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Beware George Soros's crazy swindle
President Clinton counters the China-bashers
Italians endorse call for New Bretton Woods

Shocks on export markets show world economy is collapsing

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World Wide Web site: http://www.larouchepub.com
e-mail: eirns@larouchepub.com

European Headquarters: Executive Intelligence Review Nachrichtenagentur GmbH, Postfach 2308, D-65013 Wiesbaden, Bahnstrasse 9-A, D-65205, Wiesbaden, Federal Republic of Germany
Tel: 49-611-73650. Homepage: http://www.eirna.com
E-mail: eirna@eirna.com Executive Directors: Anno Hellenbroich, Michael Liebig

In Denmark: EIR, Post Box 2613, 2100 Copenhagen ØE, Tel. 35-43 60 40

In Mexico: EIR, Río Tiber No. 87, 5o piso. Colonia Cuauhtémoc. México, DF, CP 06500. Tel: 208-3016 y 533-26-43.

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EIR

From the Associate Editor

We go to press as the Dow Jones has soared over the 10,000 mark. All the yuppie lunatic speculators are throwing their hats in the air and thinking that this is about as close to Nirvana as it gets.

But, what we are actually close to, is shown in Lyndon LaRouche's "triple curve" schematic for economic collapse (see p. 11).

This week's *EIR* provides extensive documentation of what *reality* is, on a number of crucial fronts:

The economy: Lothar Komp's study of the collapse of exports worldwide gives a devastating picture of what is happening with the physical economy. The European Union, for the first time in history, is a net importer of steel! Even the world market for computer chips is collapsing! Further, in a guest commentary, Nobel Prizewinner Maurice Allais contributes the first article in a series on the crisis of what he has previously called the "Casino Mondiale." In this installment, he analyzes the historical precedent of the Great Depression. Who is behind the policies that threaten to bring on such a disaster again, only much worse? See Richard Freeman's review of speculator George Soros's new book, for a vivid portrait of the evil mind of one of the world's top financier oligarchs.

Strategic doctrine: The push for a new NATO strategic doctrine of limited wars and geopolitical confrontation with so-called "rogue states," has created an uproar in Europe, where policymakers are warning that World War III could be detonated by the kind of lunacy that is now at large. See *International*.

U.S. policy toward China: As *EIR* has emphasized, the key to shifting the global geometry in a positive direction, is for the U.S. President to join China in development of the Eurasian Land-Bridge. We have coverage of Prime Minister Zhu Rongji's incisive and humorous remarks about those trying to block such initiatives; as well as a report on the recent attempt by Clinton to drive the China-bashers back into their holes; and on how U.S. sanctions against China are hurting American companies.

What is to be done? At a conference in Rome, Helga Zepp-LaRouche discussed this question with leading Italian political figures. The cartoon on p. 51 sums up rather nicely, what action should be taken now, to deal with the financial oligarchy.

Susan Welsh

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Feature

The port of Hamburg, Germany. World trade is drying up, as the financial crisis takes its toll on export markets.

International

National

Speculators make bloody example of Ecuador

by Cynthia R. Rush

Within the first two weeks in March, the nation of Ecuador, on South America's Pacific coast, has virtually disintegrated before the eyes of the world. In a single day, Wednesday, March 3, speculators launched a ferocious attack on its currency, the sucre, causing a 26% devaluation in just a few hours. Falling from 10,000 to 18,000 to the dollar, the sucre finally "stabilized" at 13,000. Since Feb. 12, when the government abandoned any defense of the sucre and opted for a floating exchange rate, the currency has been devalued by more than 50%. Central Bank president Luis Jacome, who has since resigned, called the March 3 attack a "speculative wave without precedent."

In the days following March 3, Ecuador plunged into political chaos and violence. As *EIR* goes to press, the crisis is deepening, with no end in sight. Rather than take the only sane option—of imposing currency controls and other protectionist measures—President Jamil Mahuad, a devotee of the Club of Rome's Malthusian strategy, who earned his free-market credentials at Harvard University, insanely demands that his nation swallow the International Monetary Fund's (IMF) genocidal prescriptions, even if this leads to his nation's demise.

Why was Ecuador singled out for "trashing," the term which the IMF's chief economist Michael Mussa is so fond of? This small nation of 12 million has been clobbered by the decline in world commodity prices—it is totally dependent on export revenues from oil and bananas—and by El Niño-related floods, which caused $2.6 billion in damage to its agricultural sector in late 1998. Oil revenues declined by $600 million last year. Combined with the cutoff in international credit lines which followed the explosion of the world financial crisis in the summer and fall of 1997, these factors made Ecuador a very vulnerable target.

Moreover, its Congress had so far refused to approve an IMF-dictated austerity package intended to reduce a $1.2 billion government budget deficit, and the labor movement was mobilized against plans to open up the state-owned oil and electricity sectors to private capital. It also demanded the rescinding of last September's elimination of state subsidies on gasoline and electricity, which had jacked up prices for those services by 400%.

International speculators, who take their orders from London and Wall Street, went in for the kill. Their aim was to make a bloody example of Ecuador, to deliver the same message they have sent to Iraq, through merciless bombings: Capitulate, or we will destroy you. And, as in the case of Iraq, that message is meant to be heard by other nations around the world. As the *Washington Post* baldly stated in its March 17 issue, Ecuador's crisis is the result of its failure "to make serious progress" on neo-liberal reforms, "because of domestic political opposition and rampant corruption."

'Africanization' is the future

Ecuador's closest neighbors in the Andean region—Peru, Colombia, Venezuela, and even Chile—are monitoring developments there with obvious trepidation. *EIR* bureaus in Lima, Bogotá, and Caracas report that television and radio networks in those nations carried detailed, hour-by-hour updates of the situation in Ecuador, from on-the-scene reporters, throughout the turbulent week of March 8-12.

And well these countries should be afraid. They, like the rest of Ibero-America are struggling with banking, financial, and debt crises, while speculators attack their currencies, and foreign creditors demand deeper austerity. It would not take much for them to become "new Ecuadors." As the Colombian, Venezuelan, and Peruvian chapters of the Ibero-American Solidarity Movement (MSIA), the co-thinker organization of American statesman Lyndon H. LaRouche, Jr., warned in a statement released on March 16: "What is happening in Ecuador is but a foretaste of what will happen in short order to every nation in the Andean region, and to Brazil as well, whose government believes it has bought life insurance by putting megaspeculator George Soros's man at the head of its central bank."

Entitled "No To the Africanization of South America; We Must Annihilate Narco-Terrorism," the MSIA statement underscores that unless Ibero-American nations immediately adopt measures to defend their sovereignty—both economic and political—"they will soon suffer the same fate as Ecuador, or worse. Most immediately, the entire Andean region, in particular, will sink into chaos, war, and genocide" of the kind which has turned much of Africa into a horrifying killing field.

"There is no way of avoiding this reality," the MSIA insists. "As LaRouche has repeatedly warned, the disintegration of the world financial and monetary system has reached the point where nations and entire regions are seeing their economic and social existence completely torn to shreds in as little as 48 hours, victims of the pirates charged with pillaging and looting to feed the speculative bubble. The efforts of two or three generations are turned into rubble in the blink of an eye, when George Soros and his ilk come on the scene."

The road to Hell

Ecuador's descent into chaos occurred with lightning speed, following speculators' March 3 attack on the sucre. On March 4 and 5, citizens mobbed the banks to remove their funds, in anticipation of a further devaluation. Fearing the collapse of the banking system—six banks, including the nation's largest, Filanbanco, S.A., have been taken over by regulators since last December, and another eight are reportedly in trouble—President Mahuad first announced a bank holiday for March 8, and then extended it for the rest of that week. People with automated teller machine cards were able to get some cash, but the vast majority of citizens, especially the poor, had no way of accessing money to buy food or pay bills.

Popular rage exploded. The United Workers Front called a general strike for March 10 and 11, while oil and electrical workers threatened to paralyze those industries. Mahuad responded by declaring a 60-day state of emergency, and deployed the Army and police to guard oil and electricity installations. Security forces used tear gas against protesters in Quito and elsewhere. Indigenous groups affiliated with the National Confederation of Indigenous Nations, set up roadblocks with burning tires on highways leading into the capital.

In a nationally televised address the evening of March 11, Mahuad announced a package of radical austerity measures, including a partial freeze on sucre and dollar bank accounts (about one-third of the total), effectively confiscating funds to guarantee payments due on Ecuador's $16 billion foreign debt. Depositors are allowed to withdraw up to half their checking accounts greater than $158, and the other half will be frozen for a year; half of sucre savings accounts greater than the equivalent of $395 may be withdrawn, while the other half is frozen for six months. All dollar savings accounts and 90% of all dollar checking accounts over $500, will also be frozen. In addition, the price of gasoline was nearly doubled, from $1 a gallon to $1.90; the value-added tax (VAT) was increased from 10% to 15%, taxes were imposed on luxury items and provisions established for punishing evaders.

In an attempt at blackmail, Mahuad announced that when Congress approves the VAT tax, the price of gasoline would "gradually" be reduced. He also reported that once reforms were in place, he might consider applying a currency board system, of the type George Soros intimate Domingo Cavallo set up in Argentina in 1991, and which is modelled on 19th-century British colonialism. According to the Argentine daily *Clarín,* Mahuad had a three-hour telephone conversation on March 13 with Cavallo to discuss "convertibility," as the Argentine system is called. Later, however, he reportedly dismissed the convertibility plan as unworkable.

When banks reopened on March 15 under heavy police guard, a strike by taxi and bus drivers to protest the fuel price hike, prevented many people from getting to the banks, and withdrawals weren't as great as anticipated. But riot police were deployed against stone-throwing students and workers who jammed city streets with burning tires. Businesses are closing in Quito, and food supplies are reportedly dwindling due to the disruption of transportation into the capital. The Congress met only on Tuesday, March 16, but failed to approve the austerity measures. Finance Minister Ana Lucía Armijos was sent to Congress to seek allies to help get the package approved.

While opposition to the package is widespread, no one has offered a viable programmatic alternative. The powerful Patriotic Front, which is leading nationwide protests, is a jacobin coalition of indigenous movements, students, and unions which lines up with London's continental alliance of narco-terrorists, the São Paulo Forum. It has called for an indefinite national strike to overthrow Mahuad, and to replace him with a "national salvation government."

Amidst reports that Mahuad may be seeking a compromise, offering to lower the gasoline price increase and increase the VAT tax, the IMF and other foreign predators have made clear that unless the government capitulates completely, it can expect no "help" from them. In mid-March, Mahuad announced that an agreement with the IMF would be signed "in coming weeks," making $930 million available, so Ecuador would not default on its debt. Not true, said IMF Managing Director Michel Camdessus, speaking from Paris at the annual meeting of the Inter-American Development Bank. "There is no unity in Ecuador behind an emergency program. . . . I cannot tell you that we will have a program soon." The U.S. State Department has also urged Ecuadorans to line up behind Mahuad's policy.

