. These not only denounced Ms. Siebert's efforts as "unwarranted" but cast direct aspersions on her competence in banking law.

"Clearly these guys are extremely nervous about the whole thing," a Washington regulatory official said March 7 of the banks' releases, "but no one is going to be stampeded into okaying their applications." The banks' charge that Siebert's call for federal investigation is "duplicative" of hearings concluded last year have been dismissed by Siebert herself as "totally untrue."

As reported in last week's *Executive Intelligence Review*, Superintendent Siebert has succeeded in motivating congressional hearings in both the House and Senate with her letter to House Banking Committee Chairman Henry Reuss (D-Wisc), made public March 1, warning of the danger to the U.S. economy of mass foreign bank takeovers.

### A bit of bluster

"A bit blustery" was one Washington characterization of the Hong Shang's press release, which claimed "We had been given assurances that all requirements of the regulatory agencies for information had been fully satisfied." Hong Shang's Washington lawyer Steuart Pittman was reported to have complained to the House Banking Committee that the issue of foreign bank takeovers was already fully debated during the passage of the International Banking Act (IBA) of 1978; "That was the proper time for Ms. Siebert's debate; now her actions are duplicatory," he reportedly said.

Similarly, Marine Midland's press release stated flatly: "The New York State Superintendent of Banking's concern is unwarranted ... (and) as for the involvement of foreign banks in U.S. domestic banking, this has already been fully debated during the hearings on the International Banking Act of 1978."

"That's insulting to the intelligence," a congressional aide responded. "Everyone knows that the IBA dealt only with branches, agencies, and other ground-up foreign banking operations. We're talking about subsidiaries — buying huge, *extant* U.S. banking assets."

Spokesmen for the Hong Shang have also told the press that "the Fed will have to do something quick; the 91 days it has under law to rule on our application are up on March 9." The Fed Legal Division responded, "No one can say when the 91 days runs out but the Fed Board, which has not even considered the issue. We will decide when their application was *complete*, which is when the 91 days start ticking. Now Citibank has sued the Fed on this issue — and lost. Only a federal court can override us." Sources said it was highly unlikely that Hong Shang would sue the Fed, although the bank hoped that the Fed would become "afraid" Hong Shang would do so.

In response to Hong Shang's question as to why she had waited until now, after the takeover applications have been almost a year in processing, Ms. Siebert is reportedly saying "What do you mean, now? I have been shuttling to Washington for six months talking to the Fed and (Sen. William) Proxmire. I finally put it in writing."

The New York State Banking Department is reportedly upset about recent press criticism that the Department was negligent in the 1976 American Bank and Trust bankruptcy. They complain that they couldn't "get into the books" of the Belgian bank shell through which Israeli financier David Gravier controlled ABT. Now they indicate that the Hong Kong Government has strongly implied that it too will not allow Hong Shang's books to be examined by New York authorities. If they do refuse, the application is probably a dead letter.

In Washington, the St. Germain Subcommittee on Financial Institutions of the House Banking Committee issued a press release March 6 calling on the congressional General Accounting Office to prepare an eight point study based on Supt. Siebert's call for hearings. "It is impossible to leave this as a merely regulatory matter, as it is under current Fed law," a House source said. "This is a matter between governments. Foreign government-controlled banks could manipulate our national economy. This is no small matter; we want national policy statements from State, Treasury, and the private sector on this important question."

New York sources say the Banking Department not only expects hearings in the House and Senate to begin soon; the Department expects to hold off its decision on all pending takeovers until after the hearings, and expects the Federal Reserve to do likewise.

—*Kathy Burdman*

# COMMODITIES

## 'Wartime' price boom loses steam for now

The nearly universal predictions throughout the London-New York financial community of a 1979, first-half year metal commodities price spiral are not working out at all smoothly.

The six-week copper and other metals open market price pickup, which began in late January, was so convincing until the middle of last week, that on March 1, Asarco and Texasgulf, two leading U.S. copper producers, announced a $1.00/lb. producer price for copper to match the speculative runup to the 93-95 cent range. Then, on March 5, copper took a sudden fall on its 3 cent per day limit, and Asarco quietly rescinded its price increase back to 95 cents.

Many members of the New York commodity trading circuit must now feel utterly confused. On March 5, prestigious Conti Commodities' leading analyst Leonard Sarnow opened his *Journal of Commerce* column asserting: "The elements are there for another explosive rise in precious metals." Copper expectations, he added, are firmly upward, because copper is a "wartime" commodity, and there is a war in Asia.

After the copper, silver, and platinum price declines on March 5, however, not a single New York financial paper has dared to either predict metals price trends, nor to admit that the boom — talked up for weeks — is shaky.

**What governs prices?**

The six-week runup in copper, which triggered speculative hikes in silver and platinum prices too, was a direct offshoot of the international oil crisis. The same London-New York financial circles which rigged the jackups in the oil spot price set

# FOREIGN EXCHANGE

## Britain takes last market shot at EMS

The dollar closed out the week of March 5-9 on balance basically stable at its average the previous week of DM 1.8550 — a range in which in fact the U.S. currency has been trading for some three months now. The announcement in Washington and Brussels officially launching the new European Monetary System (EMS) apparently, however, caused a mid-week softening in the dollar rate.

The flurry was caused by the Bank of England, which, seeking to discredit the EMS, selectively halted its ongoing sales of sterling against the dollar, allowing the pound to rise to $2.0417, its high for the year. Britain's attempt to halt or discredit the EMS as anti-dollar has been repeated in public forums for months now.

Foreign exchange traders noted however that the firmness of the dollar — as highlighted by its incredible stability over the past months — is confirmed by the fact that its basic trading range of DM 1.85-1.86 has not been affected by the much more significant continuing central bank sales of dollars. The West German, Japanese, Swiss, and U.S. authorities, who have been unwinding their foreign swaps, have been able to transfer several billion dollars into the markets since the beginning of the year without touching the rate.

"Market participants realized that trading patterns under the EMS probably won't differ much from those over the last several weeks, where the relationships of the major European currencies have been fairly stable," the Dow admitted March 8.

Rather, it is the British who now have some hard decisions to make. Traders say sterling's exchange rate will be difficult if not impossible to manage outside the new zone of stability. While it might rise during the present oil crunch on North Sea euphoria, sterling could just as well collapse as soon as Iran comes back on stream in a month or less.

—*Kathy Burdman*

the stage for substantial short-term capital flows to scoot into the metals exchanges.

The March 5 turnaround in copper, on the other hand, can be directly traced to announcements that Iranian oil production was being resumed, and that oil deliveries from Iran were reaching Japan and other consumers. Short-term hot money flows continue to traverse world markets, but investors are reported to be "nervous" and according to metals traders, much less confident about a boom than they were at the close of last week.

If the metals price increases were to continue at anywhere near recent weeks' rate, the U.S. economy, to take one example, would face the prospect of a more than 100 percent increase in industrial raw materials prices.

London's capacity to set off such a hyperinflationary spiral depends on generating thorough panic in the investment community through one regional war crisis after another. Fear of inflation combined with regional warfare in supplier countries forces investors to liquidate longer-term, lower-interest investment in favor of speculative, high-earnings gambling.

Exemplary of the investment track London circuits pursue under such a climate of destabilization are reports that "smart money" this week only entered the foreign exchange markets between 9 and 9:30 a.m. and at the close of trading, primarily to speculate against the yen; the rest of the day, "smart money" played with copper, platinum and silver.

After considering the oil-metals price linkup in private discussion this week, one New York analyst asserted that he expected copper to plunge back down to 80 cents no later than August. More important, leading spokesmen for the Zambian and Zairian governments predicted an 80 cent price by August in public statements issued upon their arrival in Washington for the International Monetary Fund (IMF) Interim Committee meeting.

IMF officials linked to London are also known to be infuriated by ongoing West German efforts in Zaire to establish direct producer-consumer sales in copper and cobalt, bypassing the London Metals Exchange — an arrangement which could seriously hamper speculative maneuvering worldwide. IMF officials launched a "scandal" this week aimed at disrupting these Zaire-West German links, asserting that European trading companies were withholding revenues from Zairean cobalt sales in special bank accounts — funds which are apparently being used to purchase food and other supplies for Zaire in violation of IMF austerity conditions.

*—Renee Sigerson*

## KEEPING TABS ON THE ECONOMIST

# French nuclear program dead?

*One misstatement of fact in the Feb. 24 issue of London's prestigious* Economist *was particularly gross in light of French President Giscard's successful conclusion of important deals involving all-French technology during his state visit to Mexico's President Jose Lopez Portillo.*

### The Economist

France's *dirigiste* "... technocrats presided in the 1960s over at least three gross industrial blunders: the search for an all-French nuclear technology; for an all-French computer industry; and the technically wondrous money-sink called Concorde."

### The facts:

Each of these three dirigist interventions was a success until bollixed up by British-linked domestic French networks. The Concorde, for example, was damaged by British attempts to wreck the project by backing out in midstream, and through "environmentalist" sabotage of landing rights in key ports of entry, such as New York. The unwinding of de Gaulle's nuclear and computer programs was a complex sabotage job which the Giscard government is making a major effort to reverse.

# GOLD

## Market shakeout foreshadows stabilization of the EMS

The price of gold bullion plummeted $14 on Monday, March 5, pulling the rug out from under gold speculators — at least for the moment. The gold price fell from $248.00 an ounce at the London afternoon fixing on Friday, March 2, to $238.15 at the afternoon fixing on March 5 and reached as low as $234.80 in U.S. commodities trading later the same day. Gold had rebounded to the $242 level as of March 7, but the mood has definitely shifted.

Perhaps the most important indicator is that some London gold experts have suddenly become decidedly less "bullish" on the metal. A month ago, N.M. Rothschild's director Robert Guy was predicting that gold would shoot up to $260 to $280 an ounce within a few months. At that time, Christopher Glynn, a leading gold analyst with the London-based mining finance house Consolidated Goldfields, agreed with Guy's prognosis. However, in a Feb. 20 speech to the British mining analysts conference, Glynn stated that based on "ordinary" supply and demand considerations and assuming a "surprise-free" political environment, gold should fall back to $200. Glynn knows perfectly well that the gold price is largely *politically* determined and that "objective" supply and demand conditions are purely tertiary. The point is that Glynn and other London experts have decided to downplay gold just now.

What has occurred is that continental European governments are now ready to make the European Monetary System operational. The Europeans intend to remonetize gold by pooling their gold and dollar reserves in a central fund and using those reserves as "backing" for development loans. To succeed, this plan will require that much of the speculative fluff be knocked out of the gold market, so that gold will remain stable in the $230 to $240 range.

The coalescing of the EMS has intersected a number of other political developments which have been interpreted by ordinary investors, rightly or wrongly, as "good for the dollar and bad for gold."

# CORPORATE STRATEGY

## Japanese communications industry maps response to U.S. market demands

In a fresh instance of U.S. government least-favored-nation treatment of Japan, Nippon Telephone and Telegraph (NTT) is facing a Washington demand that it open its protected supplier market to U.S. manufacturers. The market is worth some $3 billion a year. By private arrangement, the U.S. itself has a protected market in this field — the three American telephone giants own their own manufacturing subsidiaries. There is no technical advantage in U.S. communications technologies; and like all countries, Japan considers internal communications a matter of national security.

The Carter administration demand has triggered a $500,000 advertising campaign by Japanese equipment supply firms like NEC and Hitachi, with support from the one-million-member communications union, to keep full control of the communications industry. Meanwhile, Japanese electronics companies have already tried to get around the restrictions on television imports to the U.S. by, among other things, using U.S. firms to market Japanese goods. The Nicoh-Savin deal was a big example; it resulted in Savin profiting from Nicoh's superior products, with Nicoh getting the short end of the stick. And the attempt to invest in manufacture of sets in the U.S., using American-made parts and labor, has faded since the Hitachi-General Electric joint venture was squelched by the Justice Department last fall.

However, some Japanese businessmen believe that the worst restriction is not U.S. trade-war measures but the COCOM list of items banned for sale to the Comecon and China.

