Secret NAFTA accord threatens U.S. sovereignty

by Richard Freeman and Chris White

On Sept. 8, Rep. Henry Gonzalez (D-Tex.), chairman of the House Banking Committee, exploded one of the biggest political bombshells of recent years. He reported, during hearings held on the vulnerabilities of the U.S. financial system under the proposed North American Free Trade Agreement (NAFTA), that no written record exists of the negotiations or negotiators of the Financial Services chapter of that agreement.

Since the notorious NAFTA agreement, in U.S. law, is a trade agreement, and not what it is called in Mexico, a treaty, the law requires that all such records be placed before Congress. If the agreement were a treaty, that would not be necessary, since only the Senate would be involved, as per that body's constitutionally mandated "advise and consent" function. But, trade agreement it is. And the legally required "paper trail" and "pedigree" have not been submitted to Congress, and may not even exist.

The congressman's remarks were directed to the representative of Citibank, Jack Guenther, senior vice president and senior adviser for international operations of the bank and its holding company.

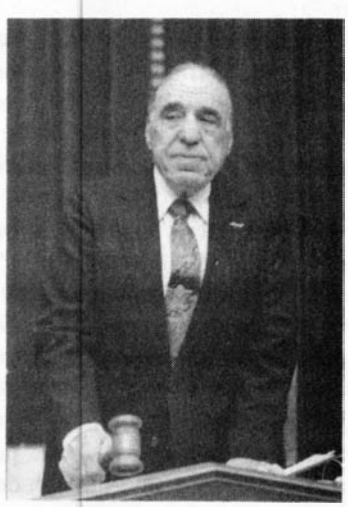
Their exchange, not so far reported in any media besides the publications associated with this news service, went as follows:

Gonzalez: "I have found it very difficult since President Bush announced the [NAFTA] agreement last December [1992] to find out exactly what are the procedures, [and] who participated in what were really secret negotiations. As far as I know, there are no public records. . . .

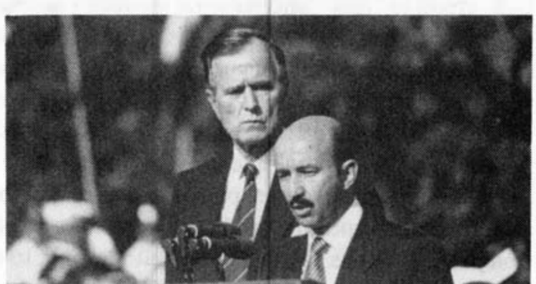
"Mr. Guenther, were you or any other Citibank personnel involved directly or indirectly in negotiations . . . involving the financial services chapter of NAFTA? . . . Did you review drafts of the agreement? And if so, would you be able to share with us the substance of your comments. . . ?"

Guenther: "I don't think I should give you . . . the answer that would be definitive on that."

Guenther went on to admit that, over the past two years, meetings have been held on a weekly basis at the Federal Reserve Bank of New York, under the



Clockwise from upper right: Rep. Henry Gonzalez, who blew the lid off the secret financial negotiations for NAFTA; Mexican President Salinas (r.), who sold his country out to George Bush (l.); the New York headquarters of Citibank, a major player in the plot; protesting Mexican farmers, whose lands are to be basis of the swindle, demand "halt to foreclosures."



chairmanship of William McDonough, then senior manager of open market operations, now newly appointed president of the New York Federal Reserve Bank. People from the United States and Canada were involved in discussions which were "fairly open." As for his own employer, Citibank/Citicorp, he said, "Yes, I'm sure we participated in some indirect way, but [I] should get you more precise information on that."

Gonzalez subsequently announced that he will be convening followup hearings, to take testimony from the ostensible negotiators of the agreement—such as Carla Hills and David Mulford, the former the wife of an executive at Michael Milken's Drexel Burnham Lambert, the latter returned now to extra-governmental duties at leading investment house Crédit Suisse—to pursue the matter of why no legally required record of the Financial Services chapter negotiations exists.