The Great Depression of 1929-1934

by Maurice Allais

This is the first part of a three-part series by French economist Maurice Allais, Nobel Prizewinner in Economic Science in 1988, which appeared in the French daily Le Figaro *on Oct. 12, 19, and 26, 1998. (Copyright* Le Figaro, *no. 9812009.) Professor Allais has kindly granted* EIR *permission to republish his articles.*

Maurice Allais

Abstract: The breadth of the 1929 crisis was the inevitable consequence of the previous unreasonable expansion of stock credits in the United States and of the extravagant rise in stock market prices that the credit expansion has permitted, if not caused.

When considering the present worldwide crisis, nothing is more instructive, in many respects, than the Great Depression of 1929-1934. As Vilfredo Pareto wrote: "It is just as certain that history never repeats itself identically, as it is that it always repeats itself in certain aspects which may be called the main ones. . . . Past and present facts lend one another mutual support . . . for understanding them reciprocally."

The bull market and collapse

In the United States, the Dow Jones industrial index rose from 121 points on Jan. 2, 1925 to 381 on Sept. 3, 1929, i.e., a 215% rise in four years and eight months. It was back down to 230 on Oct. 30, having plunged by 40% in two months, which meant an even steeper decline for certain stocks.

The Dow Jones index did not reach its all-time low of 41.2 until July 8, 1932, after an 89% decline over three years. It only went back up to its Jan. 2, 1925 level on June 24, 1935, and to its Sept. 3, 1929 level on Nov. 16, 1954.

The fall in stock market prices from 1929 to 1932, with all its after-effects, probably represents one of the most spectacular collapses of a speculative bull market that the world has ever known.

As long as the stock exchange was going up, those who bought, usually on credit, saw their expectations fulfilled the following day, when prices went up. And day after day, this rise would justify the bets made the day before.

The rise continued, until it occurred to some traders that the stocks were obviously overpriced, and they began to sell, or even to speculate on a price drop. No sooner had prices stopped rising, than they began to fall, and the decline then justified further decline, leading to generalized pessimism. From then on, the fall could only become greater.

An inordinate stock market rise

On the very eve of Black Thursday (Oct. 24, 1929), when the Dow Jones was down to 299, in a 22% drop from its high point of 381 on Sept. 3, 1929, almost all the best economists, including the great American economist Irving Fisher, still thought the American stock market rise was completely warranted given the prosperous economy, the overall stability in prices, and the promising perspectives of the American economy.

However, at first sight, the 215% rise in stock prices from 1925 to 1929 seems incomprehensible with regards to the growth of the American economy, in real terms. From 1925 to 1929, in four years, the real Gross National Product only rose by 13%, manufacturing by only 21%, and the unemployment rate remained stationary, at 3%. During the same period, the nominal Gross National Product only went up by 11%, overall price levels fell by 2%, money supply (money in circulation plus bank deposits) only went up by about 11%.[1]

However, from January 1925 to August 1929, the circulation velocity of deposits in New York-based American banks rose by 40%. It is this increase in the circulation velocity of deposits in New York banks that allowed for the increase in prices on Wall Street.[2]

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1. The MI money supply (currency in circulation plus demand deposits) increased by 3.8% and M2 (M1 plus time deposits) by 10.8%. The monetary base B (notes and coin plus deposits in the Federal Reserve System) only increased by 0.9%. The differences M1–B and M2–B, corresponding to bank deposits, only rose by 5.0% and 12.8%.

2. Global expenditure is indeed equal to the money supply multiplied by the circulation velocity.

The Depression

The wave of pessimism brought about by the 1929 stock market crash led to an approximate 20% contraction in money supply in 1929-1932, and to a 30% contraction in bank deposits.[3] At the same time, the Federal Reserve attempted, but in vain, to counteract this contraction by increasing the monetary base by 9%.

Speculators who had bought stocks by borrowing short-term funds were forced to borrow again at very high interest rates, or to sell at any price in order to meet their obligations. Massive withdrawals of certain deposits caused a great number of banks to go bankrupt, leading to an even greater contraction of the money supply.

This pessimism, this climate of distress, and this contraction in money supply led to a drop of the nominal Gross National Product by 44%, of the real Gross National Product by 29%, of industrial production by 40%, and of the general price index by 21%.

The unemployment rate jumped from 3.2% in 1929 to 25% in 1933, when 13 million, out of a labor force of 51 million, were unemployed.[4] The total population of the United States at the time was only about 120 million.

3. In fact, M1 decreased by 21% and M2 by 23%, the differences M1–B and M2–B decreasing respectively by 31% and 28%.

Maurice Allais: a profile

Maurice Allais was born in Paris in 1911, and graduated from the Ecole Polytechnique, first in his class, in 1933. He began his professional career as an engineer in the national mining industry, simultaneously working on economics and history.

From April 1948 on, he devoted his time to teaching, research, and writing, working in both physics and history. Although he retired in 1980, he has continued to work actively in all these areas.

Allais is the recipient of many awards, including 14 scientific prizes. As he notes in his essay "My Life Philosophy" (which appeared in *The American Economist,* Vol. 33, No. 2, Fall 1989), "Over the past 50 years, I have never stopped reflecting and working on the problems involved in the elaboration of a unified theory of physics."

For two more of Professor Allais's contributions, "On My Experiments in Physics, 1952-1960" (an excerpt from "My Life Philosophy") and "Michelson-Morley-Miller: The Coverup; The Experiments of Dayton C. Miller (1925-1926) and the Theory of Relativity," see the Spring 1998 issue of *21st Century Science & Technology* magazine.

Excessive indebtedness

The unfolding of the Great Depression was greatly aggravated by the overindebtedness that had developed before the 1929 crash, both inside and outside the United States.

Inside the United States, the total amount of both private and corporate debt,[5] corresponding in large part to bank credits, soared from 1921 to 1929. In 1929, it was about 1.6 times larger than the U.S. Gross National Product. With the drop in prices and the decrease in production during the Great Depression, the weight of these debts proved to be unbearable.

At the same time, Federal, state, and municipal debt had also soared. In 1929, Federal debt represented some 16.3% of the U.S. GNP, and state and municipal debt about 13.2% of the same.

Abroad, reparations due by Germany had been set in 1921 at $33 billion, comparable to about 32% of the 1929 U.S. Gross National Product. The war debts of European nations to the U.S.[6] amounted to about $11.6 billion, or some 11% of U.S. GNP.

Finally, private debts, granted mainly by banks and mainly to Germany, amounted to about $14 billion in 1929, or some 13.5% of U.S. GNP.

It became clear that the war debts were unpayable. Germany could only very partially meet her obligations, and even then with borrowed funds.

The development of the Great Depression was made much worse by the weight of all these debts and by the international flows of short-term capital, due to all kinds of complex interdependencies among European economies and the American economy. In fact, all these debts had to be reduced and rescheduled over the course of the Great Depression.

Competitive devaluations

Starting from the United States, the Great Depression spread to all of the Western world, wreaking economic collapse, unemployment, misery, and distress everywhere.

After Great Britain left the gold standard in September 1931, a chain reaction of devaluations took place. The most spectacular one occurred when the United States dropped the gold standard in April 1933.

This whole period was characterized by currency speculation, massive capital flows, competitive devaluations, and protectionist policies from different countries trying to protect themselves from outside disorders.

Finally, toward the end of 1936, exchange rates among the major currencies were not very different than they had

4. At the time, the unemployed could only count on private charities for help.

5. Consumer credit, mortgages, and corporate liabilities.

6. Improperly considered by the United States as mere commercial debts.

been in 1930, before the cycle of devaluations began.

Psychological and monetary factors

If the rise in stock market prices from 1925 to 1929 seems incomprehensible in comparison with the evolution of the American economy in real terms, during the same period, the drop in economic activity in real terms, from 1929 to 1932, seems as astonishing, at least at first glance. How is it possible that the collapse of stock market prices could trigger such a drop in economic activity?

In reality, these two phenomena, which at first seem somewhat paradoxical, can be perfectly explained, once psychological and monetary factors are taken into account.

A rise encourages more rises, and a decline more declines. To bet on the market going up or going down, the "fundamentals" were not considered, only the psychological assessment of what the others were going to do.

Belief in a rise led to the creation *ex nihilo* of bank means of payment, whereas the fear of a decline led to the destruction of those means of payment previously created *ex nihilo*.[7]

Credit mechanism

The origin and the development of the Great Depression of 1929-1934 certainly offer the best illustration one might give of the harmful effects of credit, namely: *ex nihilo* creation of money by the banking system; fractional covering of deposits; financing long-term investments by borrowing short-term funds; financing speculation through credit; and, resulting variations in the real value of the currency and economic activity.

The breadth of the 1929 crisis was the inevitable consequence of the unreasonable expansion of stock credits which preceded it in the United States and of the extravagant rise in stock market prices which the credit expansion had permitted, if not caused.

With respect to the prosperity of the economy and price inflation until 1929, the diagnostic accepted by prevailing opinion was as general as it was affirmative. This was a New Era of general prosperity, opening up to the entire world.

However, the preceding analysis shows how cautiously one must judge an economy's prosperity, in real terms, if potential imbalances start to develop which, although at first minor in relative value, may cause profound changes in the collective psychology once they are concretized and compounded.

7. The variation in global expenditure, D, involves two elements: The first is proportional to the relative gap between the total amount of cash held, M, and the total amount of cash wanted, Md; the second is equal to the relative increase in means of payment M. In a period of optimism, Md decreases and in a period of pessimism, Md increases. Any decrease in Md thus corresponds to an increase of overall spending D, and any increase in Md corresponds to a decrease in overall spending D. (M. Allais, *Monnaie et Développement. 1. L'Équation fondamentale de la dynamique monétaire* [Paris: Ecole Nationale Supérieure des Mines de Paris, 1968], p. 83.)

Nothing fundamentally new

Essentially, the New Era, both in the United States and in the world, in the years preceding the 1929 crash, developed out of a profound ignorance of all the crises of the 19th century and of their true significance.

The crisis of 1929-1934 was in reality only a particularly dramatic repetition of the succession of crises in the 19th century,[8] of which the 1873-1879 crisis was probably one of the most significant.

In fact, all major crises of the 18th, 19th, and 20th centuries resulted from the excessive growth of promises to pay and their monetization.[9,10]

Everywhere and at all times, the same causes generate the same effects. What must happen does happen.

The most lucid economists, like Clément Juglar and Irving Fisher,[11] have analyzed with great insight the mechanisms of crises, how they are spawned and develop. Unfortunately, they remained unrecognized and unheeded. If their messages had been clearly received, if their analyses had been fully understood, the situation today would be much different.