The Japanese now have state-of-the-art technology in virtually all aspects of the communications/data processing field, including Very Large Silicon Integration (the microchips for processors and memory), satellite-borne direct TV transmission, mainframe computers, and optical transmission and computer peripherals. The Japanese can handle any kind of export market at this point. The London

President Carter's latest effort to achieve an Israeli-Egyptian agreement and extend the arm of NATO into the Middle East, an effort which will provoke war, not stop it, is seen as "good for the dollar." The contrary is clearly the case: if the EMS does not succeed in establishing a new detente with the Soviet Union and Carter proceeds on a confrontation course in the Middle East, gold is going through the roof!

Interestingly, the Soviet Union has reportedly been selling moderate amounts of gold on the Swiss market during the last two weeks, after being out of the market since October. Perhaps the Soviets are anticipating European efforts to stabilize the price as part of launching the EMS.

*—Alice Shepard*

*Financial Times* Feb. 19 computer industry survey suggested that Japan will accept a sort of gentleman's agreement with IBM to hold a slowly growing share of the Western computer market. Japanese concessions on the NTT market probably would be a signal of such an agreement.

But Japanese manufacturers see the extraordinary drive for vertical integration of the communications/data processing industry in the U.S., and they know that IBM is threatening to develop machines that are not plug-compatible with their own equipment.

American electronics companies know in turn how the Japanese deal. They let loose with a full package of top technology, full-scale production facilities, and a highpowered sales and service capacity. The question is which markets they will target.

*—Leif Johnson*

## BRITAIN

## Back to the Coal Age?
## North Sea oil hopes fade

The euphoric claims of the British Government and press that the UK could easily weather the effects of an oil shortage or an OPEC price increase because of its much-touted North Sea oil reserves are proving premature. Contrary to earlier reports, latest forecasts from the British government's own Energy Department and corroborating reports from the British National Oil Corporation (BNOC) reveal that the build-up of Britain's North Sea oil production towards self-sufficiency is nearly a year behind schedule.

Revised estimates of the country's domestic oil reserves now being prepared by government departments show that Britain will be lucky if it becomes self-sufficient in oil by the end of next year rather than by the beginning of 1980, as jubilantly forecast last spring. According to the London *Guardian*'s energy correspondent, government estimates have been "consistently over-optimistic about the increase in oil production in past years." Based on a short-lived boom in oil production during 1978, energy officials were talking about self-sufficiency arriving in mid-1980. The somewhat more sober estimates now being prepared are premised on the assumption that energy self-sufficiency will arrive "only by 1981" — if at all.

Lord Kearton, the chairman of the British National Oil Company, highlighted some of the problems in a speech last week. Apart from unforseen technical difficulties in the oil fields, the biggest problem in 1979 will be the effects of a two month-old strike by nearly 4000 offshore construction workers who install equipment on the production platforms. By the time the strike is settled, the oil companies expect to have lost nearly four month's construction time.

Oil production from the North Sea is now running at about 1.3 million barrels a day — about two thirds of Britain's needs, but the rate of increased production is dropping off as the oil companies develop more complex fields.

### Coal Now, Peat Next?

At last week's meeting of the International Energy Agency in Paris, UK Energy Secretary Anthony Wedgwood Benn attempted to set an example for self-contraction by pledging that Britain will make a 4 percent cut in oil use, and turn back to coal as a primary energy source. Benn wants UK power stations to burn an extra 5.5 million tons of coal per year to save 2.5 million tons of oil. The nationalized Central Electricity Board has already stepped up coal consumption to 74.5 million tons this fiscal year. The Daily Telegraph reports that the government will spend $35 million to subsidize Benn's further increment. Whether industry will be asked to burn the low-grade coal China is expected to export in payment for PRC-UK trade deals, or whether the government will promote its reexportation, remains uncertain.

*—Marla Minnicino*

## TRADE

# Administration plans no legislative easing for East-West trade

The Carter Administration's China card, and the attendant dangling of vast development contracts with the People's Republic of China in front of export-hungry American corporations, might lead one to believe that the prospects for certain long-stalled legislative assistance to U.S. exporters have improved. On the contrary, enabling legislation that would significantly ease the obstacles to expanded exports faces stiff opposition.

Senator Stevenson's bill amending the Jackson-Vanik preclusion of Eximbank credits and Most Favored Nation (MFN) status to the East bloc countries which refuse to give assurances of a free emigration policy (see U.S. Report), has been stalled through at least one session of Congress. Along with other measures dealing with controls on the export of technologies to non-market economies, it will be taken up by Congress when it considers the Export Administration Act this session.

However, high-technology American corporations should entertain no illusions that the blockade of their exports to the East bloc — a crucial feature of potential U.S. involvement with the vast trade and development opportunities opening up with the European Monetary System — will be eliminated. The Carter administration appears determined to continue to fuel the China trade bubble without addressing the central questions that are hampering American exports: monetary stability, restrictions on East bloc trade and credits, environmental review of third world technology transfers, and antitrust restrictions.

Instead, the PRC will ensure that the necessary maneuvers are carried out to bait the China trade trap without affecting the Administration's insistence upon an appearance of *legislative* even-handedness towards the Soviet Union and China. A case in point is the willingness of the PRC to provide the Jackson-Vanik-required assurances of a free emigration policy to the Administration, which will then permit President Carter to offer Eximbank credits and most-favored nation status to the PRC. According to Senator Javits's office, this will permit Congress to delay any consideration of Jackson-Vanik and the Export Administration Act as a whole until after debate on the SALT treaty — itself an already shaky prospect.

As well, the failure of the National Commission to Review Antitrust Law and Procedure to take up any of the significant problems U.S. antitrust law poses for international trade — as well as the limited recommendations made by that committee concerning amendment of the Webb-Pomerene antitrust exemptions — points to the conclusion that the Administration is prepared to straightjacket American exporters to insure minimum participation in European Monetary System spawned high technology development projects and expanded East-West trading opportunities.

In fact, the Commission recommended that Webb-Pomerene be amended to require that for any export association to win immunity from antitrust prosecution it must show particularized need for that shelter. This would increase the difficulties faced by American corporations trying to compete for the large scale development projects now being proposed in Europe and the LDCs. This effectively subjects those associations to the same kind of review which has already threatened high-technology corporations and multinationals exporting with U.S. government-provided or guaranteed credits. A recent executive order based on Council on Environmental Quality recommendations provides that such export contracts must be reviewed for their potential environmental impact on the importing nation.

No one should mistake either the environmental review or the proposed Webb-Pomerene antitrust review for time-consuming but relatively well-intentioned bureaucratic interference. The overall report of the Antitrust Review Commission — whose recommendations would target every large U.S. company for government antitrust prosecution and innumerable private treble damage suits — provide the context in which these reviews must be understood.

The *policy* which is being proposed here is aimed at preventing the market conditions, capital concentration and government encouragement necessary to develop and sell high technology products, both here and abroad. It is a policy proposal of equal or greater importance than that embodied in the National Environmental Protection Act — whose advocates, when that bill was passed stated, "NEPA implies a major modification and even a reversal of long-established priorities in the political economy of the Nation. The disruptive effects on the business as usual economy do not appear to have been foreseen by the Congress or those interests most likely to have been affected."

— *Felice Gelman*

# Schlesinger gains IEA energy cut, tells U.S. oilmen to slow output

The decision of the 20 International Energy Agency member countries at their March 2 Paris meeting to reduce oil consumption is a qualified victory for U.S. Energy Secretary James R. Schlesinger and his London collaborator, British Energy Minister Anthony Wedgwood Benn. On the basis of that international body's decision, Schlesinger has accelerated political pressure on the U.S. Congress to pass a package of draconian anti-energy measures, beginning with his Feb. 26 package of gas rationing, mandatory conservation measures including closings of gas stations on weekends and opening the door for a legislative push to gain passage for a revived Northeast States regional energy corporation, Encono, and other regulatory moves which will rapidly drive the price of domestic gasoline soaring past the $1 gallon mark in coming months.

### What was decided by the IEA?

The meeting of the International Energy Agency's (IEA) governing board in Paris settled on the following package: the 20 member nations of the group, including all of the major industrial nations of the world outside the Soviet Union and France, have been told to pursue a voluntary "crash program" to reduce 1979 oil demand by a total of 2 million barrels per day — the equivalent of 5 percent of those nations' consumption. The rationale was to relieve the intense speculation on world oil spot markets, where the Dec. 26 shutoff of Iran's 5.5 million barrel daily export has been used by key London-based financial operatives as a lever to force prices for limited short-term crude oil purchases to levels above $20 per barrel.

The actual communiqué issued from the Paris group stated that the member nations have agreed to take "firm, prompt and coordinated action — to improve the supply-demand balance, to implement flexible stock policies while providing an adequate level of stocks prior to next winter, and to relieve current abnormal market conditions with their pressures on prices." The 5 percent target is cited as a "guidance" to member countries to establish the following four point short-term program:

1) Reduction of oil demand by more efficient use, replacement of oil with other fuels,

2) Development of domestic energy production,

3) Shift to lower grade crude oils and adjustment of regulatory restrictions,

4) Adoption of domestic pricing policies which support the 5 percent IEA target.

## What is the IEA?

The International Energy Agency was established in the wake of the 1974 Arab oil embargo. It was based on a proposal by then U.S. Secretary of State Henry Kissinger, who styled it a "consumer OPEC" to counter the Organization of Petroleum Exporting Countries. The body is made up presently of 20 nations, including the United States, Japan, Canada, Great Britain, Australia and every major European country — with the conspicuous exception of France. France has refused to participate, declining to submit to an organization which, the French say, would be politically controlled by the U.S. and which, under appropriate emergency conditions, would have the authority to control allocation of vital world petroleum supplies under a supragovernmental distribution authority. The current IEA, which is chaired by Nils Ersboll of Denmark, is structured to trigger its emergency sharing policy if and when a world oil shortage in member countries reaches the 7 percent level. To date, the Iranian losses have produced a shortage of approximately half that, because of the offsetting gains of increased OPEC oil production from primarily Saudi Arabia.

### Propagandistic wedge

As soon as this outline agreement for a 5 percent reduction was made public, the U.S. Administration went into high gear to use the decision, purely voluntary, as a propagandistic wedge to pressure the U.S. Congress and the population into swallowing Schlesinger's unpopular and controversial energy austerity program. Banner headlines across the nation's press trumpeted the announcement by the head of the U.S. IEA delegation, Treasury Undersecretary for Economic Affairs Richard Cooper, that the U.S. would absorb half of the 2 million barrel total cutback, or 1 million barrels daily, even though the actual U.S. loss from Iranian shipments, even according to repeated testimony from Schlesinger, has never been beyond 500,000 barrels per day.

The fact that the IEA even moved to adopt this statement, whose voluntary nature was completely obscured in major U.S. media coverage, was the result of a calculated deployment by Schlesinger and Cooper. Three days prior to the IEA meeting, West Germany was holding firm to the Schmidt government's position opposing the U.S. call for a 5 percent reduction. On the Tuesday before the IEA meeting, German Economics Minister Otto von Lambsdorff met in Washington with Schlesinger and Cooper. Out of these intensive discussions, according to a well-informed Washington source, Lambsdorff bolted from Bonn policy and ordered his delegation to switch its position at Paris, insuring the necessary unanimity in the governing board to guarantee passage. At the same time, British Energy Secretary Benn went after West Germany from the other side of the Atlantic, demanding that all European Community countries cut their oil consumption and calling on the U.S. Congress to permit the export of Alaskan oil, whose controlling shareholder is the same Bank of England-owned British Petroleum which is behind the soaring oil prices and the Iranian destabilization to begin with!

Counterposed to the dominant European position — characterized by the response of France that the Iranian crisis is a temporary one needing no extraordinary measures beyond such steps as the prudent diplomatic and trade moves between France and Mexico and Iraq to secure additional supplies of oil, together with a renewed emphasis on rapid development of domestic nuclear energy sources as a replacement of oil — Schlesinger is going all out to impose energy austerity. He stated bluntly the day of the IEA decision that the U.S. was not able to increase its production of other energy sources ... certainly the case so long as he remains in control of vital national energy policy, but otherwise a complete fraud.