The report which follows has been put together by *EIR* investigators following up the charges made by the congressman. It has not been possible, thus far, with certain notable exceptions, to identify who participated in the closely held meetings. "Fairly open" they may have been, but not, apparently, open enough to satisfy the rigorous legal requirements of public scrutiny.

It has been possible to identify the outline of what the secret agreements contain. What is uncovered here ought to come as a shock. The whole, currently developing national debate about the NAFTA agreement is an outright fraud and farce. It doesn't matter which side you happen to take on the contrived public perception-conditioning questions of whether NAFTA will create jobs or result in their export to Mexico, or whether NAFTA will increase or decrease U.S. exports to Mexico. That's got as much to do with the real world as a weekend trip to Disney World.

And, if you have difficulty comprehending that, why don't you ask the little huckster H. Ross Perot, the electronically anointed "leader" of the "anti-NAFTA" soap opera, why his family's financial interests are, right now, involved in making money out of the murderous scams which are being organized as part of the covert financial agreements which have been withheld from Congress? And why GE Corp., which is backing Perot's "campaign," with access to its CNBC cable network, is another such profiteer?

Jailed U.S. presidential candidate Lyndon LaRouche has vowed to make the campaign to stop this a crucial component of his election campaign. While all else are wrapped up in a phony debate, organized by fakers, for hucksters and peddlers, he is the only public figure in the United States to have made the now exposed plot into a fighting issue of national survival.

The secret agreements

The basic viper's nest of secret agreements is threefold:

1) to actually increase Mexico's more than $100 billion nominal foreign indebtedness through the brutal looting mechanism of the ongoing so-called privatization program;

2) to transform such increased dollar indebtedness into a source of offshore dollar credit through the proliferation of

derivatives markets. These markets would be backed by the Mexican government, which would in turn be functioning as an agent of the U.S. Federal Reserve System;

3) to use the offshore dollar credits thus generated as a lever for a new form of financial control over the United States itself.

These secret agreements go beyond what was documented in *EIR*'s Special Report "Auschwitz Below the Border," but will produce exactly the result forecast there: bloody genocide against Mexico and its population. They also constitute treason against the United States. Treason organized with the complicity of the highest levels in U.S. public and private life, just as was the Confederacy more than a century ago, with the purpose of eliminating U.S. national sovereignty, through destroying and subordinating U.S. credit to "new" international monetary arrangements.

At the heart of the whole plot is a plan to finish off the job of destroying America's financial sovereignty that was begun when the Federal Reserve Act created the Federal Reserve Board in December 1913, as a privately owned central bank, which disguised its true intent by having a public Board of Federal Reserve Governors placed at the front of the system.

The Fed usurped the credit-issuing authority of the U.S. Congress, and thus arrogated to itself the right to determine how much credit was created, and for what purpose. Under the secret NAFTA Financial Services codices, the United States itself is to be subordinated to an international dollar, that is, to the powerful financial interests which control the derivatives markets, and the Federal Reserve Board is intended to be the agent of imposing their will on the United States.

The Fed, as per the design of Paul Warburg, the architect of the system, is supposed to become a hemispheric, not a national, central bank, the individual nations of the southern hemisphere to be reduced to the status of subordinated regions of an intracontinental privately controlled arrangement, and the existence of the United States itself called into question in the same way.

What is being done to Mexico, on behalf of secret agreements being implemented without respect to the outcome of the so-called NAFTA debate, is to be the model for the hemisphere.

This is what LaRouche has taken the responsibility to root out.

Privatization looting swindles

Within Mexico, the scaffolding for the construction that is supposed to be raised, is the privatization program. Here is the building of the Auschwitz which *EIR*'s earlier report documents.

For example, right now, there is a team—drawn from the U.S. Department of Housing and Urban Development, the Agency for International Development of the U.S. State Department, and the U.S. Savings League, the public relations and lobbying arm of the wreckage of the U.S. thrifts—sitting in the Finance Ministry headed by Mexican presidential contender Pedro Aspe, working out how to set up a Mexican version of Fannie Mae, the Federal National Mortgage Agency, through which to provide Mexican government backup for the creation of a secondary market in mortgages.