8. During the 1837 crisis, Reverend Leonard Bacon stated in his sermon of May 21: "A few months ago, the unparalleled prosperity of our country was the theme of universal gratulation. Such a development of resources, so rapid an augmentation of individual and public wealth, so great a manifestation of the spirit of enterprise, so strong and seemingly rational a confidence in the prospect of unlimited success, were never known before. But how suddenly has all this prosperity been arrested! That confidence, which in modern times, and especially in our own country, is the basis of commercial intercourse, is failing in every quarter; and all the financial interests of the country seem to be convulsed and disorganized. The merchant whose business . . . [was] conducted on safe principles . . . [finds that] loss succeeds to loss, till he shuts up his manufactory and dismisses his laborers. The speculator who dreamed himself rich, finds his fancied riches disappearing like an exhalation. . . . What more may be before us. . . . It is enough to know that this distress is hourly becoming wider and more intense. . . ." (In Irving Fisher, *Booms and Depressions* [New York: Adelphi Co., 1932]).

9. Concerning 19th-century crises, Clément Juglar wrote in 1860: "Commercial crises are the result of profound changes in the flow of credit. . . . What is credit, the simple power to buy in exchange for a promise to pay? . . . The function of a bank or a banker is to buy debts with promises to pay. . . . The very practice of credit thus leads, because of the abuses apt to be made of it, to commercial crises. Credit is the main motor, it provides the impetus; it confers an apparently unlimited power to buy through simply signing a negotiable instrument, a bill of exchange. . . . Credit is what favors the growth of business and price rises. . . . Each and every exchange of a product gives rise to a new promise to pay. . . ." (Clément Juglar, *Des crises commerciales et leur retour périodique* [Paris: Librairie Guillemin, 1860. Second Edition, 1889].)

10. I presented a synthetic analysis of the relations of cause and effect of the monetary dynamic in the introduction to the second edition of my work *Economie et intérêt,* pp. 115-174. (Editions Clément Juglar, 62, avenue de Suffren, Paris 15ème. Telephone: 01.45.67.48.06. For an extended bibliography of my analyses, see pp. 116 and 117, 154, 164-165.)

11. See in particular Irving Fisher, *Booms and Depressions* (New York: Adelphi Co., 1932); *Stamp Scrip* (New York: Adelphi Co., 1933); *Stable Money, A History of the Movement* (New York: Adelphi Co., 1934); *100% Money* (New York: Adelphi Co., 1935).

Book Review

Beware George Soros's crazy swindle

by Richard Freeman

The Crisis of Global Capitalism: Open Society Endangered
by George Soros
New York: Public Affairs, 1998
245 pages, hardbound, $26

On March 4, at a meeting of political representatives in Beijing, Chinese President Jiang Zemin characterized George Soros as a "financial sniper," and said that China will in no way allow him to enter the Chinese market to stir up trouble.

On Dec. 6, 1998, the Malaysian Senior Minister of Kedah State, Tan Sri Sanusi Junid, told foreign representatives attending a book festival, "What Soros did to the Asian economies was as cruel as what Adolf Hitler did in Europe, and like Hitler, he will face the same fate."

The intensity of these comments reflects the fact that many nations on the Earth are at war with George Soros. Over the last two years, through currency warfare and other speculation conducted by his highly leveraged offshore hedge fund, the Quantum Group of Funds ($18 billion in assets), Soros has pillaged Asia, and nations throughout the world. He has made huge profits, and in the process has murdered populations: He has contributed to triggering riots in Indonesia and economic bankruptcies in Thailand. As Malaysian Prime Minister Mahathir bin Mohamad charged on Aug. 23, 1997, Soros has undermined "all [that] these countries have [done during] 40 years trying to build up the economy."

Soros has carried out his hedge fund raids through a globalized world financial system, which systematically crushes manufacturing and agricultural growth, and instead fosters speculation. Now, this system of globalization is in the final phase of the biggest financial collapse in 500 years. Over the last two years, the disintegration spread from Indonesia, Thailand, and South Korea, to Russia and Ukraine, to Brazil and Ecuador, and its spillover is causing severe contraction in the physical economies of every industrial nation in the world. The Sept. 23, 1998 derivatives-associated failure of Long Term Capital Management hedge fund, brought the world derivatives and related markets near to meltdown, which would have vaporized the banking system of the world.

The demise of the financial system means the end of the power of Soros and the financier oligarchs of the British-American-Commonwealth (BAC) clique, for whom Soros is a spokesman and a leading hit-man. Unlike some, such as the *Wall Street Journal,* which writes on blithely about how the U.S. economy is in its ninth year of economic expansion, Soros realizes that something is seriously wrong.

But, Soros's insight ends there. And, like everything else Soros does, he engages in a swindle. Soros does not admit that the speculative "globalized" financial system is thoroughly bankrupt, is in a terminal phase, and that it inherently cannot be saved. Soros's swindle is to peddle the line that with a change here and an adjustment there, the system can be made to function again. He has written *The Crisis of Global Capitalism: Open Society Endangered,* to sell that swindle.

Soros's proposed solution involves: greatly enhancing the power of the International Monetary Fund (IMF) and the United Nations, as supranational institutions able to override the sovereignty of any nation-state; ferocious austerity; and the hyperinflationary bailout of the bankrupt financial system, involving the issuance of IMF Special Drawing Rights.

Soros does know that national leaders, such as Dr. Mahathir, have rejected globalization and are working toward another solution, and he rails against Mahathir and other such leaders. Interestingly, Soros has little to say about hedge funds, such as his own, which collectively have $300 billion in funds, and through leverage of 10:1 or more, can mobilize $3 trillion or more against any nation's currency and financial markets, easily overwhelming these countries. In his book, Soros devotes only two paragraphs to hedge funds, and he uses part of that space to put forward the excuse that the proprietary trading desks of banks and brokerage houses are more important in hedge-speculation than hedge funds.

Not facing the truth

Soros attempts to ignore the proof put forward by *EIR* founder Lyndon LaRouche, that his proposed solution will

George Soros promoting his book on Oct. 5, 1998, at the invitation of Foreign Policy *magazine and Public Affairs publishers. While giving the appearance that he favors real reform, Soros is proposing to intensify the looting of the genocidal IMF system.*

not work. LaRouche has shown in his Triple Curve Collapse Function (**Figure 1**), the actual state of the world economy and financial system. The upper curve represents the financial aggregate, the mass of speculative instruments, such as the current $165 trillion world total of derivatives holdings, the inflated tens of trillions of dollars valuation of the world's stock markets, and so on. Since the early 1990s, this curve has been growing at a hyperbolic rate. The middle curve represents the monetary aggregate, which is best identified as the money supply. This has been growing at a rapid rate, though not as fast as the upper curve, in order to liquefy the financial aggregate and prevent it from collapsing the system. The lower curve represents the output of the physical economy, which supports human existence. This is contracting, and, as the rate of return and financial claims of the upper two curves increases, they suck wealth out of the lower curve, increasing its rate of contraction.

The interaction of these three curves produces a hyperinstability, generating an increasing density of shock effects to the physical economy and the financial system, which threaten systemic disintegration. The Long Term Capital Management failure of last September, and the current Brazil crisis, are examples of how this process works. No proposed solution that attempts to preserve the present globalized world financial structure will work; it will blow up.

LaRouche has composed a real solution to the problem: to put the financial system through Chapter 11 bankruptcy, writing off the speculative paper; institute among sovereign nation-states a New Bretton Woods monetary system; foster an economic boom through building great infrastructure projects such as water management, rail development, and power generation, centered on the Eurasian Land-Bridge and its attendant high-technology development corridors. Nations can protect themselves through instituting exchange and capital controls, ending the extortionate control of globalized markets.

Soros can see the handwriting on the wall. If this workable solution were implemented, it would mean the end of his power. Much of what Soros writes in his book is meant to counter the LaRouche alternative, although Soros never mentions LaRouche's name once. Soros is aware of the "Survivors' Club" grouped around these sovereign solutions, including China, Russia, India, Malaysia, and other nations.

Soros takes snatches of phrases from LaRouche, such as Soros's warning that the financial system is headed into "disintegration," and even makes it sound like he is in favor of some real reform. But, based on a radically different set of axioms and assumptions, Soros presents a completely different approach.

The BAC crowd has expended a lot of effort to make sure that Soros's proposal is given maximum publicity. Already, one chapter of Soros's book has been excerpted in the Winter 1998-99 issue of *Foreign Policy* magazine, the publication of the Carnegie Endowment for International Peace. A four-page story, quoting and summarizing leading parts of Soros's book, appeared in the Dec. 7, 1998 issue of *Newsweek* magazine. Editorial-page space has been turned over to Soros to expound on his idea in newspapers ranging from the *Wall Street Journal* to the London *Financial Times*. President Clinton has read the book, and copies of it were sent to treasury departments and finance ministries around the world.

The primary feature of Soros's crisis management plan is to intensify the austerity conditionalities policy of the genocidal IMF. One senses from Soros's presentation, that this is a package he is preparing to implement in a post-collapse world, in which his one-worldist re-creation of the British Empire—and he uses the British Empire as his model—in the form of a beefed-up IMF and UN, would hold sway over a world whose economic activity and population have been drastically reduced.

Soros's personality

In reading the book, one immediately realizes an anomaly that points to the nature of who Soros is. Here is one of the biggest thieves in the world, attempting to pass himself off as expert in monetary reform. Soros puts himself forward as an authority on economics, yet he demonstrates that his knowledge of economics is nil; the best that he can do is package the concepts of a speculator—his specialty is arbitrage (the practice of capturing the difference between the price of a financial instrument in two different markets).

Two of Soros's qualities emerge. First, his tendency to lie. It doesn't matter that Soros has no real knowledge; at one point, Soros taunts the reader that the only reason he or she is reading his book, is because the author is rich and famous. Soros's penchant for dishonesty is such that after he makes an assertion, he often contradicts it. For example, after Malaysia's Prime Minister Mahathir caught Soros speculating against the Malaysian currency, the ringgit, in early 1997, Mahathir accused him of it. Soros stridently denied in the pages of the world's press that he was involved. However, in his book, Soros admits that he did just that. Soros writes: "We sold short the Thai baht and the Malaysian ringgit early in 1997 with maturities ranging from six months to a year. Subsequently Prime Minister Mahathir of Malaysia accused me of causing the crisis. The accusation was totally unfounded. We were not sellers of the currency during or several months before the crisis: on the contrary, we were buyers when the currencies began to decline."