On top of his Feb. 26 legislative rationing package, Schlesinger this week announced that he has sent President Carter a six-point "Iranian response" plan. The latest plan calls for major national energy conservation effort where every citizen and business would be "patriotically" called on to reduce energy consumption by 3 percent. An idea of what Schlesinger actually has in mind was provided to this publication by a Southwestern oil producer who reported receiving a personal call from the Energy Secretary asking him as a "patriotic gesture" to stop production from his oil wells in the midst of a supposed oil shortage!

Schlesinger further held out the prospect of drawing oil from the Strategic Petroleum Reserve, an 80 million barrel government-owned stockpile stored in Gulf Coast salt domes, then to be allocated nationally to regions that may be short of heating oil by next winter. He termed this a "lively possibility."

The best indication of Schlesinger's intent in this Iranian-induced situation is the introduction of a dusted-off version of the unsuccessful Encono legislation the same day as the announcement of the IEA decision. Sponsored in the Senate by Schlesinger crony and Senate Energy Committee chairman Henry Jackson, noted for his open attempts to "bust OPEC," the Encono bill would establish a regional state-level energy agency that would try to sop up OPEC petrodollars to finance what New Jersey Governor Brendan Byrne euphemistically termed "energy self-reliance." Proposed projects specifically include a series of solar, geothermal and related energy-inefficient boondoggles to replace the use of powerful nuclear and conventional fossil energy sources. The Encono project is being coordinated by Felix Rohatyn of the London-run investment house, Lazard-Freres. Schlesinger is reported by Washington sources to be supporting the Encono plan in private conversations.

Schlesinger's attempts to create a national energy crisis have not gone unopposed. Texas Gov. William Clements demanded before a National Governors' Conference meeting in Washington last week that Schlesinger resign for advocating the "unwise and totally ridiculous" emergency rationing plan when what is needed is a full scale emphasis on increased production, not reduction of energy resources. Clements put forward a plan for development of oil, coal and nuclear power. W. Reid Thompson, chairman of the Potomac Electric Power Co. and a leading spokesman for the nation's electric utilities told a meeting in New York the same week that "nuclear plans scheduled to come on line in the next three years have the potential to generate enough energy to replace all the Iranian oil currently cut off from the U.S." He added that environmentalist sabotage and conflicting regulations coming from Schlesinger's office may prevent this.

*—William Engdahl*

# What's happening in Congress

*New feature keeps you up-to-date on Capitol Hill activity*

This week's U.S. REPORT previews an expanded version of a regular new service to our readers, Congressional Calendar. Designed to alert you on major pending legislative developments in Washington — with particular emphasis on those bills contrary to the national interest that sometimes tend to slip through without adequate notice or debate — each week's Congressional Calendar will focus on selected issues which are likely to become law in the future. In particular, Congressional Calendar will keep you up to date on pending developments in legislation affecting trade, industrial development, business, and related items of foreign and domestic policy, and will report on those developments in time for you to act to affect the laws our Congress enacts.

Congressional Calendar is compiled by veteran U.S. political reporter Don Baier, under the supervision of national affairs desk chief Konstantin George, in collaboration with the congressional staff of our Washington Bureau. In this week's premier edition: GATT, Stevenson's trade proposals, the Energy Department budget, and criminal code reform.

## GATT in trouble on Capitol Hill

On March 1, the House of Representatives finally passed a bill without which the Carter Administration cannot proceed on the multilateral General Trade and Tariff (GATT) negotiations among Western trading partners. The bill is the so-called countervailing duties waiver, suspending provisions of law mandating U.S. unilateral imposition of protectionist barriers as a response to the growing crisis in world trade flows. When the 95th Congress failed to extend the waiver last year, the European Community countries, led by France, informed the U.S. they could not conclude the negotiations "at gunpoint," and would not act until the waiver was reinstated.

The waiver bill now goes to the Senate Finance Committee, where, according to a spokesman for U.S. Special Trade Negotiator Robert Strauss, it is hoped the way can be cleared to permit a favorable vote in the Senate in April. "It's no secret many people in government and on the Hill think that deadline is optimistic," he volunteered. The Administration pried the bill loose from the House only after it concluded a humiliating deal for "limited protectionism" with the backward U.S. textile industry backed 100 percent by the AFL-CIO's "trade war lobby."

Meanwhile, according to press reports, the Administration itself has been flirting with a replay of the early 1970s "Nixon shocks," with President Carter himself at one point threatening to go into full-fledged import controls to wreck the Tokyo economic summit in June unless Japan dismantles its powerful industrial export economy.

The GATT negotiations were originally scheduled for completion last December; at present they may not be wrapped up before theTokyo summit in May. A total breakdown of GATT and an ensuing wave of protectionism could result in a catastrophic collapse in world trade.

## Stevenson launches East-West Trade fight

As we go to press, Sen. Adlai Stevenson is beginning an important legislative effort to force a fundamental reformulation of U.S. trade and foreign policies. Having frequently demanded of the Carter Administration basic monetary and trade reforms geared up to an aggressive expansion of U.S. industrial exports, Stevenson is now taking dead aim at one of the major legislative roadblocks to this policy orientation.

On March 5 the Senator will begin hearings in the international trade and finance subcommittee of the Senate Banking Committee on his own bill, S-339, which aims to roll back the Jackson-Vanik and Debt Limitation amendments to the 1974 Trade Act. The amendments were rammed through the Democratic controlled Congress by a Zionist lobby-liberal coalition in order to abort the Nixon Administration's push for detente and expanded trade with the Soviet Union and Eastern Europe.

Stevenson has submitted S-339 unsupported by the Carter Administration, which has so far contented itself with private remarks by the President on the desirability of extending most favored nation status to the Soviet Union and China.

S-339 and its companion bill HR 1835, introduced in the House by Rep. Les AuCoin (D-Wis), would accomplish the following:

• Remove the limitation of $300 million on U.S. Export-Import Bank credits to the Soviet Union. Instead, a $2 billion ceiling would be placed on Ex-Im credits to any communist country.

• Allow the President to waive emigration-linked restrictions on government credit to communist countries for five years when he has determined that the country in question is in compliance with the "free emigration" practices mandated by Jackson-Vanik. At present the Jackson-Vanik amendment requires the affected country itself to provide assurances that it will comply, forcing the Soviet Union to take the most prominent example, to acknowledge the principle that the U.S. Senate has ultimate jurisdiction over matters the Soviet government regards as the internal affair of the USSR.

• Extend most favored nation trading status to the Soviet Union and China.

To bring this bill through Congress, Stevenson will have to create new political alignments, dragging patriotic, pro-economic growth Republicans away from the overwhelming influence of anti-Soviet crusader Henry Kissinger, and splitting mainstream Democrats away from hardcore Zionist Lobby liberals like Sen. Henry Jackson. Congressmen will have to be shown that they cannot continue to oppose a skilled-jobs-creating export policy and count on political survival.

Stevenson, by posing the solution to present U.S. economic decay and joblessness in terms of expanding industry and trade, has given himself the opportunity to organize a new consensus in American politics.

## Energy Dept. budget shambles

The fiscal year 1980 Department of Energy budget, dubbed the solar budget by much of the nation's press, is so incompetent that House Science and Technology subcommittee chairman Mike McCormack (D-Wash) has sent the entire nuclear section of the budget back to the DOE to be redrafted. Resubmission from the DOE is expected in early March. But whatever the changes (likely to be minimal) the political prospects for government efforts to increase energy production in the U.S. are dim.

Out of a total proposed budget authorization of $8.4 billion, $1.99 billion is allocated for projects that have either no impact or a negative impact on the U.S. capability to meet its energy needs, including $800 million for expensive, wasteful solar energy. Other program categories in this $1.99 billion include environmental research, conservation, management, and regulation. The authorization for research and development and production of nuclear weapons is increased by nearly $500 million within overall DOE defense spending of $3.02 billion, while nuclear energy research and development for peaceful purposes is being slashed.

The total rejection of the nuclear budget by McCormack and others was triggered by the omission of any funds for either the continuation or the termination of the Clinch River liquid metal fast breeder reactor project. Given overall Congressional budget parameters, this meant that the committee would have had to take $160 million from one of the other programs in the budget: McCormack could either cut some already suffering nuclear program under his subcommittee's jurisdiction; attempt to raid funds from some other subcommittee, incurring the wrath of his fellow congressmen; or hand the budget back to the Energy Department.

The nuclear budget also lacks any funds for the Barnwell uranium fuel reprocessing facility, a necessary project to shield the United States from the risk of running out of nuclear fuel before the year 2000. Moreover, the planned construction of additional uranium enrichment capability at Portsmouth was cancelled to "bring future production in line with market expectations," that is zero-growth projections. The fusion and high-energy physics R and D programs suffered real dollar cuts, after accounting for inflation.

The chances that Congress will reverse even the most drastic antinuclear provisions of this budget are limited. For example, although the House can be expected to fund either a continuation of the Clinch River breeder or a replacement project, the Senate Energy Committee is a logjam that has yet to be broken. Last year the committee was split 9-9 between pronuclear and environmentalist forces.

## 96th to enact Kennedy justice code revisions

Under the leadership of Senate Judiciary Committee head Sen. Edward Kennedy (D-Mass), the 96th Congress is preparing to pass a revised version of the federal criminal code reform once known as S-1. Billed as the latest in modern penology, Kennedy's reform is in fact a sharp turn away from the basic legal principles traditionally at the heart of American criminal law.

While the latest version of the controversial bill is not yet available, previous drafts centered on three provisions: first, repudiation of statutory immunities protecting individual entrepreneurs from risks attached to corporate ventures; under the earlier versions, individual corporate officers were made liable not only for violations of criminal law by the corporation they served, but also for criminal negligence arising in the course of a corporation's operations. Such a standard is unknown in American law except in cases which directly threaten the lives of individuals. The proposal means that corporate executives will be subjected to a wide range of felony "white collar crimes" which now do not even exist as prosecutable offenses.

Second, previous versions of the bill have contained sweeping proposals for the decriminalization of marijuana, and have pointed in the direction of broader sanction for psychotropic drugs.

Finally, the bill has previously propounded broad encroachments on civil liberties, punctuated by its proposals to abolish the discretionary sentencing powers of federal judges and virtually wipe out the parole system, in favor of mandatory fixed sentences for felony crimes. This last proposal, which serves partly as a ploy to gain conservative support for the bill, would guarantee long prison stays for the legion of new "white collar offenders" the bill would create.

Thanks principally to Kennedy, the bill, reported out as S-1437, sailed through the Senate in the 95th Congress, but its companion legislation, HR-2311, ran out of steam in the House Judiciary Committee largely due to objections from civil libertarians and the pressures of time at end-of-session.

Kennedy has now arranged a special procedure to eliminate the House roadblock. At present, the staff of the criminal law subcommittee of the House Judiciary Committee is conducting an unofficial markup of the bill, comparing, provision by provision, S-1437, HR-2311, the original Brown Commission recommendations on the criminal code, and current federal law, hammering out differences and making political deals to assure lightning passage when the bill is finally drafted and submitted. Rep. Robert Drinan is acting as Kennedy's "point man" in the House Committee.

# House panel suppresses Mitchell fraud evidence

The Democratic-controlled House Administration Committee has torn up the due process provisions of the U.S. Constitution in their attempts to cover up the vote fraud through which Parren Mitchell "won" the congressional seat in Maryland's 7th district. The committee yesterday unilaterally denied contestant Debra Hanania-Freeman the right to subpoena evidence — thus preparing the way to dismiss her election contest next week for "lack of evidence."

Last week, attorneys for Mrs. Freeman, the U.S. Labor Party-backed candidate in last November's elections, issued subpoenas to the Baltimore Board of Elections requiring the board to produce voter registration books, tally sheets, and the voting machines for inspection. With the aid of corrupt local judges, the board of elections has succeeded so far in preventing Mrs. Freeman's representatives from examining election materials — which are normally *public* records. Examination of these materials and inspection of the voting machines will provide the positive proof of how Mitchell and his backers stole the Nov. 7 election.