What does this involve? Dispossessing Mexican farmers and *campesinos* who have been reduced to penury under the austerity enforced since 1982, so that their lands can provide the basis for a new financial swindle. The Mexican bankers' federation recently heard arguments from its members as to why the current government should not concede debt relief to the farmers. Acting on behalf of Mexico's farmers and *campesinos* will slow up the creation of the necessary secondary mortgage market.

How will this necessary secondary market be created? Asked this, one of the architects of the implementation of the privatization program said outright: "Mexico has too many farmers. Mexico will no longer be producing corn," a staple food product of the country. If Mexico's farmers won't be producing corn, what then will Mexico eat? Corn from flood-ravaged Iowa, Missouri, and Illinois? The source anticipated that two-thirds of Mexico's farmers and *campesinos* would be thrown off the land, beginning now, and that such a secondary market would be created on lands they vacate, on the basis of debts they incur when driven into the cities.

This isn't the kind of secondary mortgage market known in the United States. It is to use the kind of labor practices associated with the former United Fruit Co., or southern U.S. plantations after the defeat of Lincoln's Reconstruction program, as the basis for the issuance of new debt. It is to hold the inmates of Auschwitz liable for the mortgage payments on the accommodations so generously provided by their oppressors.

Yes, Mexico's farm sector, in the past supported by the state as a matter of protecting national food security, is to be privatized.

So, too, is just about everything else, and in the same brutal way. The telephone company has been privatized. The highway system is being privatized. The water distribution and sanitary services of cities such as Mexico City, are on the block. Ports and airports are targeted too. The touted "environmental side agreements" to the main text of NAFTA, will, in the border areas, accomplish the same result, setting up looting swindles on the basis of farming out what is euphemistically called "the cleanup of the environment."

To get to the bottom of who put together the secret agreements, simply take the list of the outfits that have carved up the elements of Mexico's public infrastructure for ongoing or scheduled privatization. Go to Hongkong and Shanghai Banking Corp., its subsidiary Midland Bank, Barclays Bank, Crédit Lyonnais, Citibank, J.P. Morgan, Goldman Sachs, Shearson-Lehman. That is where you will find the still-bloody hands that wielded the butcher's knife. There you can find the people who can tell you under what auspices the carcass was apportioned.

Then there are the technicians, like Carlos Melcher of Public Financial Management, a Philadelphia-based subsidiary of the "HongShang" bank which specializes in privatization and deregulation, who can tell how it is done.

Currently, Mexican-born California resident Melcher has a busy schedule.

On Sept. 17, he flew to Mexico for meetings with Mexican Treasury and other government officials. He had dinner with Mexican mega-millionaire Carlos Slim, who is accounted the owner of the recently privatized Mexican Telephone Company.

Melcher is a graduate of the University of California School of Business at Berkeley. While he was an undergraduate there, his professor, Laura D'Andrea Tyson, was the director of the Institute of International Studies, which is connected with the School of Business. Tyson has gone on to become the head of the Clinton administration's Council of Economic Advisers (CEA), where she is currently working on the implementation of the secret financial accords.

Another of Melcher's professors at University of California School of Business was Sherman Robinson. Robinson went to Washington, D.C. to work for Laura D'Andrea Tyson at the CEA, serving as her senior aide on matters relating to implementation of the secret agreements.

Toll road fiasco

The privatization of Mexico's highways, ongoing for three years, exemplifies the process that is under way. The government assumes the old debt, puts up "seed money" to attract private so-called investors, who, in return for a pittance spread over time, are given "concessions"—yes, that is the word employed—on the revenue stream extracted from the project. The revenue stream is the collateral for new debt, directly or indirectly backed by the government, which, with its seed money, paid the private investors to come in in the first place.

"Privatization of roads works on the principle of 'build, operate, and transfer,' " *EIR* was told on Sept. 15. "A group comes in, usually involving a construction company, and they build a road. If the construction company were building the road for the government under some government [public works] project, then that would be that," Melcher continued. "The company's role would end with the construction completed. But now the [construction] company is asked to stay on and operate the road."