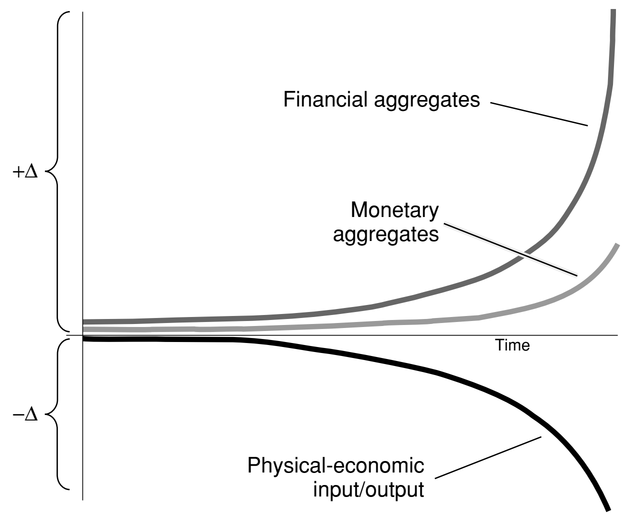
Anyone who knows something about currency speculation would know that Soros is lying. When a speculator short-sells a currency, he contracts to sell it at an agreed upon fixed price in the future, say in six months. But, he doesn't own the currency he has contracted to sell; he expects to buy it when the price has fallen. He will then buy the currency at its reduced price, and sell it at the price of the contract, realizing his profit. But large-scale short-selling by Soros is an act of currency warfare; by engaging in it, Soros destroys the currency of a nation, while making it cheaper for him to buy, so that he can realize the profit on his contract. When Soros was caught in the act, he first denied it, and then said that, in the fall of 1997, he was buying ringgit—but he was only buying ringgit to make his profit. He had already helped destroy the currency, as Mahathir charged.

Soros's lying is so pervasive, that one doesn't know whether anything that he says is true. Soros reminds one of a compulsive rapist, who, when caught in the act, denies he is doing it, then funds a treatment center to treat rape victims.

Soros despises morality. He calls his activity amoral, when in fact it is completely immoral. Soros displays a personality that is consistent with a psychopath. Soros says that he will reform the monetary system, but here is a person who is contemptuous of morality, who says that there is no truth, or right or wrong, on "philosophical grounds"—it is impossible for man to know these, he says. On what basis then, is he reforming the world monetary system?

An exhaustive review of Soros's crimes can be found in *EIR*'s *Special Report,* "The True Story of Soros the Golem." Here, we will look at features of Soros's practice and ideas that are relevant to his proposal for changing the monetary system.

FIGURE 1
A typical collapse function



Brave new empire

The tearing down of the Bretton Woods system, and its regulations and protections of nation-states, in Soros's mind, is one of the great achievements of the 20th century—it cleared the path for utopian globalization. Soros believes that nation-states and dirigist economies are two of the greatest evils. He would replace them with a new empire.

Soros writes, "When I started in the business in London in 1953, both financial markets and banks were strictly regulated on a national basis and a fixed exchange rate system prevailed with many restrictions on the movement of capital." This part of the Bretton Woods system Soros found stifling, especially after he moved to the United States in 1956 and became a speculator in international financial instruments.

Soros states, "The real emergence of global capitalism [globalization] came in the 1970s." This occurred after the Seven Sister oil companies, working with Henry Kissinger, jacked up the price of oil through the 1973-75 oil hoax. Members of the Organization of Petroleum Exporting Countries now had large financial surpluses. Soros continues, "It was left to the commercial banks with behind-the-scenes encouragement from Western governments to recycle the funds. Eurodollars were invented and large offshore markets developed. Governments started to make tax and other concessions to international financial capital to entice it back onshore. . . . These measures gave offshore capital more room to maneuver."

But for Soros, it was the monetarism of Britain's Prime Minister Margaret Thatcher that busted up the old system, and cleared the way for global speculation. "The development of international financial markets received a big boost around 1980 when Margaret Thatcher and Ronald Reagan came to power with a program of removing the state from the economy and allowing the market mechanism to do its work. This meant imposing strict monetary discipline, which had the initial effect of plunging the world into a recession and precipitating the international debt crisis of 1982. It took several years for the world economy to recover—in Latin America they speak of the lost decade. . . . From 1983 on, the global economy has enjoyed a long period of practically uninterrupted expansion. In spite of periodic crises, the development of international capital markets has accelerated to a point where they can be described as truly global."

From that, as Soros describes it, began the growth of the wildly inflated U.S. stock market, and shortly thereafter, the cancerous growth of derivatives, which now stand at approximately $165 trillion, overshadowing the world economy.

In Soros's mind, the financier oligarchs centered in London and Wall Street have created a new wonder: utopian globalization, which they believe is inevitable and that no one can resist. Manufacturing, agriculture, and infrastructure are ground down, and speculative capital is free to float anywhere, especially to markets in derivatives, stocks, and real estate, which the oligarchs have forced down the throat of almost every country. Capital can seek the highest speculative rate of return.

Soros sees this as the emergence of a new empire. "The capitalist system [globalization] can be compared to an empire that is more global in its coverage than any previous empire. It rules an entire civilization, and as in other empires, those who are outside its walls are considered barbarians," he writes.

"The global capitalist system does govern those who belong to it—and it is not easy to opt out. Moreover, it has a center and a periphery just like an empire and the center benefits at the expense of the periphery. Most important, the global capitalist exhibits some imperialistic tendencies. . . . It is hell-bent on expansion. It cannot rest as long as there are any markets or resources that remain unincorporated.

"In contrast to the 19th century when imperialism found a literal, territorial expression in the form of colonies, the current version of the global capitalist system is almost completely nonterritorial, or even extraterritorial, in character. *Territories are governed by states and states often pose obstacles to the expansion of the capitalist system*" (emphasis added).

The major institution to be overcome to bring about unbridled globalization, is the nation-state. He asserts, "The state is an archaic instrument." States must surrender sovereignty. "Any international intervention [to save the current monetary system] constitutes interference with the sovereignty of the state. Because crisis prevention requires some degree of external interference, present arrangements stand in the way of effective crisis prevention." Further, he says, states "would have to yield some of their sovereignty to establish the rule of international law." Soros could care less about international law, but he is adamant that states must yield sovereignty.

To rule over the nation-states, whose powers are to be restricted, and to correct some of the instabilities that arise in the financial system of globalization, Soros would return to the method of the British Empire. In a March 12, 1998 interview with the Italian *Liberal* magazine, Soros warned, "Left alone, states do not maintain peace. We need an international organization aimed at keeping peace. *It can be an empire, or a balance of powers. Or it can be some sort of international institution.* Current international institutions . . . cannot succeed because they are formed by states, and therefore they are instruments of state interests. During the Cold War, there was a balance of powers. Today, America is the only superpower left, but it does not have the capacity to be the world policeman. In the 19th century, we had a global capitalist system as well, and it was Great Britain, representing the imperial power, that maintained stability. . . . Currently, we have no system of peace" (emphasis added).

Soros adds, "In some ways, the 19th century version of the global capitalist system was more stable than the current one. . . . There were imperial powers, Britain foremost among them, that derived enough benefits from being at the center of the global capitalist system to justify dispatching gunboats to faraway places to preserve the peace or collect debts."

It is this concept of empire that Soros apparently has in mind when he proposes to give near-dictatorial powers to the IMF and UN. The utopian world financial system is global in extent, and Soros demands an imperial-style system that is also global in extent, to enforce the globalized financial system's terms.

Economics: What's that?

Soros has a chapter in his book entitled "A Critique of Economics," but his theory is one of an economy without physical production. Soros writes about the economy of the former Soviet Union and Russia: "We may view the gigantic hydroelectric dams, the steel mills, the marble halls of the Moscow subway, and the skyscrapers of Stalinist architecture as so many pyramids built by a modern pharaoh. Hydroelectric plants do produce energy, and steel mills do turn out steel, but if the steel and energy are used to produce more dams and steel mills, the effect on the economy is not very different from that of building pyramids."

Steel plants can be used to produce more steel plants and hydroelectric dams, and he would stop many such projects in the Third World, the former East bloc, and elsewhere, but Soros does not understand what that represents. It is man's creative, scientific discoveries of fundamental principles, which arise as solutions to paradoxes in knowledge, which are the driving force of an economy. The ideas are transmitted into an economy through infrastructure and the machine-tool-design principle, and enable a society to develop in a capital-intensive, energy-intensive mode of production. Such fundamental ideas create not-entropic growth, and correlate with an increase in potential relative population density (see Lyndon LaRouche, "The Road to Recovery," *EIR,* Feb. 19). Within this process, steel plants and hydroelectric dams are vehicles for improving mankind's power over nature and its standard of living.

Instead, what Soros would do is build pyramids of speculative paper.

In March, Soros imposed Arminio Fraga, the former manager of Soros Management LLC, as the Central Bank head of Brazil. Fraga is supervising interest rates that are above 35%, and he is prepared to take them up to 50%, which is collapsing production, and destroying the possibility of future production. Fraga is also trying to privatize anything that remains of Brazil's national patrimony of industry, infrastructure, and raw materials. But, Fraga is guaranteeing that Brazil's debt is paid on time.

Similarly, in 1990-91, Soros, using the predecessor group of his Open Society Institute, introduced Harvard University Prof. Jeffrey Sachs into Russia to administer "shock therapy." This policy has collapsed industrial production by 55%, and life expectancy of Russian males has decreased from 64 years, down to 59 years. Exploiting the dirt-cheap prices that resulted from the collapse, Soros teamed up with his syndicate partner, Russian oligarch-robber Vladimir Potanin, to buy a 25.1% share of Russia's national telephone company, Svyazinvest. Soros had built up investments of more than $2 billion in Russia. When, on Aug. 17, 1998, Russia declared a moratorium on payment of Treasury debt and on categories of corporate debt, Soros went into overdrive, as he documents in his book, calling up then-U.S. Treasury Undersecretary for International Affairs David Lipton and other officials in the Treasury and in the U.S. Congress, to strong-arm them to get America to kick in money for Soros's plan to bail out his holdings and those of other bankers and hedge-fund operators in Russia.

Assisting Hitler's looting

Soros's personality not only permits him to destroy whole nations and populations, but also to feel no qualms about doing so. This part of his personality was formed when, as a 14-year-old, he assisted the Nazi occupiers of his native Hungary in confiscating the property of his fellow Jews, many of whom were sent to the gas ovens. This trait of Soros's personality has hardened with the passage of time.

CBS News' "60 Minutes" brought out the dark side of Soros personality on Dec. 20, 1998, in an interview which was part of Soros's promotional tour for his book. Soros appeared on the show expensively attired, very deliberately smiling, and speaking in a controlled voice, as if his reflections, which bordered on the pathological, were perfectly normal.

"60 Minutes" reporter Steve Kroft opened the show by comparing Soros to J.P. Morgan and the Rockefellers, who amassed huge sums and gave some of it away in philanthropy. Then he reported that some have said that Soros is responsible for the financial collapse in Thailand, Malaysia, Indonesia, and Russia. Kroft repeated Prime Minister Mahathir's comment that Soros had destroyed 40 years of development.