Yesterday — without offering Mrs. Freeman's attorney an opportunity to reply or even holding a hearing — Administration Committee Counsel Robert Moss granted the board of elections' motion to quash the subpoena. Reportedly, not even the Republican member of the three-member panel which is officially designated to hear the case was notified of the motion to quash.

By quashing the subpoena, Administration Committee Charirman Frank "Tombstone" Thompson of New Jersey and his hatchet man Moss hope to set the stage for a dismissal of Freeman's contest in the hearing scheduled for March 14. If the committee holds to recent practice, they will attempt to dismiss the case on the grounds that Mrs. Freeman has not shown sufficient evidence that she won the election.

By suppressing the evidence, observers noted, Thompson and Moss will have in fact *guaranteed* that Mrs. Freeman will not have that evidence.

At stake in the Mitchell-Freeman contest is the issue of whether Congress will take on the Kennedy national vote-fraud machine, or whether it will suppress the evidence in this case as it has done in almost every other case in recent years. The larger issue is whether the Kennedy machine — which has often expressed its dissatisfaction with the U.S. Constitution — has already decided that the Constitution no longer applies to procedures used in the House of Representatives.

## A long and unnecessary battle

The Federal Appeals court in Virginia last week overturned the certification of the United Steelworkers as the bargaining unit for the more than 15,000 workers at the Newport News, Va. shipyard. The union had won the election for certification last winter, but Tenneco, the energy-based conglomerate that owns the shipyard, refused to bargain and took the issue to court. The Steelworkers struck the shipyard over a month ago. Now the strike is expected to drag on for months while the National Labor Relations Board hears Tenneco's "evidence" of vote fraud. (The appeals judge made no ruling on the evidence — only on the procedural question of whether the NLRB should have given a hearing on the charges.)

The strike is a case of two potential allies fighting it out for somebody else's benefit. The Union and Tenneco share a progrowth outlook, and both have a common enemy — Energy Czar James Schlesinger, who along with the Navy Department figures heavily in the manipulation of the confrontation. Schlesinger had put the squeeze on Tenneco and its shipyard by cancelling billions of dollars in energy-trade deals — deals which meant jobs at the shipyard building tankers etc. Schlesinger has also hurt the Steelworkers with his sabotage of U.S. nuclear development.

But Tenneco, according to sources, was "gotten to" by "right to work" networks both inside and around the company, setting them on a collision course with the Steelworkers. And the union has increasingly fallen under the sway of networks in the AFL-CIO around Secretary Treasurer Lane Kirkland and Industrial Union Department head Jacob Clayman. They want to make the strike into a test of strength for organized labor and the right to work movement controlled by bogus conservative Richard Viguerie. They — like the company — see no need to attack Schlesinger or to support a common interest program for expanded world trade that would increase demand for the energy-carrying ships produced at Newport News.

Schlesinger must be laughing to himself. The *Executive Intelligence Review* will carry a full report on the set-up in a forthcoming issue.

* * *

**Inside the steel union** — CBS television last week aired an hour-long prime time "documentary" alleging to portray the "battle taking place inside the steel union" between "insurgents" and the McBride national leadership. Filmed last summer and at the United Steelworkers convention in September, the show amounted to a plug for networks inside the USWA associated with lawyer Joe Rauh and his former candidate for USWA president, Edward Sadlowski.

Sadlowski's friends from Local 1010 at Inland Steel, who were featured prominantly by CBS, are rabid environmentalists. They are in the leadership of the anti-nuclear power lobby in the area and have tried to block the construction of the Bailly Dunes nuclear facility. Local 1010 "rank and file" leader Mike Olzanski has been seen among the terrorist Clamshell Alliance at the Seabrook, N.H. reactor site. Olzanski and Sadlowski, who is now a sub district director of USWA District 31 under his friend Jim Balanoff, have even tried to shut down the Gary Works steel facility for "environmental" reasons.

Sadlowski and company were soundly defeated in the 1977 USWA Presidential election by a USWA membership which is overwhelmingly against these anti-growth policies. How strange then that CBS, which aired the "documentary" a little more than a month before USWA local elections in which the Sadlowski-Balanoff crowd will field candidates, chose to cover up the environmentalist character of these "new young militants." Also no mention of the well-publicized USWA suit showing the Sadlowski crew to be a creature of major foundations and other outside sources.

Even stranger, USWA officials had thought prior to the broadcast that they would get a fair shake.

* * *

**LaRouche rep addresses IBT Illinois local** — U.S. Labor Party Illinois State Committeeman Richard Leebove addressed 300 shop stewards and their wives from Local 525 of the International Brotherhood of Teamsters in Alton, Ill., March 2. The presentation by Leebove, who has toured the country speaking on a pamphlet called "London's Plot to Destroy the Teamsters," was arranged by Local President Marshall McDuffie as an educational forum for his men.

Leebove emphasized the policy-making leadership quality of U.S. Labor Party Chairman Lyndon H. LaRouche as compared to the helpless Carter Administration and presidential contender Edward Kennedy who has viciously attacked the Teamsters: "The Kennedy machine has attacked the Teamsters because they stand for the American System policies which Kennedy opposes. You have to fight these people politically."

# China's economy: more signs of trouble

The war in Indochina disappeared this week from the front pages of the nation's press upon receipt of the Chinese statement announcing in somewhat ambiguous fashion their intention to withdraw their troops from Vietnamese territory after having delivered what Peking claimed was a success in "achieving the goals assigned them." In subsequent days following the Chinese statement there has been no evidence of any large-scale Chinese withdrawal while the Vietnamese charged today (March 8) that the Chinese are strengthening their forces in the frontier area in preparation for more fighting and continuing their attack in Vietnamese territory.

The question that arises is whether in fact the reports of imminent peace are nothing more than a "phony peace," not unlike the phony war of Nazi Germany following the invasion of Poland. Certainly Peking itself knows better than their claims of having destroyed the "invincibility of the Vietnamese army" — in fact the *Toronto Globe and Mail* reports that a secret document is circulating within military and Politburo circles in Peking which admits that China "had not been able" to wage "a modern war" and that their forces suffered extremely heavy casualties in the fighting up till now.

The Chinese withdrawal announcement is likely to have stemmed from two key factors. The first is the fear of imminent Soviet intervention should China continue its "flight forward" into Vietnam, an assessment that is shared by informed observers in India and Western Europe. At the end of the week the Soviet leadership, while displaying considerable restraint, as indicated by President Brezhnev's speech, was hardly in a mood of passivity toward China. As the Soviets themselves said quite clearly, their restraint was not the result of fearing China but rather derived from their perception that China's intention was to force a Soviet response of a character that would bring the U.S. and the Soviet Union into direct confrontation.

The second major factor was increasing signs that elements of China's own leadership and major segment of the population would not tolerate a widening war and the incredible beating being taken by the Chinese army. Vice-Premier Teng, who is the director of the anti-Vietnam policy, may be in serious trouble inside China (see article following on that situation) for the failure of this adventure.

At this moment the Chinese have adopted a policy of holding their present position, not attempting to expand the fighting on the immediate battle fronts, while conducting a scorched earth policy in the occupied territories. The Vietnamese Communist Party daily *Nhan Dan* charged on March 8 that: "While their leaders talk about withdrawal, Chinese troops continue killing, shelling, burning and destroying economic establishments with the aim of paralyzing the Vietnamese economy and forcing it into poverty." Separate reports from Vietnamese sources charged that some 16 Chinese divisions (over 160,000 men) remain inside Vietnam territory. This suggests that Peking may even try to use their 1962 India War tactics of announcing unilaterally their withdrawal and ceasefire in order to induce similar behavior by the other side and then "withdrawing" to positions that represent Chinese claims on Vietnamese territory. But as one Indian source said, "Vietnam is not India," and it is highly unlikely that Hanoi will sit still for that.

The Chinese statement and the Vietnamese reply both left plenty of room for that kind of continued warfare. The Chinese warned that "the Chinese side reserves the right to strike back again" if Vietnam carries out alleged "provocations and incursion" on the border. Vietnam for its part said that "in order to show our good will for peace, we will allow them to withdraw their troops," but only if the invaders halted their "acts of war." So far there is no evidence that China is withdrawing or halting its "acts of war."

One little noticed side of the war is the continued evidence of Chinese military activity in the two other Indochinese states, Laos and Kampuchea. The Laotian government issued a formal statement charging Peking with carrying out a "serious threat to peace" through a large scale buildup of troops on their border, in the region of conjunction of Laos, Vietnam and China. The Vietnamese had indicated earlier their anticipation of a Chinese move on their northwest, ironically in the Dien Bien Phu area, through Laos.

The Laotians made a more interesting charge in stating that the Chinese were carrying out subversion inside Laos by forming armed divisions of tribal elements inside Laos against the government. It is known that this is a reference to Chinese links reported for some months now to Meo tribesmen, the opium-poppy-growing hill tribe that became famous during the infamous CIA "Secret War" in Laos as a CIA financed and armed private army. In fact some months back *Far East Economic Review* had reported that the CIA's Meo General Vang Pao, now in exile in Thailand where he still leads armed Meo operations in Laos, had traveled into southern China for talks with Chinese authorities to gain their military support to create a "Meo state" in the region.

On the Kampuchea front the new government in Phom Penh issued a statement charging that Chinese arms were being transited through Thailand, from Thai islands, to remnants of the Pol Pot regime still carrying on scattered fighting in western Kampuchea. The Thai government denied the charge but informed sources have been reporting this activity for some time now. Only last week a battle took place right on the border when some of the last element of the Khmer Rouge forces of Pol Pot were literally driven across the Thai border. Dismissing reports of a Vietnamese "quagmire" in Kampuchea, *Asia Week* magazine wrote this week that "the consensus in Bangkok is that the fighting appears to be at a low level and Khmer Rouge activity is more annoying than threatening."

### What else has China lost in Asia

The Chinese claims of victory are patent nonsense to any observer who is not wearing rose-colored glasses made in Hong Kong. On the military side the Chinese were badly chewed up, while failing to force the engagement of any significant force of Vietnamese regular troops. *Asia Week* reports that there is no evidence that the Vietnamese forces in Kampuchea, which Peking so badly wants to force out in hopes of restoring the Pol Pot regime to power, moved one inch. The Vietnamese report that the Chinese have suffered some 45,000 casualties up till now, a result of feeding Chinese foot soldiers into a meatgrinder of Vietnamese artillery fire and mines. While media sources, among them the *New York Times's* Drew Middleton, have portrayed the Vietnamese claims as propaganda, qualified U.S. military professionals who participated in the U.S.'s Vietnam war have told this news service that Vietnamese casualty claims tend to be accurate.

In short there was no real test of strength against the best of Vietnam's battle-tested army, and the Chinese showed little ability to conduct modern warfare. Should Peking move to expand the battle immediately again it is likely that the Vietnamese will expand their military education from the grade school lesson delivered this time to a university level course.

More important for Peking legions still sitting in Vietnam are the political repurcussions for Peking in the region. While the non-Communist nations of the Association of Southeast Asian Nations (ASEAN) adopted a formal position of cautious neutrality, there is evidence that there is considerable anger at Peking for its destabilizing invasion and for bringing the world to the brink of large-scale war. Well-informed sources report that at least one ASEAN nation, and the most important one, Indonesia, was privately feeling that China had proved itself an aggressive nation and a threat to the region.

The Indonesia view is likely that of one Southeast Asian official quoted in the recent *Asia Week* on his assessment of the situation. Regarding Kampuchea he says, "In all probability, Heng Samrin (head of the new government) is not mad, as Pol Pot was. We shall one day have to agree with the Vietnamese that in the case of the Khmer Rouge, the end justified the means ...

"We in ASEAN have very good reason to be confident about the future. In a sense, this is the last of the Indochina wars. When it is over, all of us — Vietnam, Laos, Kampuchea and the ASEAN members — can begin properly to build strong and independent societies."