The construction company may operate the road in partnership with a group of investors. "If the construction company operates the road, then this is a concession. The term of the concession can run 10 or 12 years, but now they're getting longer, and concessions are running up to 30 years. . . . The concessionaire gets the revenues for running the roads. The concessionaire keeps the tolls. After so many years, the concession runs out, and it is transferred" back to the government. Thus, the origin of the phrase "build, operate, transfer."

In Teddy Roosevelt's day, they used to send in the Marines to take over the customs house. The result is no different.

Over the last few years, under the government of President Carlos Salinas de Gortari, 4-5,000 kilometers (2,400-3,000 miles) of toll roads have been built in Mexico. These are not improvements of existing roads, nor are they badly needed extensions of Mexico's 54,000-mile paved highway and two-lane road system, deteriorating as it is.

As insane as it may seem in almost all the cases, "the toll road was built right along side the existing highway," so that it could "compete with it." While Melcher waxes eloquent on how the "privatization" of the road system is brilliant, the program is a flat-out failure. "The problem is that the tolls are high," stated Melcher, and "people use the old [government-built] roads, even though the old roads are not in good condition."

Tolls have been set high, exorbitantly high. So high that the toll roads haven't functioned. But meanwhile, the condition of the parallel freeway has been allowed to deteriorate. Now, the commercial users who were primary targets are being offered a deal: "Come use our roads, and we'll reduce the tolls."

Indeed, the tolls are exorbitant. According to an interview in the July 1993 issue of *World Trade* magazine, a truck traveling into the interior of Mexico could spend $400 in tolls alone. The toll from Mexico City to Acapulco, a resort town, is $100 round trip, for only 255 miles.

And so the concessionaires are signing deals. The concessionaires cut the tolls by 50%, but the commercial users have to undertake that they will no longer use the old government-built roads. Some people call extortion a simple deal, too.

Projects for Mexico City's water system are no different. The tolls this time are users' fees. The "foreign investment" which follows government seed money, is to pay for the installation of meters to monitor usage, and plug up leaks in the system, so that the money-generating resource, water, might not run off idly without generating some more loot.

This is the racket which NAFTA opponent H. Ross Perot is reported to be involved in. Perot and his son, H. Ross, Jr., working through a business vehicle called the National Transportation Authority, just recently won a hard-fought fight to have Alliance, Texas, just outside Dallas, declared a "free-trade zone" so that they can build an airport there.

The purpose of the airport is to capitalize on business generated by NAFTA.

On both sides of the border, the Perots are said to be "interested in real estate, in getting into toll road privatization deals, in a lot of things." There is a company they are associated with, called Grenier, which is worth looking into. Ross's business interests are said to be strictly separate from his political interests. Not surprisingly, after all, "We represent the owners of the country, don't we; we're just taking back what we own, okay?" The Perot family representative for all this is one Larry Cain.

This much is par for the course in all the privatizations that have been done in recent years, whether in Britain, or now in Italy, or to come in France, or in other Third World countries that have been put through the same bloody wringer Mexico is going through. Deregulation in the United States was the same thing too.

Where things start to vary from the established pattern, is with what is coming next.

The "income stream" extracted from these projects is, of course, denominated in Mexican pesos. That peso income stream is to be transmogrified into dollar-denominated bonds for the benefit of the foreign investors who are supposed to be putting money into the "build, operate, transfer" projects. This is the fear expressed by Nikos Valance, witness at the recent Gonzalez hearings, that what would follow under the Financial Services chapter would be the creation of something he called "NAFTA bonds" or "NAFTA dollars." They might more properly be called "Hemo-bonds," since blood is the resource against which they will be collateralized, just as were "petrodollars" against oil.

The next step is to bring in international financier investment, as part of the secret NAFTA financial accords. Dollar-denominated bonds, "NAFTA-bonds," would be issued.