Soros responded with a painted smile: "It's easier to blame an outside force than to admit that they were mismanaging the economy and their currency. . . . I have been blamed for everything. I am basically there to make money. I cannot and do not look at the social consequences of what I do."

Kroft reported, "When the Nazis occupied Budapest in 1944, George Soros's father was a successful lawyer. He lived on an island in the Danube and liked to commute to work in a rowboat. . . . He bought . . . forged papers and he bribed a government official to take 14-year-old George Soros in and swear that he was his Christian godson. But survival carried a heavy price. While hundreds of thousands of Hungarian Jews were being shipped off to the death camps, George Soros accompanied his phony godfather on his appointed rounds, confiscating property from the Jews."

CBS interspersed footage of long lines of Jews in single file, and being herded into a box car heading to a concentration camp, with the door closing behind them. Kroft stated that Soros escaped the Holocaust by this ploy. Kroft then asked:

Kroft: "And you watched lots of people get shipped off to the death camps."

Soros: "Right. I was 14 years old. And I would say that that's when my character was made."

Kroft: "In what way?"

Soros: "That one should think ahead. . . ."

Kroft: "My understanding is that you went out with this protector of yours who swore that you were his adopted godson."

Soros: "Yes. Yes."

Kroft: "Went out, in fact, and helped in the confiscation of property from the Jews."

Soros: "Yes. That's right. Yes."

Kroft: "I mean, that's—that sounds like an experience that would send lots of people to the psychiatric couch for many, many years. Was it difficult?"

Soros: "Not—not at all. Not at all. Maybe as a child [most 14-year-olds have a well-formed conscience] you don't—you don't see the connection. But it was—it created no—no problem at all."

After Kroft asked a few more questions:

Soros: "Well, of course I—I could be on the other side or I could be the one from whom the thing is being taken away. But there was no sense that I shouldn't be there, because that was—well, actually, in a funny way, it's just like in markets—that if I weren't there—of course, I wasn't doing it, but somebody else would, would be taking it away anyhow. And it was the—whether I was there or not, I was only a spectator, the property was being taken anyway. So the—I had no role in taking away that property. So I had no sense of guilt."

Soros apparently has never attempted to overcome such a terrible experience; rather, he embraced it. Soros internalized implementing Nazi policies, and that is how he plays the markets.

In a 1995 book, *Soros on Soros,* for which he was interviewed, Soros talked about what he did during the 1944 Nazi occupation of Hungary: "We were in mortal danger, but I was convinced I was exempt. . . . For a 14-year-old, it was the most exciting adventure that one could possibly ask for. It had a formative effect on my life, because I learned the art of survival."

This chilling outlook is the centerpiece of Soros's personality. It is the nucleus of his morality, his view of the globalized markets, and of his so-called reform of the world monetary system. In *The Crisis of Global Capitalism,* he states, "An anonymous participant in financial markets, I never had to weigh the social consequences of my actions. I was aware that in some circumstances the consequences might be harmful but I felt justified in ignoring them on the grounds that I was playing by the rules. The game was very competitive and if I imposed additional constraints on myself I would end up as a loser. . . . When I sold sterling short in 1992, the Bank of England was on the other side of my transactions and I was taking money out of the pockets of British taxpayers. But if had tried to take the social consequences into account, it would have thrown off my risk/reward calculations and my chances of being successful would have been reduced. Fortunately I did not need to bother about the social consequences because they would have occurred anyway. . . . Bringing my social conscience into the decision-making process would not make any difference. . . .

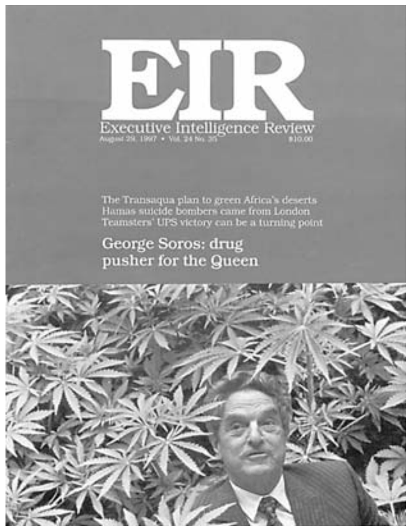
"I blessed the luck that led me to the financial markets and allowed me not to dirty my hands."

Thus, when Soros destroys a nation's economy and causes death and destitution, the social consequences don't concern him, and he is not to be held responsible. He does not have to "dirty his hands" with the consequences, just like with the Jews whose property he was confiscating for the Nazis in Hungary. Soros's mental map is pathological.

Soros's 'reforms'

During the last four years, as the world financial system ripped apart at the seams, Soros drew on his anti-nation-state, pro-austerity outlook to put together for the BAC crowd, an "emergency reform package." Soros proposes "crisis prevention." He entitles one of the chapters in his book, "How to Prevent Collapse." It is similar to the impotent crisis management proposals put forward on Oct. 12, 1998 by the Group of

Soros and drugs



EIR has extensively documented George Soros's role in promoting drugs and drug legalization around the world, including in the Aug. 29, 1997 cover story, pictured here. Some highlights:

- Soros has funneled at least $15 million to the Drug Policy Foundation, a group devoted to the legalization of drugs. He created his own drug legalization lobby, the Lindesmith Center, in the headquarters of his Open Society Institute in New York City, at an initial cost of $5 million. He has poured undisclosed millions from his personal fortune into a number of state ballot initiatives, in an effort to legalize "medical" use of narcotics.
- In Ibero-America, Soros is a leading financier of the drive to legalize cocaine. For example, he bankrolled a meeting on Oct. 8-9, 1997, in the Colombian city of Medellín, for the purpose of pushing drug legalization. Soros is also a principal funder of Human Rights Watch/Americas, which specializes in attacking those national forces deployed against the drug cartels—especially the armed forces.

In *EIR,* June 5, 1998, we reported on the armed revolt in the Chapare, the center of the drug trade in Bolivia. Led by the Andean Council of Coca Leaf Producers and its chief honcho, Evo Morales, the coca growers, or *cocaleros,* adopted the slogn, "Coca or Death," and vowed to wage war to stop the Banzer government from succeeding in its plan to drive the drug trade out of Bolivia within the next five years. This insurgency was the work of European-based drug legalizers working in the "Coca 95" global legalization project, whose chief financier is Soros.

- The "Burma Project" in which Soros's Open Society Institute is a partner, with the British Crown, is attempting to topple the current military government in Myanmar. As the U.S. National Narcotics Intelligence Consumer's Committee (NNICC) pointed out in a report released in September 1997, the Myanmar government was having significant success in closing down the production of opium and heroin in the Golden Triangle, bordering Thailand, Laos, and China. The campaign by Soros and the British is aimed precisely at preventing that. (See *EIR,* Sept. 26, 1997.)

Seven finance ministers and central bank heads.

Soros's crisis prevention package will bring on more destruction, and will blow up, either in a hyperinflationary explosion or chain-reaction disintegration. Soros does see dangerous "instabilities" in the financial system, but the idea that they can be smoothed out by administrative means is lunacy.

In a commentary in the Jan. 4, 1999 London *Financial Times,* Soros wrote that he would "convert the IMF into something resembling an international central bank." He would establish, inside the IMF, "an International Credit Insurance Corporation (ICIC)." The ICIC "would guarantee international loans for a modest fee . . . [and would have] the authority to set a ceiling on the amounts it is willing to insure." This would set up the international basis for what Soros calls credit "regulation." Credit rationing would be another name for it. Soros states that the ICIC would prevent too much credit from flowing into the Third World. The way it would work is, that the ICIC would give out loan guarantees. If it did not approve what a bank was lending for, and/or did not like any one of 10 different policies pursued by a nation, it could refuse loan-guarantee approval. If the ICIC, empowered to set the seal of approval for loans, were to withhold its approval, a bank would be unlikely to make a loan (it would be at a disadvantage to a bank that had such a guarantee). Up to this point, the IMF has rationed its own credit; under Soros's proposal, it would be in position to ration the credit of private banks as well.

The ICIC would be given a long list of new criteria which would be part of the conditionalities for a loan. In addition to forcing countries to cut their budgets and reduce their imports, they would now have to "provide adequate information both to the IMF and to the markets [so-called transparency]; maintain flexible exchange rates [i.e., no fixed-exchange-rate Bretton Woods system]. . . ; have proper corporate governance and bankruptcy laws; respect certain basic human rights."

The ICIC, according to Soros, would have the power to issue emergency IMF Special Drawing Rights, for bailouts during a crisis. While Soros has not proposed the amount of SDRs that might be involved, it apparently is large, as he reports that some central bankers are accusing him of an inflationary emission. Soros's comment during the Brazil crisis in February of this year, that to stem that crisis he would issue a "wall of money," indicates his thinking. It should be underscored, that though Soros puts qualifiers in his plan, he is proposing on a global scale, the exact same policy that U.S. Federal Reserve Board chairman Alan Greenspan has been pursuing to hold up the U.S. and world banking system: hyperinflation, along the lines of what occurred in 1921-23 Weimar Germany.

Soros would also use the crisis to remove choice assets from a country: He would require mandatory debt-for-equity schemes for nations or corporate concerns that are unable to pay their debt during a crisis. The nation or company with debt problems would have to change the debt into shares of equity, i.e., the ownership of a country's or a company's asset would be transferred, usually to foreign financiers. This would not only give a means for the predatory hedge-fund operators and bankers to pick up assets cheap, but, Soros explains, it would break apart the "Confucian model," which in basic outline, involves economic dirigism. In his book, Soros states:

"One of the features of this new, more extreme form of global capitalism will be the elimination of one plausible alternative to free market ideology that recently emerged—the so-called Asian, or Confucian, model. As a result of the current crisis, the overseas Chinese and Korean capitalists whose wealth has been severely impaired will have to give up family control. Those who are willing to do so will survive; others will perish. . . . The only way out is to convert debt to equity or to raise additional equity. This cannot be done by the family; usually it cannot even be done locally. There will be no alternative but to sell out to foreigners. The net result will be the end of the Asian model. . . . International banks and multinational corporations will gain strong footholds. Within local companies, a new generation of family members or professional managers educated abroad will come to the fore. The profit motive will take precedence over Confucian ethics and nationalist pride. . . . Some countries, such as Malaysia, may fall by the wayside if they persist with their xenophobic, anti-market policies, but others will make the grade."

Soros would also impose currency boards on nations, which removes their sovereign control over credit.

Soros would use his newly reformulated IMF, with powers of an international central bank, in a futile attempt to hold the financial system intact, and to use its enhanced power to bludgeon every nation into conformity. At the same time, he is obsessively concerned with preventing any country from breaking openly with the insane, dying globalization system.