Any attempt by Peking to keep its war going, following their "phony peace" is sure to accelerate the anti-Chinese feeling in the region. The next days will show if the Chinese intend to provide more than words to indicate their real intentions but given China's aim to get Vietnam out of their way as their chief obstacle to dominance in southern Asia, it is certain that we have only seen the opening act of a much longer Chinese Model Opera. It remains only to note that the Chinese may have written the first act, but Vietnam has written the closing scene which may well cause us to rename this Opera, "Remember Dien Bien Phu."

— ***Daniel Sneider***

# The war in Indochina: withdrawal or blitzkrieg?

While China was capturing headlines for its invasion of Vietnam last month, a possibly even more important story was beginning to come out of the inscrutable Middle Kingdom — the story of the inability of the Teng Hsiao-ping regime to resolve at all satisfactorily the monumental economic problems left over from the Maoist period while still maintaining the Maoist foreign policy of international tension and anti-Soviet vendetta. The limited de-Maoization of social life has unleashed the genius of the Chinese people for organizing societies and networks to demand the new rights and economic privileges promised — but not yet delivered — by the new regime in its effort to win public confidence. It now appears increasingly certain that even before launching his reckless invasion of Vietnam, Teng Hsiao-ping was in deep trouble at home, and that a major motivation for the attack was Teng's desperate need for a foreign policy coup to shore up his domestic position. The failure of that gambit could even, according to some indications, lead to Teng's third fall from power.

The extent of China's economic crisis, as indicated by several recent revelations — highlighted by the suspension of over $2 billion worth of contracts with Japan last week and confirmed by Peking's own reports of domestic problems — exceeds even the most pessimistic assessments proffered by the most sober Western observers. At the most superficial level, it has been clearly communicated by the Chinese that the last six months of hectic negotiations, contract initialing and bid soliciting from Western firms, was done far too hastily, without adequate preparation and coordination between different Chinese departments, and would have resulted in aggregate costs to China far in excess of China's payment capabilities. And beneath the surface, it is now clear that internal directives to spur economic growth have caused problems similar to those experienced in the Great Leap Forward of 1958-60, where directives were blindly implemented by a population obsessed with carrying out even patently absurd directives to avoid political censure. These problems have been compounded by the population's willingness to speak up with demands for improved working conditions and a higher standard of living.

### Announce steel, foreign exchange crisis

The extent of China's foreign exchange holdings is one of the best-held secrets in international finance, but all evidence suggests that the past year's buying spree rather suddenly confronted China with a foreign exchange crisis. While the abrupt suspension of the 32 contracts with Japanese firms signed or initialed since last Dec. 16 had unmistakable political overtones — China's "punishment" for Japan's unwillingness to support China's invasion of Vietnam — it was motivated as well by the impossibility of paying in cash for the deals. China reportedly wanted the cash deals renegotiated on a loan basis. Japanese sources in Washington said that China had less than $2.5 billion in foreign exchange, against $6 billion coming due soon in payments.

Recent media coverage in China has also focused on the urgent necessity of generating increased foreign exchange from all possible quarters. This necessity is undoubtedly one of the prime motivations for an overall shift toward light industry (see below). *The People's Daily*, the Communist Party paper, emphasized in an editorial Feb. 17 that the urgent need for foreign exchange also dictated that China make an immediate push to increase the scale of tourism 10 to 100-fold. "In order to expedite the four modernizations, we need large amounts of capital. Where can we get this capital? ... We must choose those undertakings which are easy to begin with and which can earn us large amounts of foreign exchange so as to quickly accumulate more capital for our socialist construction *and continuously improve China's foreign exchange problem*," (emphasis added) the editorial said. The article said that "central leading comrades" have been urging every effort to develop tourism, "the industry without smoke," to meet this foreign exchange need, but there was still much popular opposition to doing so.

As for steel, a Feb. 24 editorial in the *People's Daily* openly confessed that China's steel industry is in trouble. Since achieving production of 16 million tons in 1966, China's steel industry has been in the doldrums (see graph), with output actually falling during the Cultural Revolution and in 1975-76, and maintaining an overall average of barely 5.4 percent annual growth (4.5 percent 1966-77), a very low figure for a developing economy with China's needs. However, even these rates may fall still farther due to both the crisis in China's economy as a whole, and the specific problems in steel in particular. The editorial said China must institute "a relative cut in iron and steel investments and a critical examination of years of low economic efficiency in this industry. For many years, we have stressed investment in steel, both financial, material and in terms of manpower, but results have been slow." The editorial justified this turn on the altar of the necessity "to earn more profits and foreign exchange and compete on the international market."

### Crisis of agriculture leads to economic right turn

More than just announcing the troubles of the steel industry, the Feb. 24 editorial was a call for at least a 90, if not a 180 degree turn in China's economic policy of the last two years — a turn that had been coming, but not fully spelled out, since the Nov. 24-Dec. 25 Central Committee plenum last year. The editorial said that not only steel, but heavy industry as a whole had to be deemphasized: "When the steel quota is high, it naturally tips the balance of the national economy in favor of heavy industry at the expense of agriculture and light industry, thus dislocating the order of precedence for agriculture, light industry, and heavy industry, *which should come in this order* (emphasis added). Agriculture and light industry require smaller investment, but they produce quicker results and this meets the needs of the people."

The shift to emphasis on agriculture first became evident in the communiqué of the Third Plenum in late December, which announced a hike of 20 percent in the price of grain procured by the state from those peasants who produce a surplus and discussed at length the need to improve agriculture while omitting to address the nation's industrial goals. In early February, China announced a vaguely defined program to turn certain agricultural areas near urban centers into special zones, apparently to try to commercialize agriculture in these enclaves to supply the cities and satisfy export needs. Whether this represents a net increase in planned agricultural investment, or a mere shifting of resources from the countryside, where resources would be spread thin to small regions where they would be concentrated, is not clear, though the simultaneous announcement by China's leadership that all-around mechanization of agriculture must be postponed suggests the latter. If so, a lot of Chinese peasants may soon become very unhappy.

The Feb. 24 announcement is reminiscent of the Soviet debate of the late 1920s between Bukharin and Stalin, in which Bukharin argued for a radical deemphasis of heavy industry and a rich peasant "kulak" policy. The World Bank today is advising third world countries along such "Bukharinist" lines as well, and has done everything it can to impede the development of heavy industry in third world countries for 30 years. China's shift in that direction carries momentous consequences for the Chinese economy. A Feb. 20 *People's Daily* editorial extolled the virtues of light industry for generating "large amounts of foreign exchange and construction funds." But for China to generate tens of billions of dollars from light industry exports — which is the order of magnitude required for its import plans — presupposes markets for these products in a world which is already erecting protective barriers against similar products from other countries.

The social implications are no less momentous. Following the Bukharinite implications of the policy, a Feb. 17 media release argued the necessity of permitting successful peasants to become well-off—i.e., to become rich peasants. This flies in the face of communist rhetoric in China since 1951 decrying rich peasants, and may very well stir up widespread hostility in the countryside.

Equally significant, according to highly placed sources cited in the *Philippine Daily Express* Feb. 21, Chinese authorities have drawn up an "economic master plan" to develop the southern industrial and commercial entrepôt of Canton as a major free port on the scale of Hong Kong, to be run as a "pure capitalist system."

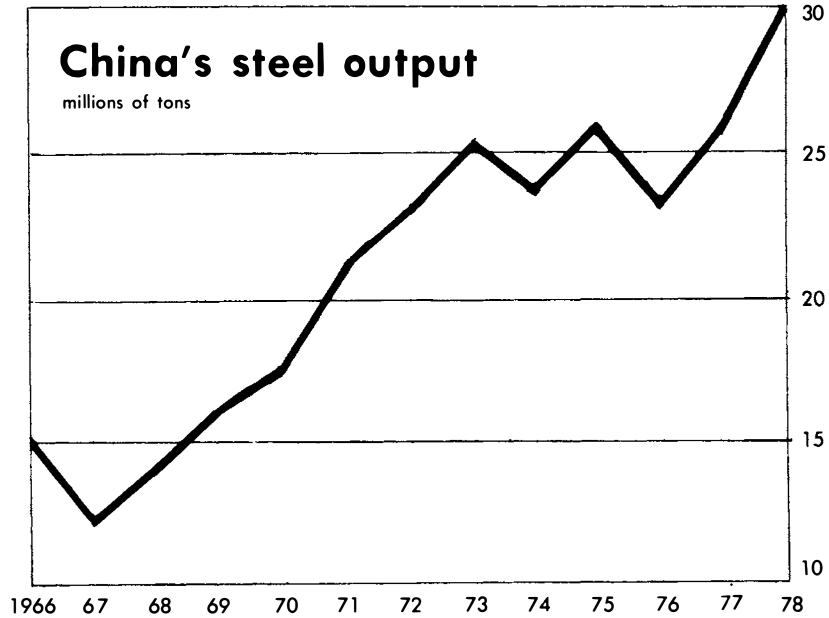
All of these measures have the appearance of desperate expedients to deal with insoluble problems, in which the attempted solutions may be worse than the disease. It is not hard to imagine a very large constituency inside China at all levels that will not go for such drastic reversals of everything that communist rule has stood for, measures that even smack of inviting back in the kinds of conditions that existed before 1949 in the countryside, and in the extent and nature of foreign penetration.

### Productivity off, labor restive

According to the usually reliable Hong Kong monthly *The Seventies* citing reliable sources in Peking, in its February issue, the Third Plenum was confronted with a battery of depressing economic statistics. Agricultural production for 1978 was far below quota, making a mockery of the ambitious 4.5 percent growth targets set less than a year earlier. Industrial firms, whose prime goal was to get back to previous peak levels of output, had failed, in 77 percent of cases, to do so. Labor productivity was reported below that in 1966, while one-fourth of all firms were in the red. And overall profit rates were 50 percent down from 1966, at only 16 per-

## China's steel troubles continue

Troubled and inefficient for years, China's steel industry is faced with new cutbacks. The government, admitting steel production is plagued by inefficiency and waste, has announced it will reduce capital investments in steel. As the graph shows, China's steel output has been erratic. 1978's high figure, 30 million tons, is the result of an influx of investment over the past several years; the announcement of investment cutbacks suggests it may represent a plateau or even a peak. By contrast with another major power, Soviet steel output in 1978 reached over 152 million tons, and, unlike China's, rises steadily.




cent, very low for an industrializing country.

That China is still recuperating from its Maoist years, rather than registering fundamental new growth, was officially confirmed in the Feb. 24 editorial which said that 1979 *and 1980* will *still* be years of "restoration, adjustment and consolidation in the national economy." A Feb. 10 *People's Daily* article was more explicit, reporting that the nation's economy in the past two years has been in the nature of rehabilitation."

But restoring full production is colliding with grave social problems, some created by the decades of Maoist insanity, some of the present regime's own creation. After 20 years of waiting — the last general increase in wages prior to the one last year was in 1957 — China's workers want to see some improvement in their standard of living. This last increase may have satisfied few, as wage levels are less the problem than the availability of goods to spend them on. The upper stratum of China's working class has surprisingly large per capita bank savings for lack of anything else to do with their money. Inflation has also become a problem in some areas, according to reports last fall. Lack of enthusiasm for working hard in order to enjoy its fruits 20 more years from now accounts for much of the productivity problem.

This demand for higher real wages has already exploded in a vital strategic sector, China's oil industry. Reporting on a conference run by the Ministry of Petroleum, Peking Radio reported on Feb. 15 that "some people" in the oil industry "practiced anarchism" and "made unreasonable demands and boycotted work or classes at will," an action known in the West as a strike. "Some of them even stormed government organs, encircled and attacked the leadership, blocked the trains and disrupted traffic. Some of the people, *holding high the banner of 'improving living standards,'* made excuses ... to make trouble at various production posts." In China, which has historically been able to cross the borderline into anarchy in short order (as the Cultural Revolution recently reaffirmed), such actions by the oil workers can readily spread.