The major American investment bank "Lehman Brothers is working on an idea," we were reliably informed, "to attract substantial international investors into investing in toll roads. The way this would work is that Lehman Brothers would underwrite non-recourse revenue bonds, which are [denominated] in dollars." Such bonds can be dubbed the "NAFTA-bonds" of which Valance spoke.

"The potential highway area that has been chosen is a 100-kilometer [60-mile] stretch of road near Cuernavaca. Now this is one of the most heavily traveled areas in all of Mexico. It should yield a decent revenue."

According to our source, Lehman Brothers tried to do this once before. "They tried underwriting a bond for a toll road at Toluca. But they didn't structure the deal right. However, they had one very good idea. They issued a bond that had a contingency fund of 9% to protect against currency exchange rate risk [between the dollar and the peso]. This idea could be used again."

Enter, derivatives

And thus, like the secondary mortgage market, the dollar bonds issued against a peso income stream are to be the basis for the construction of a Mexican-based derivatives market.

To protect against so-called foreign currency risk, the dollar bonds are to be hedged against currency risk through the foreign exchange market.

Crédit Suisse-First Boston is said to be one of the investment banks which is interested in the deal that Lehman Brothers is setting up. David Mulford, who as the assistant secretary of the treasury in the Bush administration helped write the financial side of the NAFTA accord, has returned to his old firm, Crédit Suisse-First Boston, to take up a senior management position. Crédit Suisse has been one of the movers and shakers in Eurodollar placement.

Other interested investors include the British banks Montagu and Midland, the latter of which is merged with the Hongkong and Shanghai Banking Corp.; the French Banque Paribas and Crédit Lyonnais; and the American J.P. Morgan, Citibank, Goldman Sachs, and the Morgan-owned General Electric Credit Corp., the biggest non-bank financial corporation in the world. Every one of these institutions is also a major investor in the worldwide derivatives market.

What they've got in the pipeline includes the following: Mexican Treasury currency strips, in which the principal and interest of Mexican Treasury bonds are stripped apart and each traded as a distinct instrument with a particular yield; a Mexican currency and interest rate swap market; Mexican mortgage-securitized and auto loan-securitized bonds, which are issued against bundles of mortgage and auto loan paper; stock market warrants (which already exist); a Mexican Mercantile Exchange market to trade futures and options contracts, and so forth.

At the same time, derivatives trader George Soros is moving into Mexico to invest in the Santa Fe office building real estate development in Mexico City, which is projected to cost $10 billion to build. Soros, and his partner in the deal Paul Reichmann of the Canadian Reichmanns and formerly of Olympia & York real estate, are prepared to sink $500-700 million of their and their partners' money in this project. Such a gigantic real estate deal would dominate the real estate market of any big European or American city—its financing cost is the size of the London Canary Wharf project—but in Mexico City, in very poor Mexico, this project of Soros, Reichmann, and their buddies will have absolute dictatorial control over the Mexican real estate market. And it is now well known what George Soros's financial operations are all about, and whom he works for.

There are two features to all this.

One, there just ain't enough loot down there in Mexico to support it. Strip the carcass to the bones, and it still doesn't add up. Run a derivatives market on auto-related consumer debt, when the plan is to expand U.S. exports from 1,000 cars a year to 60,000? Run a secondary mortgage market on the backs of Mexico's estimated 15 million or so homeowners? This is like Citibank's Guenther telling the Gonzalez committee about the jobs that will be created because of the implementation of NAFTA, and citing the possibility of 700 more jobs in South Dakota in Citibank's credit card-processing subsidiary.

What does Ibero-America currently produce that could support all this? Cocaine. This is the financial infrastructure going into place for a new ordering of the multihundred-billion-dollar flows associated with the drug trade, of which it is estimated that $100 billion per year passes through Mexico.

It is the same old crew. Back in 1978, *EIR* helped organize the fight against the Hongkong and Shanghai Banking Corp.'s takeover of Buffalo-based Marine Midland. We argued then, in hearings held by the New York Banking Commission, that the takeover would open the floodgates for inflows of drugs and drug money. No one produced a refutation of the argument. But the Federal Reserve did change its own accounting standards to permit the HongShang bank to come into the United States without disclosing either the size, or the provenance, of its hidden reserves.