On Sept. 1, 1998, Prime Minister Mahathir adopted a nationalist and rational economic policy, by imposing exchange controls. Despite the incorrect predictions of the financiers, under this policy Malaysia's economy has done best in recovering from the nadir of the economic downturn, especially relative to other nations in Asia, which obediently followed the IMF's bad advice.

Soros directs his firepower against Mahathir, and says that his ICIC scheme "would provide a reward for belonging to the global capitalist system and discourage defections along the Malaysian model." Soros tries to reassure himself, by rationalizing that his ICIC plan "would ensure the allegiance of the periphery [the Third World] to the global capitalist system." But, he knows that those nations that want to survive are moving in the opposite direction. He warns, "Elections in Indonesia could well produce a nationalistic, Islamic government inspired by Mahathir's ideas."

The actions by Dr. Mahathir are a reflection of the growing ascendancy of the idea of survival through global development of Lyndon LaRouche. Soros avoided mentioning LaRouche even once in his book, but LaRouche's ideas haunted Soros throughout.

Business Briefs

Iran

Brits invest, while U.S. plays 'Great Game'

British and Canadian oil companies are investing heavily in Iran, while U.S. officials, encouraged by the British, are busy playing the British Empire's "Great Game." Anglo-Dutch Shell is heightening its profile in Iran by bidding for a contract to expand crude oil production in the Soroush oil field. The firm reportedly has already placed bids for Agha Jari and Ahwaz Bangestan oil fields (two of Iran's largest), and for the development of North Pars gas field. Shell is also heading negotiations for the fourth and fifth phase of South Pars gas field, and in December was awarded, along with Lasmo of the U.K., an $18 million exploration contract for the Iranian sector of the Caspian Sea.

According to *Middle East Economic Digest,* Shell submitted its bid to raise the output of Soroush from 60,000 to 100-150,000 barrels per day late last year. It said that a decision may be made by the National Iranian Oil Co. in March. If it wins the contract, the heavy crude will eventually help supply Reliance Petroleum's new 550,000 barrel per day refinery at Jamnagar, on the northwest coast of India.

Meanwhile, Lasmo is working to conclude merger talks with the British exploration firm Enterprise, which in February was awarded a lucrative contract to develop the huge Belal oil field in a consortium with Canadian Bow Valley Energy. Shell is also conducting feasibility studies for the construction of a network of oil and gas pipelines along Iran's Caspian Sea coast.

Thailand

Educational holocaust follows economic crisis

An estimated 400,000 primary school students in Thailand have dropped out of school in the last academic year, even though primary education is compulsory. The rates are even higher for secondary school students; secondary school enrollment in Thailand is one of the lowest in the region with only 37.5% of eligible students attending school, compared to 70% in China. Girl students have been the biggest victims, because if parents have to choose between educating sons or daughters, sons come first. Girls are also barred from attending any of the 380 schools run by Buddhist temples, which are highly subsidized, including free lodging.

More than 3 million Thai workers have lost their jobs since the financial crisis hit in 1997, the majority women, but another 2.1 million are underemployed or living below the poverty line, according to a UNICEF report. The head of UNICEF in Thailand, Fida Shah, says, "Assuming that each worker is supporting one child in school, there will be 5.1 million children at risk."

In primary school, there are no fees, but children must buy their own books, uniforms, lunch, and transportation. At the secondary level, fees also must be paid. Some 580,000 students are now taking advantage of a special assistance program for poorer students, but *The Nation* pointed out on March 13 that, right up until the onset of the crisis, the government was encouraging primary school graduates to go directly into the for-export manufacturing sector. In 1993, some 4.1 million children aged 13-19 were working; the figure is substantially higher today.

Banking

Bankers Trust pleads guilty to felonies

Bankers Trust Co. pleaded guilty on March 11 to three felony counts, involving the illegal diversion of $19 million of unclaimed customer funds into a slush fund, which was used to fraudulently overstate the bank's financial performance. The bank will pay a $60 million fine to the Federal government and a $3.5 million fine to the State of New York, and has agreed to pay restitution to the victims. The officers and employees alleged to have been involved in the scheme have been dismissed, and face possible criminal prosecution; as part of the agreement, the bank is assisting the investigation.

Bankers Trust is no stranger to criminal activity. In 1994, the bank was accused of violations of the Racketeering Influenced and Corrupt Organizations (RICO) statutes by Procter & Gamble, in connection with derivatives losses, and was hit with suits from Gibson Greetings and others, all of whom fell victim to its derivatives investments, described by one bank employee as a "lure 'em in and f*** 'em" operation. The bank was fined $10 million for these escapades and effectively taken over by the government.

The bank was probably bankrupt at the time of Federal takeover, due to the losses in the derivatives markets. Its criminal activity was merely the pretext for the government to step in and rescue the derivatives markets. Today, the bank is probably technically bankrupt again, due to its losses in the so-called emerging markets, and is being sold to Deutsche Bank.

The accusations that the bank cooked its books is rich in irony, since all the big banks are cooking their books—if any of them told the truth, they would have to close their doors immediately. A $19 million fraud pales in comparison to the trillions of dollars of fictitious derivative values and related deals the banks are carrying on their books, to give the appearance of solvency.

Infrastructure

Budget cuts blamed for German rail accidents

A series of railway accidents in Germany has been caused by irresponsible budget cuts, spokesmen for the rail workers union stated, after the 13th accident this year occurred in Erfurt on March 9, when two trains crashed into each other while moving into the main station on parallel tracks. The signals did not work properly.

Railway management is playing down the affair as allegedly "just a bad coincidence of several incidents over a short period of time," but the union charges that the policy of budget cuts and downsizing is the cause of the accidents. Of a workforce of 400,000 at the beginning of the 1990s, only 257,000 remain, and another 60,000 are slated for layoffs by the year 2003, of which 18,000 will be fired this year.

The union is demanding that the downsizing be halted, and that more funding and increased manpower be given to critical sectors including safety, materials research and development, and maintenance.

A union spokesman pointed to the bad examples of Britain and the United States, where downsizing policies have caused a drastic drop in safety and on-time functioning, and in many cases even the collapse of standard services. In Britain, he told *EIR*, it has become a daily pattern for passengers to wait for trains that never arrive.

Finance

U.S. bubble could burst, paper warns

USA Today warned on March 11 that the United States is not immune to the global financial crisis, in an article entitled, "U.S. Economy: A Bubble Waiting to Burst." On the jump page, the headline read, "Triple Threat Could Trigger Recession." Citing disasters in Europe (Germany's contracting growth), Ibero-America (Ecuador crisis), and Asia ("struggling economies"), the article quoted U.S. Treasury Secretary Robert Rubin. "While the overall [U.S.] economy has been doing well, there is a risk associated with what is going on outside our borders," Rubin said. "This is not a long-term healthy situation."

One expert cited said that there is a 25-30% chance of global and U.S. recession. Economist Nariman Behravesh at Standard and Poor's DRI economic group is quoted, "There is a triple bubble developing in the U.S. economy."

Three bubbles are discussed in a "Rising risk for USA" section: 1) a rising trade deficit; 2) an inflated stock market—Behravesh reported that the value of all stocks listed on the New York Stock Exchange now amounts to more than 125% of GDP, whereas in 1929, just before the crash, it equalled 87% of GDP; 3) large consumer borrowing—in January, U.S. households increased their consumer borrowing by $14.7 billion. David Wyss, also at Standard and Poor's DRI economic group, asserted, "People are living too far beyond their means."

The *USA Today* article said, "One thing experts do agree on: the bigger the bubbles, the greater the risks for the economy." Sections then follow with details on Asia, Europe, and Ibero-America, under the rhetorical heading "Year of Recovery?" The policymakers hoped so, "But it hasn't turned out that way." Selected facts make the point: Sony announced a 10% cut in its workforce on March 9. Brazil's currency has plummeted more than 35%.

However, the collapse of the U.S. physical economy is not reported.

Southeast Asia

Thailand, Laos agree to plan for development

Laos and Thailand agreed to a master plan for economic development, during Laotian Prime Minister Sisavath Keobounphanh's state visit to Thailand on March 3-4. The two countries declared that "the 21st century should be a century in which both countries will not have any conflicts. We propose that all previous conflicts be left behind so that we can start the new century with cooperative minds," said Laotian Deputy Prime Minister Somsavat Lengsavad.

The two nations agreed to draw up a master plan for electricity, telecommunications, agro-industries, and investment, which will be completed next year. Laos proposed to speed up the commissioning of 1,600 megawatts of electricity provided to Thailand from the Nam Theun II dam from 2008 to 2006. Thailand had contracted for 3,000 MW from the dam last year, but the economic collapse has slowed down usage.

The two nations also confirmed that 375 kilometers of their 702-km border have been successfully marked. Thailand asked Laos to repatriate 13,000 Hmong hill tribe refugees in Thailand. Vientiane views the Hmong as part of an anti-communist movement that has plagued Thai-Lao relations for decades. Laos requested Thailand suspend navy patrols on the Mekong River, which Thailand says are used for drug suppression, but which have led to serious clashes.

Briefly

TAIWAN is facing a political crisis, over an attempt by President Lee Teng-hui to cancel the stock-transaction tax. Prime Minister Vincent Siew is firmly opposed to dropping the 0.3% tax, because of the loss of government revenue and the impact on the economy (revoking the tax would encourage speculation).

VEHICLE sales in Thailand, the Philippines, Malaysia, Indonesia, and Singapore fell from 1.329 million units in 1997 to 480,657 units in 1998, according to data released by Asian Honda Motor Co. in Bangkok.

CATERPILLAR Inc., the world's largest maker of construction machinery, said on March 12 that its first-quarter profit will be half that estimated, due to slow sales (primarily in Ibero-America), and slack demand in mining, agricultural, and oil and gas industries. The firm expects to cut jobs and shut plants in the U.S., Ibero-America, and Europe.

RUSSIAN businessmen from Novosibirsk exhibiting laser appliances, electric machinery, optical electronics, and other products at the 1999 Tianjin, China import-export fair, held talks with Chinese representatives on March 9, focussing on high-technology cooperation. Tianjin has opened air links with Novosibirsk, and trade volume between Tianjin and Russia is up to $100 million.

CHINESE exports fell sharply 10.5% year-on-year in the first two months of 1999, while imports rose 4.7%, Foreign Trade Minister Shi Guangshen stated on March 12. Export growth to Europe and the United States has been slowing. Exports to the U.S. grew at a rate of 6.2%, down from the 16% increase for 1998.

THE AUSTRALIAN House of Representatives Standing Committee on Economics, Finance, and Public Administration has asked the Reserve Bank and the Australian Prudential Regulation Authority to conduct an inquiry into hedge funds, with a view to increasing regulation.