China has also wasted the productive potential of an entire generation whose number well exceeds 100 million — the generation from 20 to 30 years old which received Maoist miseducation and is consequently presently unfit for skilled or professional employment. Twenty percent of these are urban youth, a great many of whom have been condemned for a lifetime to the idiocy of rural life. This sector, from whom most of the wall poster writers have come, is highly volatile, and held a raucous and violent demonstration in Shanghai last month. They will not readily be contained, nor constrained from linking up with China's restive workers.

### Chaos growing

An even deeper dilemma has been publicly revealed in recent weeks — that even where efforts to stir up popular enthusiasm for economic construction have ostensibly succeeded, it has taken the form not of rationally planned deployment of resources, but of frenetic squandering of resources reminiscent of the "Great Leap Forward" of 1958-60 that wrecked the economy at that time. The baseline problem that still confronts China is the ignorance of its peasantry. A Feb. 16 Peking Radio broadcast illustrated the problem the country faces in mechanizing agriculture by citing the production team in Hubei province which shut off a diesel engine in midoperation by hitting it with clubs and then dumping it in a pond because they knew no other way to shut it off. Thirty-eight percent of that province's 550,000 pieces of farm machinery and implements were found in a survey to be malfunctioning. "Injuries, fatalities and the breakdown of farm machinery and implements, all resulting from farm machinery accidents, are frequent in all areas." In one province, the number of tractors increased more than 25 times between 1965 and 1976, but the area of land tilled by machinery increased by . . . 0.5 percent!

It is thus little surprise that, according to *The Seventies*' acount, the plan for completing 120 large-scale capital construction projects — the cornerstone of China's announced program until 1985 — "is rather too greedy." Apparently, resources are simply being diverted haphazardly from other sectors to these "priority" projects.

The Feb. 24 editorial reveals the fuller dimensions of the problem. The article launches an attack on "rashness and impetuosity" which it says have caused "gaps and imbalances in the plan" which "encourages chaotic development" leading units to overstock and cause man-made shortages, leading to bartering and illegal trading — endemic in China since the late 1950s — vitiating the entire national plan. The article specifically likens the present tendency to the popular attitude during the "Great Leap." Interestingly, the article says that one source of the problem has been setting plan figures too high, which "gives rise to boasting, empty talk and fabricated figures." In plain language, China is having to drastically revise downward its output and growth targets.

— *Peter Rush*

# Brezhnev hits China war threat

## *Offers West cooperation, pact against nuclear first strike*

Soviet President Leonid Brezhnev topped off a series of speeches by the Soviet leadership March 2, with a nationally televised survey of his domestic and foreign policy. With respect to the United States, Brezhnev offered a carrot and brandished a stick, as he warned China and its Anglo-American supporters to halt a course of action which could plunge the world into thermonuclear war. He countered with the Soviet policy-alternative to war, an offer to the West, including America, of broad initiatives for trade and disarmament.

Most U.S. news media, their editorial decisions under the sway of State Department attempts to black out the war danger, misrepresented both the "carrot" and the "stick" of Brezhnev's speech. The Soviet leader was reported to have issued a conciliatory perspective that was a "drastic departure from the recent Soviet propaganda line" of attacking Washington's connivance with Peking's invasion of Vietnam. Most press followed the lead of the *New York Times*, whose Moscow correspondent wrote that the aging Soviet leadership is "less vigorous and decisive than necessary in a fast-paced world," and that Brezhnev's health "has forced him to let important decisions drift .... It would be out of character for him to approve risky, extensive action against China."

On the contrary, Brezhnev's warnings to China were decisive. We excerpt the speech below.

The "conciliatory" side of his speech was also different than represented. Both Brezhnev and Prime Minister Kosygin, who spoke the preceding day, defined economic development as the fundamental goal of Soviet policy for the Third World as well as in East-West relations.

Brezhnev cited the existing 25-year economic cooperation agreements of the USSR with France, West Germany and Finland, which are broadly recognized as measures for political stability as well as economic growth, and offered to negotiate one with Italy. Soviet officials told the *Journal of Commerce* that they would like to see the same arrangement with the United States, if Washington will remove the legal and political obstacles already thrown up against trade.

Brezhnev concentrated much of his speech on an appeal to the Carter Administration to drop its confrontation policies and work with the USSR and Western Europe for global peace and development. His words, amplified by the continuing official Soviet warnings about Southeast Asia, demonstrate that Moscow considers the danger of war very imminent. But Brezhnev, in predicting that he will be able to meet President Jimmy Carter "in the not distant future" to sign a SALT agreement and open discussions in other areas, has held the door open for the U.S. not only to salvage detente, but to join East and Western Europe in forging an alliance for industrial growth and strategic security.

Brezhnev's further disarmament proposals are under consideration at high levels of European governments.

— *Rachel Berthoff*

# Brezhnev: 'the task is to prevent war'

*In his March 2 election speech, Soviet President Leonid Brezhnev dealt with China before turning to review Soviet relations with the major Western nations. Following are excerpts translated from the Soviet daily,* Pravda:

With its unprecedented, naked, and murderous attack on the small neighboring country of socialist Vietnam, the present Peking rulers have revealed to the entire world once and for all the sneaky, aggressive essence of their great-power hegemonistic policy. Now everybody sees that this policy is now the most serious threat to peace in the world. It is now clearer than ever how dangerous are any forms of complicity with this policy.

The Soviet people, together with peaceful peoples of the entire world, demands the immediate cessation of the Chinese aggression against Vietnam, the withdrawal of all troops to the last soldier .... Today, in this difficult hour, we are fully and totally in solidarity with the Vietnamese people. And no one should have any doubt: the Soviet Union is faithful to the Treaty of Friendship and Cooperation that binds our countries ....The aggressor's plans are doomed to fail.

The most urgent and burning task for humanity in our time is stopping the arms race and preventing the threat of nuclear world war....

One of the major tasks in this frame of things is without doubt the elaboration of a new Soviet-American treaty on the limitation of strategic arms. Now this labor of more than six years seems to be close to completion. Of course, the treaty could, in our view, be better. It does not fully meet our wishes. But it is a reasonable compromise, which takes into account the interests of both sides. On the whole, it is a great and a good thing ...

Conclusion of a SALT-2 treaty will without doubt exert a positive influence on the world climate. The new treaty, when work on it is finished, will probably be signed during my meeting with President Carter — I hope, in the not too distant future. We intend to discuss also several questions of further development of Soviet American relations, the strengthening of detente and consolidation of general peace.

* * *

The economic ties among European countries have grown more stable. In the recent period, for instance, we have concluded long-term economic agreements with Finland, France, and the Federal Republic of Germany. Our relations with Italy can be brought onto the same basis. These agreements are a sort of joint capital investment of the East and West in a very necessary and mutually beneficial cause — the preservation and consolidation of international peace.

Of course we do not belittle the difficulties for strengthening peace and security ....NATO is furiously building up its arms and making the European situation difficult....

The Soviet Union has repeatedly declared that it advocates not the build-up, but the limitation of nuclear and conventional arms by agreement on the basis of full reciprocity (on the Vienna armed force cut talks for Central Europe — ed.). This applies to middle-range weapons in Europe too — taking into account, of course, the existence of American military bases there ....

We are prepared, of course, to consider other proposals ....

In 1976, the Warsaw Treaty countries proposed that signatories of the pan-European Conference (Helsinki Agreement—ed.) vow not to use nuclear weapons first against each other. In reply, it was said in the West that this would make conventional war more likely. Well then, let us agree on the non-first-use of nuclear as well as conventional weapons."

# Kosygin: 'work toward creative goals, not war'

*Prime Minister Alexei Kosygin addressed a Moscow audience March 1: Among other issues, he situated the danger of war in the context of recent developments.*

Ultimately the purpose of our struggle for detente and disarmament, for the elimination of the threat of war, is to give the people the opportunity to use their resources as broadly as possible for creative goals — to use for these goals more of the advantages of international cooperation and thus accelerate the economic and social progress of humanity. This is a great task, which deserves the huge efforts persistently expended by the Soviet Union to hasten its accomplishment.

International cooperation is becoming a factor of increasing significance in world politics as well as in the world economy. For each country, regardless of its social system, this is the real way to ensure stable, mutually beneficial relations with other countries. For all the countries and regions of the world, this is basically the only possible path to the solution of several global problems which face all of humanity and can only be solved by collective efforts. These are the questions of preserving peace, supplying energy and food, protecting the environment, and others ....And the most important of these global problems, the one whose solution gives the key to all the others, is the prevention of a new world war.

The Chinese leadership has committed a despicable crime against the cause of peace and progress. Its attack on the Socialist Republic of Vietnam, on its heroic and long-suffering people, is a cynical and barbarous act .... This is a policy of adventurism. It gives pause not only to China's neighbors. And any connivance with such a policy is extremely dangerous, because this is connivance with force and dictate, connivance with the attempts of the Chinese leadership to throw the peoples into war. There is no justification for the aggression; it should be condemned by all; it must be firmly repulsed.

# Berlinguer to China: Detente now crucial

*On the occasion of a Naples Italian Communist Party (PCI) congress on Sunday, March 4, PCI Secretary General Enrico Berlinguer endorsed Soviet President*

*Leonid Brezhnev's call for a rapid conclusion of the SALT talks and attacked the elements of Britain's "arc of crisis" scenario for step-wise confrontation with the USSR which has been propounded at great length by Zbigniew Brzezinski. And he urged a North-South development perspective as the anchor for world peace. Berlinguer spoke as follows, according to the PCI daily* Unità:

... After our condemnation of the Chinese attack, we want to address an urgent appeal to the leaders of the Communist Party of China, for the withdrawal of their troops from Vietnamese soil ... so that peace can be re-established between those two countries; an event which could establish among all Indochinese peoples an order founded on mutual respect for freedom, independence, and national sovereignty ...

While in Indochina a major bloody conflict takes place, which is extremely dangerous for world peace, at the same time we see conflicts and tensions among other regions and continents — from the Mideast to the Persian Gulf ... to the Horn of Africa, to southern Africa ... and each of these conflicts could trigger a major war .... This danger is even more grave considering that relations among the superpowers have deteriorated recently, (and) the rearmament game goes on ....

(In such a situation,) questions of the progress and survival of populations become more acute and explosive in the vast underdeveloped sector, precisely because there exists no framework of global relations for detente and cooperation within which peace and development can be assured. In order to assure them, we are convinced that western Europe must lead the way to the recovery of the detente process, and for an East-West-North-South cooperation capable of renewing the social-political order (of the underdeveloped countries.)

## Soviet perspective on energy development

The scope of international development needed today means a transition to a new quality of energy production requiring international efforts, in the view of Soviet scientists and economists. We summarize here two articles from *Pravda* in the first months of this year, publication of which has received no attention in America.

**Academician N. Basov**, the Soviet laser fusion pioneer, wrote in *Pravda* Feb. 4 on "The Laser and the Power Industry of the Future." Emphasizing the importance of pooling international research efforts, Basov called for rapid development of the fusion-fission hybrid reactor as a commercially feasible transition process before the establishment of thermonuclear fusion power for broad use in industry.

"As civilization develops and peoples' standard of living rises," wrote Basov, "the quantity of energy consumed inevitably grows.... Therefore, humanity faces the common task of seeking and mastering new sources of energy. It would be hard to overestimate the dramatic depth of the importance of the power problem. Happily, as almost always happens in crisis situations, science suggests the way out. The idea of controlled thermonuclear fusion, which emerged several decades ago, will be able, it seems to us, to give humanity a mighty source of energy and avert the threat of energy famine, already in the near future."

**Academician N. Inozemtsev**, chief of the Institute of World Economic and International Relations. proposed in the Jan. 22 issue of *Pravda* a worldwide strategy for energy advancement and Third World development. His outlook is the basis for the 15-year development package being taken to India by Prime Minister Kosygin this month.