So Mexico's heart is to be ripped out to become the staging ground for the reorganization of the drug trade. This was wormed into the Gonzalez hearings by one Christopher Whalen of Whalen Associates, who on page 14 of his written testimony wrote, "Until such time as Americans come to their senses and bring the drug trade to the surface through legalization, the multibillion-dollar annual flow of illicit drug money into Mexico will continue to grow. . . ." Whalen did not have the guts to state publicly before the committee what was thus buried in his testimony.

The other aspect is this: When you set up a derivatives market, you are also setting up a credit-generating facility. The credit is, in effect, the difference between the nominal value of the instruments traded, and the margin required to leverage the trade. And thus dollar debt, issued against Mexican pesos, backed by the Mexican government, is to become transformed into offshore, dope trade-backed, dollar credit.

The derivatives markets are the cover for laundering the so-called capital gains associated with the finances of the dope trade into circulation, not as apparently legitimate money as such, but as a source of credit in its own right. For example, what is the present value of an asset to be collected 30 years hence, like the income from the highway privatization program? Nothing. It is merely a future promise to pay. With derivatives, you can create such a non-existent, a present value for a future asset, and negotiate it, and hedge it against a decline in its so-called value. Nothing times nothing equals nothing, right? Wrong. The present value of the asset to be protected is its undiscounted nominal present value. Calculate backwards from maturity, multiplying the future asset by expected inflation and interest rates. Then you get into the ball-park of the volumes of credit that would be produced out of thin air against the collateral of dollar-denominated debts secured against privatization and backed by the government of Mexico. It is mind-boggling.

And that is precisely where the threat to the sovereign existence of the United States arises out of these agreements. You see, their architects do not simply talk about the U.S. dollar; they distinguish between the U.S. dollar and what they now call the "international dollar," or the dollar which "knows no boundaries." That dollar, what *EIR* has called the "narco-dollar," transformed into a source of credit in a new way, is supposed to provide the leverage to mount an assault on the United States, with an intended effect which the armies of the Confederacy were never able to achieve.

Federal Reserve takes over banking in the hemisphere

What we have seen thus far, in terms of the bankers' takeover of the economies of Ibero-America, is only the beginning. The central banks of Mexico and Argentina both have, already in place, "arrangements" with the U.S. Federal Reserve. In the Argentine case, domestic currency issuance is tied to the volume of dollars in circulation. Argentina's central bank cannot issue more of its own currency unless the U.S. Federal Reserve ships down some dollars. In the Mexican case, the central bank is the "beneficiary" of a Federal Reserve credit facility.

National central banks are to be incorporated as extensions of the U.S.-based Federal Reserve System, issuing dollar credit, functioning as local dollar "lenders of last resort" to backstop the hideous speculative bubbles that are being created.

This is treason to the United States! The U.S. Federal Reserve becomes the lender of issue, and last resort, to support dollar credit generation outside the United States, in the form of the derivatives bubble and central bank dollar lending. Thus, through the secret agreements that Rep. Henry Gonzalez has put under the spotlight (see previous article), the Federal Reserve is putting itself in a position to coordinate how that externally generated credit is to be used against the United States itself.

Believe it or not, this atrocity is under discussion at the International Monetary Fund, the World Bank, and in the precincts of the Clinton administration, through such officials as Richard Feinberg of the National Security Council. Feinberg, before his appointment to the administration, was with the Inter-American Dialogue, which promotes the legalization of drugs.

The Fed is slated to fulfill the role of hemispheric central bank, or hemispheric Federal Reserve, originally intended for it back in 1913. The Federal Reserve is to become the central bank for all hemispheric central banks, south of the border. A globalized, international dollar is to be coupled with, and originate from, that internationalized Federal Reserve.

The IMF plan

It is hardly accidental that one of the institutions putting this forward is the International Monetary Fund (IMF), the