Shocks on export markets show world economy collapsing

by Lothar Komp

Editor's note: *This article was written in January 1999 as part of a German-language* EIR *Special Report by our Wiesbaden bureau, and has been translated by George Gregory. The report documents the dramatic contraction of the global economy during the second half of 1998. Since then, things have become even worse, in particular in Brazil and in western Europe.*

The global financial system is breaking apart and it is hurtling ever more national economies into the abyss with it. Once the currencies of countries are in the cross-hairs of international currency speculators, the usual chain reaction takes effect: The foreign debt of the governments and industries becomes unpayable due to the sudden devaluation of the currency, followed by capital flight; credit lines are cut; imports collapse; in order to earn foreign exchange, the economies are forced to dump the rest of their production onto the shrinking world markets at bargain-basement prices. That is why the average prices of raw materials are currently at their lowest levels since the mid-1970s. Propagandistically, this effect is sold to the public as a beneficial side-effect of the global economic crisis. But it was not only the prices for raw materials that collapsed; collapsing prices and reduced demand have also hit trade in automobiles, ships, chemical products, and computer chips. Now it is hitting the core of the Western industrial countries, which are heavily export dependent (see **Table 1**).

Looking at world economic developments from the west European point of view, the gale warnings are up. East Asia, which had accounted for more than half of the additional worldwide demand for industrial goods of all kinds since the beginning of the 1990s, has largely dropped away as an importer. One example of the dramatic collapse of real economic activity in this region is the recent development in what was previously the tenth largest economy of the world: South Korea. In the third quarter of 1998, South Korea's industrial production dropped by 7.9%, following a 10.0% drop in the previous quarter. In the third quarter, the construction

The Blount Island Terminal at the Port Authority in Jacksonville, Florida. The insane policy of "globalization" is now hitting the core of the Western industrial economies, which are heavily export dependent. Even the market in computer chips is collapsing—while the economic pundits still proclaim that the U.S. economy never had it so good.

sector reported a collapse of 12.9%; expenditures of private households dropped by 12% in the same period, those of the government fell by 11.1%. Investments for modernization of productive capacities, infrastructure, and home-building fared even worse: Construction investments dropped by 15.8%, equipment investments went through the floor at –46.3%, in each case with respect to the previous year. South Korea reduced its imports accordingly in the third quarter of 1998 by 20.9%.

Shrinking economic activity goes hand in hand with the explosive growth of unemployment and poverty. According to a report of the International Labor Organization (ILO) published in December 1998, the social consequences of the financial crisis in Southeast Asia have far surpassed all the predictions, and could "dramatically deteriorate" further. The number of unemployed people has tripled in one year. From the outbreak of the crisis to the fall of 1998, the rates of unemployment in Indonesia increased from 4.9% to 15.0%, in Thailand from 2.2% to 6.0%, in South Korea from 2.3% to 8.4%, in Malaysia from 2.6% to 5.2%, in Hong Kong from 2.4% to 5.0%, and in Singapore from 1.8% to 4.5%. In some cases the rate of actual unemployment may be much higher than the official figures indicate. With the exception of South Korea, there is no appreciable unemployment insurance in any of the cited countries. (See **Figure 1.**)

In Japan, the official rate of unemployment reached 2.95 million in September 1998 (**Figure 2**), which is 560,000 more than in the previous year. While employment in the service sector actually increased in these 12 months by 740,000, the productive sector lost 740,000 jobs and the construction industry another 450,000. In addition to flattened economic activity domestically, Japanese firms are also facing a collapse of exports to their Asian neighbors. Japanese exports to Thailand, for example, dropped from April to September 1998 by 20.0%, to South Korea by 34.0%, and to Indonesia by 55.2%. The investments of Japanese firms in the five mem-

TABLE 1

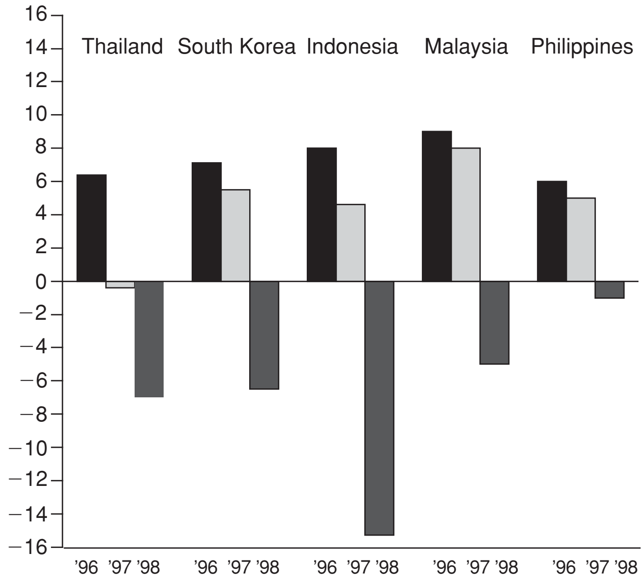
Commodity trade in the leading industrial countries in 1997

(billions $)

Country	Exports	Imports	Balance
U.S.A.	689	899	–210
Germany	512	442	+70
Japan	421	339	+82
France	290	268	+22
Great Britain	282	308	–26
Italy	238	208	+30
Canada	214	201	+13
Netherlands	194	177	+17
China	183	142	+41
Belgium	168	156	+12

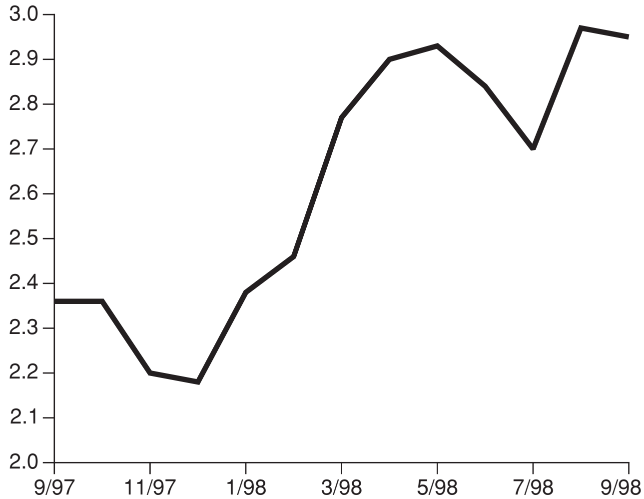
Source: WTO Annual Report 1998.

FIGURE 1
Southeast Asia: real GDP growth 1996–98
(in %)



Source: World Bank

FIGURE 2
Japan: official unemployment, September 1997–September 1998
(in millions)



bers of the Association of Southeast Asian Nations (ASEAN) plus Singapore collapsed in the first nine months of 1998 by 59.5%.

Even China, which had withstood direct attacks on its currency and taught a severe lesson to the speculators in the "Battle of Hong Kong" in the fall of 1998, is not cordoned off from the economic consequences of the global financial crisis. In October 1998, there was a drop in China's foreign trade surplus of 38.1%. Exports, which were already below the level of the previous year in August 1998, then plunged by 17.3%, while imports fell by 9.2%.

Russia and the other successor states of the Soviet Union, which were once among the most important German trading partners, were, for the most part, broken off as a market for German investment goods already at the beginning of the 1990s. Following the devaluation of the ruble in August 1998, the German-Russian trade relationship is facing a new shock. The entirety of Russian foreign trade dwindled in August 1998 by an estimated 50-65% with respect to the previous month. Within the same month, industrial production collapsed by 14.5%. Even the German Federal Office for Foreign Trade Information wrote in the December issue of its newsletter: "How great the reduction of German exports will be following the beginning of the crisis, still cannot be determined. The darker prognoses assume a reduction of 60-80%." In October 1998, German exports to Russia also fell by 63%. This concerns especially the exports of the food industry, but also of machinery and chemicals. Over 1998 as a whole, Russian exports to countries outside the Commonwealth of Independent States (CIS) collapsed to a level of 57.7 billion deutschemarks (about $33.6 billion), compared with DM 88.9 billion in the previous year. Imports fell from DM 71.3 billion to DM 53.5 billion.

All of the economies in eastern Europe are in an extremely shaky condition and any one of them could become the victim of international financial speculators at any time. The Czech Republic is no exception. The largest banks of the country are on the brink of collapse, although the government has intervened to save them several times, which has contributed significantly to the budget deficit of the government. A chain reaction of bankruptcies threatens the over-indebted industrial sector. In November 1998, industrial production dropped by 7.6%, construction by 9.3%. For 1999, explosive growth of unemployment is expected. Registered unemployment rose over the course of 1998 from 269,000 to 387,000 persons. Head of State Zeman, the president of the Parliament Klaus, the head of the Central Bank Tosovky, and trade union leader Falbr met for an emergency summit in December 1998. The subjects discussed included re-nationalizating privatized firms. The Vice Prime Minister for Legal Issues, Rychetsky, warned of a "total collapse of the economy."

The oil producers of the Middle East are gasping over the effects of the fall in the price of oil, which, at about $10/barrel in December, reached the lowest level since the summer of

1986. Compared with $19/barrel at the end of 1997, this is a drop of 50% in 12 months. If the current price is corrected for inflation, then the price of oil is at its lowest level in 25 years. Over the course of 1998, crude oil production by members of the Organization of Petroleum Exporting Countries (OPEC) was reduced by 2.6 million barrels per day in order to take account of reduced demand worldwide. According to figures from the director of the Arab Institute for Petroleum Studies in Paris, the income of the Arab states from sales of petroleum in 1998 has not been this low since 1973. Corrected for inflation, that income dropped $40 with respect to the previous year. Most of the Gulf states drastically reduced their government expenditures (by 35%) as a result, and that led to a fall in imports of investment goods. In order to defend market shares and exchange earnings, some Gulf states sold their oil at $5-7/barrel in December 1998. If the payments problems, which have already hit Iran and Saudi Arabia, escalate further, the world economy and, especially, the financial markets of the Group of Seven countries, are threatened with the withdrawal of an estimated $800 billion in foreign deposits by the Gulf states.

Developments in non-ferrous metals are similar to that of petroleum. The price of copper collapsed in one year by 40% to $1,500/ton (December 1998), the lowest level in 12 years. The stock-reserves at the London Metals Exchange (LME) rose over that year's time by more than 50% to 600,000 tons. Aluminum prices dropped in 12 months by 20% and had reached their lowest levels in five years at the end of 1998. Nickel prices fell 35% over the same period, and are now at their lowest level in 11 years. The prices of agricultural produce have also fallen markedly over the course of the year: sugar, for example, from $320/ton to $200/ton (–38%). Grain prices dropped in September 1998, at some points to levels not reached for 30 years, and they had reached a 20-year low by the end of 1998. The renowned Commodity Research Bureau raw materials price index, which is calculated from a basket of 17 of the most important metals, energy sources, and agricultural produce, reached its lowest level since 1977 at the end of 1998. The export of raw materials is by far the most important source of foreign exchange earnings for a large share of the developing countries. In the case of Africa, raw materials exports account for 80% of total income from exports, and that share is still 50% for the nations of Ibero-America.