"From 1900 to 1977, the world consumption of energy grew 12-fold.... If we speak about the coming decades, besides the utilization of oil and gas and the establishment of better economic relations among the producing nations and consuming nations, there arises the urgent need for broader use of anthracite and other energy raw materials, and to speed up the construction of atomic power stations. It is clear that humanity has entered a period of preparing for the inevitable fundamental reconstruction of the entire structure of the fuel economy and the utilization of such practically inexhaustible resources as thermonuclear fusion energy and solar energy.

"The mechanization, electrification and chemicalization of agriculture, large-scale land improvement, and the successes achieved by biological and genetic science are the real basis for the sharp increase in grain and other crops' productivity.

"For all these opportunities to be realized, we must have peace and further progress in the social, economic, scientific and technological, and cultural development of humanity. We need broad international cooperation."

# IMF policy in Africa

*Regional and tribal wars help the Fund impose austerity*

Prominent British spokesmen, among them Sir George Bolton and the London *Guardian*, have been predicting the collapse of the economies and centralized governments of black African nations, and a redrawing of the continent's political map. Now, a wave of regional wars and tribal unrest throughout the continent, much of it directly fueled by British mercenaries and by Britain's client state, Rhodesia, threatens to fulfill that "prediction," confronting parts of Africa with conditions comparable to those during the Thirty Years War in 17th century Europe. The threat to centralized authority and disruption of transportation infrastructure caused by these wars will result in the elimination of large numbers of the African population.

The aim of this genocidal chaos is to preserve IMF hegemony in Africa, preventing the establishment of an industrialization process in Africa in the context of the development approach of the European Monetary System. The British and the IMF intend to maintain Africa as a supplier of raw materials, in the tradition established in Africa by Cecil Rhodes and the Belgians.

A belt of destabilizations of Africa reaching from northeast into central Africa has been established, affecting Chad, the Sudan, and Uganda, while Rhodesian and South African operations against the contiguous black majority-ruled states in southern Africa are raising the specter of regional war in this area. Israeli intelligence is involved in these operations in both regions.

The case of Zaire, on the brink of complete economic and political collapse, shows where the whole region could be heading.

### 'Little hope for Africa'

*At the Jan. 17 meeting of the Institute of Bankers, Sir George Bolton, KCMG, included in a speech on British global financial domination the following prediction for the destruction of southern Africa:*

One vast area which deserves mention in this brief review is the continent of Africa where the removal of European discipline, which until quite recently controlled virtually the whole of Africa, is resulting in anarchy. As the veneer of the educated elite wears off, there seems little hope for Africa south of the Sahara but to return to tribal anarchy. The suicidal liberal mind insists on transferring Western political ideals to the continent of Africa but I think we shall find that this will, in the short run, produce disaster and the rest of the world will neither be able nor willing to finance Africa nor rely upon Africa for natural resources.

### Development conference threatened

In the northeastern belt, which includes Chad and Uganda, the pressures being mounted against Sudan will have the most serious repercussions in the Horn of Africa. The most important casualty could be a Soviet supported French development conference for the Horn of Africa region.

The first summit ever between Sudan President Jaafar Numeiry and Ethiopian head of state Mengistu Feb. 14-16 failed to resolve the problems between the two countries, stemming from refugees from each country resident in the other.

Since then Numeiry has delivered an ultimatum to the U.S., telling the U.S. it has until July (when his term as OAU chairman expires) to use diplomatic means to get Ethiopia to withdraw its troops from the Sudan-Ethiopia border, where they are preventing the ingress of military supplies for the anti-Ethiopian Eritrean rebels.

The British-intelligence linked Moslem Brotherhood, which is very strong in Sudan, has been organizing demonstrations against Numeiry, predicting he will have the same fate as the Shah. And there are numerous reports that the 17-year North-South civil war in Sudan will erupt again. During the civil war the Israelis played a major role aiding the southern rebels, operating from Ethiopia then ruled by Emperor Haile Selassie.

**Embroglio over Chad**

Chad, on Sudan's western border, also borders Libya, and has been the scene of tribal strife for 14 years. The crisis is heating up, with five different tribal factions holding out for their interests. Approximately 800 northerners were killed March 6 in the southern town of Moundou, raising the possibility of reprisals against southerners in the north. Exaggerated rumors of similar atrocities have provoked counteratrocities in recent months.

Libyan support for some of the factions in Chad could be used as an excuse by Egypt's President Anwar Sadat to attack Libya. Neighboring West African countries with Moslem populations are also fearful that Chad could become the springboard for radical Islamic fundamentalism if Libyan leader Muammar el-Qadaffi's influence grows in Chad.

**Israeli involvement deepens**

The destabilization of the unstable Ugandan regime of Idi Amin is being instigated by Israeli intelligence, with the active connivance of Tanzanian President Julius Nyerere, who has twice before aided attempts to overthrow Amin. Amin has charged that Israeli pilots as well as mercenaries are involved in the fight against him. When asked by other Africans about the Israeli involvement, Nyerere has responded: "They are friends of Obote." The reference is to Dr. Milton Obote, the former president of Uganda, who has been provided a base of operations in Tanzania.

The possibility of a firmer base of operations for the Israelis in Africa if Amin falls not only has enormous implications for the potential revolt in southern Sudan, which borders Uganda, but will open up central Africa to further destabilizations. Nyerere has refused both OAU and Libyan attempts to mediate the crisis.

South Africa launched a combined military and air attack against bases of SWAPO, the Namibian liberation organization, in Angola March 6. The raid's tactics paralleled those used in Israeli attacks against Lebanon, highlighting Israel's extensive connections with the South African military.

The renewed attacks on Angola, designed to prevent a SWAPO victory in upcoming Namibian elections, portend the end of the UN plan for the independence of Namibia, and will result in a South African military buildup in Namibia to be thrown against Angola.

—*Douglas DeGroot*

## Guardian predicts "Terra incognita"

The lead editorial of the British daily, *The Guardian*, on Feb. 14, entitled "Suddenly, a world full of perils," opened with this line: "To peer out over the shaky British parapet at present is to see a world which, in some lights, looks more menacing than at any time since 1939." The editorial then proceeded to lay out a series of scenarios for chaos and conflict throughout the world.

The cessation of civilized society in southern Africa was also projected: "It needs only a few determined raids by Rhodesia, to avenge the destruction of its second airliner and the deaths of 59 people, to make President Kaunda's position in Zambia untenable. It is questionable even now to what extent his writ runs in southern Zambia, but his rail link with South Africa through Rhodesia is vital. If it were interrupted Zambia's economy could well collapse. So could that of Zaire, if it has not in truth collapsed already, so that a huge slice of Africa which is at present under at least some tenuous administration again becomes terra incognita...."

# What IMF policies do to African development

The worldwide recession of the mid-1970s took a severe toll on the developing nations of Africa. Contraction of world trade, collapse of commodity prices, inflation, and cutoff of credit from traditional lenders, made it impossible for these nations to finance development out of their export earnings. African countries were forced to incur enormous debts in efforts not only to maintain their development plans, but even to secure basic necessities which they had to import.

With Western sources of credit dried up, many African nations have been forced to rely increasingly on the World Bank and International Monetary Fund for loans. Moreover, primarily on the advice of these institutions, African nations have borrowed for some large but poorly conceived projects which have added to their debt burden without enhancing their future prospects for generating capital.

A prime example is the 1,500-mile-long power line linking the Inga dam on the lower reaches of the Zaire River to the copper mines in Zaire's Shaba Province, a power line that loses over two-thirds of its power by the time it reaches its destination. It was built solely for the purpose of bypassing neighboring socialist Angola.

Worse, however, has been the imposition of austerity demands tied to IMF loans. These conditions not only make continued development of the affected nations impossible, they are making whole areas of the continent uninhabitable.

Ghana, Sierra Leone, the Sudan, Zaire, Zambia, Jamaica, and Peru, among others, have all been forced by the Fund to submit to currency devaluations ranging from 5 percent to 30 percent in 1978 and this year, and in at least two cases to allocate 30 percent of their foreign exchange earnings to debt service. Most have also cut back social spending and the importation of food, essential commodities, and capital goods as well.

The result has been double and triple digit inflation in food prices — reducing the consumption, and therefore the productivity of the working population, and the ability of the youth to learn. Furthermore, the Fund's financial "recovery" conditions have hastened the collapse of already decrepit economies, such as Zaire's, engendering widespread urban and rural starvation, due to a total collapse of food production and distribution and an IMF-ordered cutback in food imports.

Raw-material import cutbacks have damaged or collapsed the revenue-producing export sectors, giving the lie to the "recovery" characterization of the IMF scourge.

Such "recovery" programs, if not reversed, will plunge the Third World into a dark age far darker than the backwardness from which it is striving to emerge.

## Zaire: the IMF policing genocide

Zaire is the first case of an actual takeover of a country's central financial institutions by IMF appointees. Under the terms of last year's "stabilization" program, the IMF has placed overseers in Zaire's Central Bank and Finance Ministry.

Under the direction of chief overseer Erwin Blumenthal, the country's economy has entered a decline which threatens to produce the break-up of Zaire as a national entity. Blumenthal has made it obvious, furthermore, that this fact does not concern him or the Fund in the least. His brief is to see to it that Zaire's debt is paid off for once and for all, and if that requires the destruction of the economy and the massacre-by-starvation of the population, so be it. Fully 30 percent of the country's foreign exchange has been allocated, by IMF dictate, to servicing the country's $3.5 billion debt. Another 30 percent has been parceled out for *all* consumer goods imports, including food, 33 percent for raw materials and spare parts, and 2 percent for fuel.

Starvation is now spreading rapidly throughout Zaire. The southeastern Shaba province, center of the copper industry, is suffering severe food shortages due to social unrest, the breakdown of the transport sector and last year's invasion by former gendarmes of the Belgian Union Miniere mining company. The invasion — falsely blamed on Angola last year — also scared away a large part of the European technicians essential for running and maintaining the province's copper and other mines.

The IMF's embargo on food imports and on fuel for trucking local produce to consumers has exacerbated the shortages to the level of starvation. Children with kwashiorkor, the debilitating disease of malnourishment, are a common sight in the province, according to the *New York Times*. IMF cutbacks have also resulted in delays in getting raw materials for copper refining, which has contributed to a 50 percent decline in copper shipments this month — a windfall for speculators on the London Metals Exchange, and a further disaster for Zaire, as Blumenthal cuts constant proportions out of a shrinking whole. In addition, most of Shaba's industries are operating at 50 percent capacity, at best.

In the western Bas Zaire province, where conditions are exacerbated by drought, starvation levels are "worse than the Sahel," with more than a quarter of the children in some districts acutely malnourished, according to a recent study by an international nutrition survey team. Some 450,000 people are estimated to be affected by starvation. Emergency shipments of seed, according to the U.S. Department of State's Disaster Relief office, were not expected to be in the ground by the March 1 deadline (the end of the rainy season) for a good crop. The situation, therefore, will be the same, if not worse, next year.

Due to the collapse of the country's once-efficient infrastructure — which Blumenthal is now driving into the ground with his rationing plan — peasants throughout the country are unable to get their crops to market and have largely reverted to subsistence agriculture. Whereas there were 80,000 miles of good roads in the country at the time of independence in 1960, there are now 12,000.

With no local produce arriving in the cities and the IMF's cutting back of food imports, starvation is even spreading to the cities. In the capital, Kinshasa, Western diplomats report seeing people "fainting from hunger," and levels of deprivation they have never before witnessed. There are reports in several cities of food riots, and, in several provinces, armed gangs shopping for groceries by force. Many of these armed gangs are said to be unpaid and unfed Zairean army soldiers.

With the collapse accelerating, Belgium has sent 250 paratroopers, ostensibly to protect Europeans from rioting Zairois, but in fact to ensure that President Mobutu Sese Seko does not try for an alternative aid program that would enable him to pull out of the Fund's grasp.

A parallel contingency plan, to overthrow Mobutu if necessary, is in place on Zaire's eastern borders. On Feb. 16, 48 European mercenaries were arrested attempting to enter the country from neighboring Rwanda, and the Rwandan army arrested 80 more this week. The mercenaries were later discovered to have been funded by the Belgian Banque Bruxelles Lambert of the Rothschild family.

## The Sudan: outlawing development

The Sudan, in northeast Africa, has the greatest agricultural potential of any country in Africa. President Jaafer Numeiry, after more than a decade spent bringing political stability to the country, has brought the Sudan to the point where it is ready for an economic boom, if financed.

But the International Monetary Fund has put up every obstacle, in collaboration with some Saudi leaders who would sacrifice the breadbasket of the Middle East for the IMF's idea of short term financial stability; stability based on slowing down, if not stopping, Sudan's economic growth.

In the course of financing development, not possible through foreign exchange earnings (a condition that the IMF seems to be insisting on), the country has accumulated $2.5 billion in foreign debt, with 30 percent of all foreign exchange earnings going to debt-service payments. The Sudan has benefitted so far only from the backing of Saudi Arabia. Last June, however, the IMF extracted a 20 percent devaluation of the Sudanese pound and an embargo on development spending, until Sudan's $700 million arrears on debt service was paid up. Even at that, the 20 percent devaluation represents a minor victory for Sudan, since it was 10 percent below the devaluation demanded by the Fund.

Disregarding the fact that repayment of current debt is secured only by the uninterrupted growth of the

Sudanese economy, the IMF last week prevailed on Saudi Arabia to withhold payments of a $300 million grant to Sudan, causing an instant foreign exchange crisis. On Feb. 16 a Fund delegation arrived in the country to extract further concessions in return for new credit.

In contrast to the Fund, the government of the German Federal Republic recently wrote off $218 million owed it by Sudan.

Further pressure from the IMF could upset the delicate political balance that Numeiry has constructed over the last decade, possibly causing the resurgence of the Anya-Nya secessionist movement in the Christian southern Sudan, or an upsurge of Islamic fundamentalism, similar to that in Iran, in the north. Already the fanatical Muslim Brotherhood, which held a 4,000 person demonstration last week in Khartoum, is calling for Numeiry to go the same way as the Shah, for the crime of modernizing his country.

## Zambia: engendering instability

Although Zambia has not yet sunk to the depths of Zaire, the combination of the austerity regimen imposed by the IMF and the constant and growing threat from Her Majesty's colony of Rhodesia have created social unrest that seriously threatens Zambia's economy and the government of President Kenneth D. Kaunda, and could cause the splintering of the country. In the worst sense, Zambia could "catch up" with Zaire in short order.

Zambia has been under increasing pressure from the IMF since the drop in copper prices dried up their main source of income in 1974. As in Zaire, commercial banks in the West loaned Zambia considerable sums assuring the Zambians that repayment would come from Zambia's then-growing receipts from copper. From a 1974 high of $1.26/lb. in the second quarter, the price of copper fell to $.62 in the fourth quarter and $.53 a year after that, staying at this depressed level until this year. Foreign exchange reserves fell from $318 million to $38 million in the first six months of 1975; and there have been *no* revenues from copper since the end of 1974. The cost of production has been higher than the world price.

As a result, the Kaunda government has been introducing more and more draconian austerity measures in an attempt to stave off the Fund's bill collectors. In the 1978 budget, capital investment was cut from 1977's £133 million to £99 million, the equivalent of £79.2 considering the country's 20 percent inflation rate. At the same time, government subsidies were removed from several vital commodities, causing a 21.6 percent increase in the price of maize, a staple food, and a 28 percent rise in the price of fertilizer. Recurrent expenditures were cut from £484 million (1977) to £444 million (355.3 million considering inflation), stripping health and education allocations to the bone. In the same year, the government introduced forced ruralization of unemployed urban dwellers.

After an inspection visit in March, the IMF offered $390 million in financial assistance, applied to import bill arrears and back debt. As of 1977, Zambia's debt was $1.27 billion.

As a result of the economy's contraction and the cuts in social spending, the Kaunda government is facing a resurgence of opposition and the growth of regionalist and tribal political machines, particularly among the Bemba on the copperbelt and in southern Zambia along the border with Rhodesia.

Zambia has also faced almost constant military harassment from Rhodesia: one major raid against Patriotic Front guerrilla camps in Zambia last year, and another last week, in which upwards of 100 people were killed. Rhodesia has also threatened more severe raids in retaliation for the downing of a Rhodesian airliner by guerrillas in February.

## Ghana: capitulation

In the summer of 1978, a junta led by General Fred Akuffo ousted Ghanaian head of state General Ignatius K. Acheampong and has since agreed to the demands of the IMF, almost before being asked. The Acheampong regime had a history of resistance to IMF financial dictatorship: upon his accession to power in 1972, Acheampong reversed a devaluation of the Ghanaian currency, the cedi, and virtually unilaterally forced the renegotiation of Ghana's foreign debt, refusing to pay some debts incurred or offered irresponsibly during the governments of Kwame Nkrumah and Kofi Busia in the 1960's.

Upon taking over, Akuffo immediately cleared out a number of Acheampong's advisors and put economic policy under the control of strict monetarist Dr. J.K.S. Abbey, a graduate of the London School of Economics. In return for a $69 million debt rollover fund, the IMF has extracted from Ghana a devaluation of the cedi, a government budget cut, a drive to increase export crop production, and limitations on imports — limitations which mean "immediate hardships for Ghanaian citizens and consequently a grave strain on the whole fabric of the Ghanaian nation," according to *Africa Confidential* magazine.

## Sierra Leone: resistance

Sierra Leone's President Siaka Stevens, backed by his national Chamber of Commerce, has put up stiffer resistance to the IMF's demands, but the pressure is still on. After making clear to the IMF in an October 1978 meeting in Washington that their demands would threaten Sierra Leone's political stability, Stevens was forced to accede to the Fund's demand for a 5 percent devaluation in the leone, the country's currency, and to the demand that the leone be pegged to the Fund's so-called currency, the SDR. The World Bank chimed in threatening to cut off new development projects if Stevens did not capitulate.

However, Stevens refused a further devaluation demanded by a visiting IMF team this January. This has resulted in the suspension of an IMF standby credit for his country and the postponement of further aid measures, and it is unsure how the country, which has virtually no foreign exchange left, can hold out. However, one possibility was indicated by the visit to Sierra Leone late last year by France's Minister of State at the Foreign Office Olivier Stirn.

—*Peter Buck*

# WORLD TRADE REVIEW

## New trade deals

| PRINCIPALS | PROJECT / NATURE | COST | FINANCING | STATUS |
|---|---|---|---|---|
| European Common Market/Angola | fisheries development | $650,000 | EEC | III |
| France/ | French company ETPM (Entrepose pour les Travaux Petroliers Maritimes and UIE to construct, transport and install drilling platform off coast of Abidjan (Belier field) for Esso, includes some pipeline installation | $7.5 mn. for ETPM<br>$8 mn. for UIE<br>Total: $15.5 mn. | U | III |
| France/USSR | Thomson-CSF's LTH company to build factory producing electronic telephone central exchanges with an annual capacity of a million lines | $100 mn. plus | U | III |
| France/Mexico | Vallourec gets order from PEMEX for additional 120 km of pipes | 400 mn. F | might benefit from 1 bn. F credit line at low interest | III |
| Greece/Saudi Arabia | 3-5 yr. oil agreement (crude) | NAv | U | IV |
| Greece/Saudi Arabia | aluminum product in Saudi Arabia based on Greek alumina | $1.7 bn. | U | IV |
| Greece/Saudi Arabia | sea route Jedda and Volos through Alexandria, Saudi-Syria-Libya connection to Europe. | NAv | U | IV |
| Greece/Soviet Union | 20 yr. agreement for Soviet natural gas to Greece, with new pipeline from Bulgarian border | NAv | agricultural products, alu-minum, and convertible currency | IV |
| | 5 yr. agreement for 1.5 mt/yr. crude oil to Greece | $150 mn/yr. | | IV |
| | long term agreement S.U. and Public Power Corp. of Greece to purchase electricity beginning in 1980. | | | IV |
| | Construct aluminum plant in Greece (600,000 tons/yr. capacity) | $300-350 mn. | | IV |
| Japan/Kuwait | Mitsubishi Group to supply 300,000 kw tubogenerators for Poha West power structure | $300 mn. | Kuwait Minister of Electricity and Water | II |
| | aluminum electrolytic-reduction plant Kajima Corporation and Sumitomo Construction Company with P.T. Indonesia Asahan Aluminum | $104 mn. | Japan government Overseas Eco Coop Fund | II |
| | S.U. in agreement with Archer Daniels Midland Company for exchange of technology for manufacturing of new protein products from soy and oilseeds; and immediate transfer of meat industry technology. | NAv | NAv | III |

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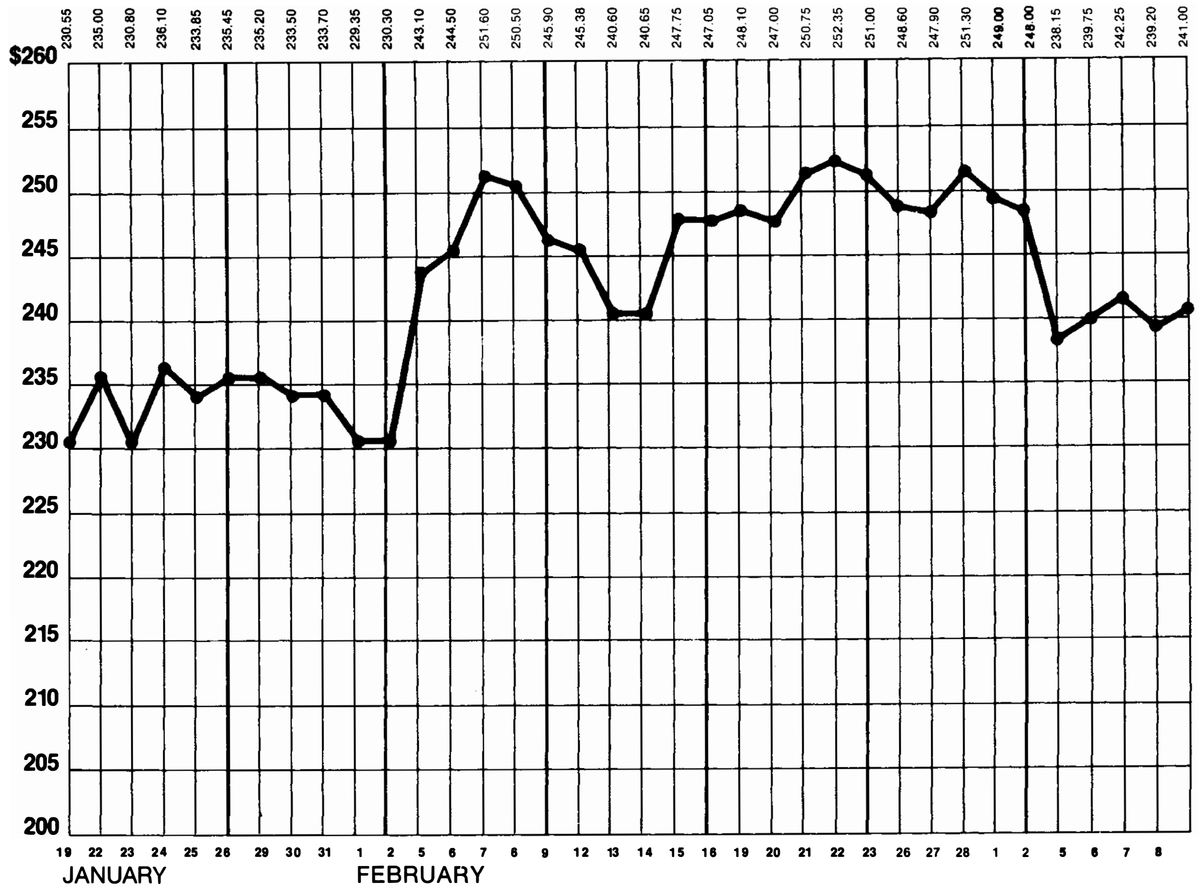
## Gold London afternoon fixing




## The Dollar In deutschemarks, New York closing