Were Brazil to fulfill the conditionalities dictated by the International Monetary Fund, it would cease to be a customer for the products of European firms. The conditionalities announced by the IMF on Dec. 2, 1998 require a foreign trade surplus for 1999 of $2.8 billion, although Brazil had recorded a record deficit on its foreign trade balance for each month of 1998. The direction of IMF policy is clear: a dramatic reduction of imports, either by tightening the strangulation of Brazilian economic performance—not least by means of the high-interest-rate policy demand by the IMF—or by means of a shock-devaluation of the national currency, the real, along the lines of what happened in Indonesia and South Korea, or, a combination of both. The floating of the exchange rate of the real in January 1999—following the complete collapse of the so-called "preventive" IMF rescue package—now threatens to unleash a chain reaction of currency devaluation, financial collapses, and depression of the real economies throughout Ibero-America, a pattern which was unleashed in the Far East following the floating of the Thai baht in the summer of 1997.

TABLE 2

U.S. exports to Asia

(billions $)

Country	Dec. 97	Sept. 98	% Change
Taiwan	2.2356	1.326	–40.7
South Korea	1.680	1.213	–27.8
Singapore	1.443	1.316	–8.8
Hong Kong	1.317	0.990	–24.8
Malaysia	0.851	0.582	–31.6
Philippines	0.601	0.543	–10.8
Thailand	0.538	0.335	–37.8
Indonesia	0.478	0.133	–67.5
Japan	5.265	4.755	–9.5
China	1.235	0.888	–28.1
Total	15.643	12.096	–22.7

The supposed land of economic miracles of the past year, the United States, which increased its imports from Germany in 1997 by 30%, is finally showing the traces of the global economic collapse (**Table 2**). On Nov. 8, 1998, representatives of the U.S. government gathered at the meeting of the Transatlantic Business Dialogue in Charlotte, North Carolina, to threaten the European Union with trade war. Vice-President Al Gore, Commerce Secretary William Daley, Trade Representative Charlene Barshefsky, as well as Deputy Secretary of the Treasury Lawrence Summers, warned that a "protectionist fire" would take hold in the United States if the Europeans were not willing to massively reduce their trade surplus (see Table 1). U.S. representatives had made similar threats against Japan one year before. The backdrop of these threats is, of course, the explosive growth of the U.S. balance of payments deficit, which will reach $236 billion this year, according to IMF estimates, and will reach $290 billion next year, double the deficit of 1996.

While the foreign trade balance deteriorated progressively, the U.S. domestic market also went into a tailspin. This is particularly evident in aviation and aerospace, one of the key industrial sectors of the U.S. economy. On Dec. 2, 1998, Boeing, the largest exporter in the United States, announced an additional 20,000 layoffs in the coming two years. In August 1998, Boeing announced 28,000 layoffs as a result of cancelled orders from Asia, as well as the restructuring of the firm following the merger with McDonnell Douglas. That amounts to a reduction of about one-fifth of the jobs at Boeing. Production is to be wound down from 51 aircraft per month to 38.5 aircraft by the end of 2000. Production of the 747 jumbo jet is to be reduced to one-fifth of previous rates of production. Boeing's order books are still full, but the firm expects a radical collapse of demand worldwide in the year 2000.

The layoffs and drop in production at Boeing will also hit other industrial sectors of the American economy, leading to a marked increase of unemployment, especially in the states of Washington and California. Since two-thirds of the value added in the products which Boeing delivers actually accrues to the firm's suppliers, there will be another 100,000 layoffs among the supplier firms as a consequence of Boeing's own layoffs.

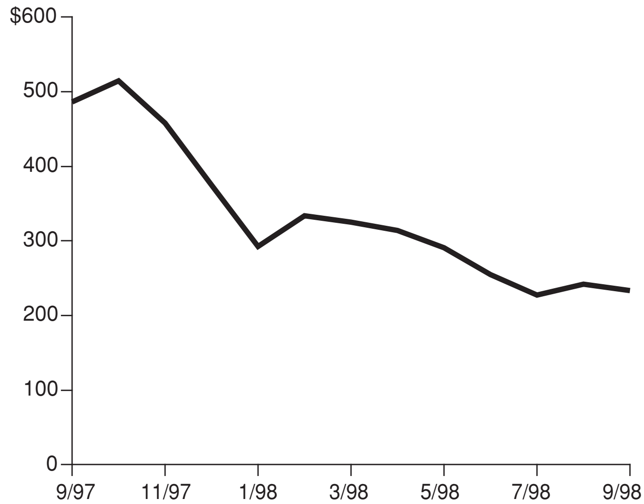
According to reports of the U.S. Bureau of Labor Statistics (BLS), 240,000 industrial jobs were lost in the United States in the first 11 months of 1998. In November 1998 alone, 47,000 industrial jobs dropped away, which indicates an acceleration in the general pattern. In the entire U.S. economy, 216,000 people became unemployed in the three-month period of September-November 1998, a rate of increase like that of seven years ago.

Surveys among firms indicate a dramatic reduction of planned new investments in plant and equipment for the beginning of 1999. One particularly marked warning signal was the fall of new orders for non-military investment goods in September 1998 by about 7.2%. Moreover, the banks reduced credit issuance for private and commercial construction in the wake of the shocks on the financial markets, so that construction in the American economy may be expected to fall markedly over the course of 1999.

All of this is occurring in a situation in which the motor of the American economy over the last months has been in the area of private consumption. The illusion of ever-rising stock markets, to which the majority of American households have succumbed, led to a combined consumer- and stock-market bubble, fed by infusions of pumped-in money, while the rate of savings fell to the lowest since the Great Depression. As a consequence, both consumer-debt as well as the foreign trade deficit exploded, since domestic production lagged far behind private consumption. It is only a question of time until the credit-financed bubble on Wall Street collapses and U.S. households will be hit with the horrible consequences.

In the German economy, the alarm signals are too loud to be ignored any longer. In September 1998, German exports fell below the level of the previous year for the first time since 1996. The first half-year still evidenced growth impulses in exports of 15-20% and in imports by 10-15%. But in the first

FIGURE 3
South Korea: imports from Germany September 1997–September 1998
(millions $)



Source: Bank of Korea

three quarters of 1998, exports to South Korea fell by 46%, to Thailand by 35%, and to Indonesia by 29%. (See **Figure 3.**) In the fall of 1998, German trade with Russia and Brazil collapsed. By the end of the year, there was also a marked drop in demand from European neighboring countries. The grand export offensive of German foreign trade will reach an abrupt end in this year, which is already foreseeable in the development of incoming foreign orders. The German capital-goods sector recorded a drop in incoming foreign orders in November 1998 of 5.6%. German industry, which is most dependent on the export of high-quality capital goods, is being pulled into the worst financial and economic crisis since the end of the war.

We shall now provide a sketch of the situation in the most important industrial sectors, which exemplify the potential for dangers arising out of coming shocks on the export markets.

Automobile industry

The German automobile industry underwent a boom phase in recent years, which contributed significantly to high capacity-utilization in other German industrial sectors, from machine tools to steel production and metals processing. But the storms clouds have been gathering in these areas as well since the fall of 1998. Two-thirds of the automobiles and commercial vehicles produced in Germany are marked for export. The onslaught of depression in large parts of the world economy is making itself felt. In October 1998, foreign orders for light commercial vehicles dropped for the first time below

TABLE 3
Automobile sales in the Asia-Pacific region
(units)

Country	1997	1998	% Change
China	1,567,500	1,325,000	–15.5
India	766,500	615,000	–19.8
Indonesia	378,500	80,000	–78.8
Malaysia	404,800	190,000	–53.1
Pakistan	52,500	42,600	–18.8
Philippines	144,400	63,000	–56.4
South Korea	1,532,900	635,000	–59.6
Taiwan	473,800	440,000	–7.1
Thailand	363,200	155,000	–57.3
Others	96,000	72,800	–24.2
Total	5,780,700	3,618,400	–37.4

Source: EIU.

TABLE 4
Automobile sector under IMF rule: new purchases in Thailand
(% change year on year)

1st Quarter 1996	+11.3
2nd Quarter 1996	+3.1
3rd Quarter 1996	+3.6
4th Quarter 1996	–1.8
1st Quarter 1997	–8.8
2nd Quarter 1997	–19.9
3rd Quarter 1997	–48.7
4th Quarter 1997	–73.5
1st Quarter 1998	–70.7

Source: World Bank.

the levels of the previous year.

A London Economist Intelligence Unit (EIU) study, *World Car Forecasts 1998,* predicted a recession for the worldwide automobile market. Sales levels of 1997 will only be achieved in the year 2001, at the earliest. Over the long term, China, India, Thailand, Vietnam, and the Philippines are among the most important growth markets for the automobile industry. Over the short term, the economic collapse in the Asia-Pacific region will bring a reduction of automobile sales of about 37%, whereby the drop in Thailand, Indonesia, and South Korea will reach the dramatic proportions of 60-70%. Sales in Malaysia, Vietnam, the Philippines, and also in Brazil, will initially fall markedly. This would mean that a production capacity of 71 million new automobiles and commercial vehicles annually faces a reality of only 40 million in sales (**Tables 3-4**).

The unprecedented collapse of automobile demand in Asia naturally hits the Japanese producers particularly hard. Japanese automobile exports to Asia collapsed in the first 10 months of 1998 by 61%, followed by Ibero-America, which fell by 32%. In Japan itself, automobile sales dropped drastically. According to reports of the Japanese Auto Dealers Association, domestic sales in December 1998 were 23.5% below the previous year's levels, which breaks down to a fall in automobile sales of 22.7% and trucks by 26.0%. All leading Japanese producers reported drastic reductions in sales. Toyota reported reduced sales of 23.6%, Nissan reported –24.9%, and Honda reported –34.9%. Mitsubishi's sales dropped 24.9%. On the whole, 1998 was the worst year for Japanese auto-makers in 12 years. The drop of annual turnover by 15.2% was the largest since the 1974 oil crisis.

Japanese producers were already winding their production down drastically over 1998, including more than 10% at Toyota, Nissan, and Mitsubishi. In November 1998, Mitsubishi Motors announced that it would reduce its production capacities worldwide; the number of employees in U.S. facilities would be reduced by 1,000 (out of 5,400) and in Thailand by 1,200 (out of 4,000), and two assembly plants in Japan are to be closed entirely. This policy is also reflected in auto imports. In October 1998, Japanese auto imports dropped by 25.4% with respect to the previous year, 23.1% for automobiles and 57.2% for trucks. The hardest hit were Ford (–69.5%), Chrysler (–53.7%), Opel (–28.6%), as well as Swedish firms (–37.5%) and the British (–40.9%).

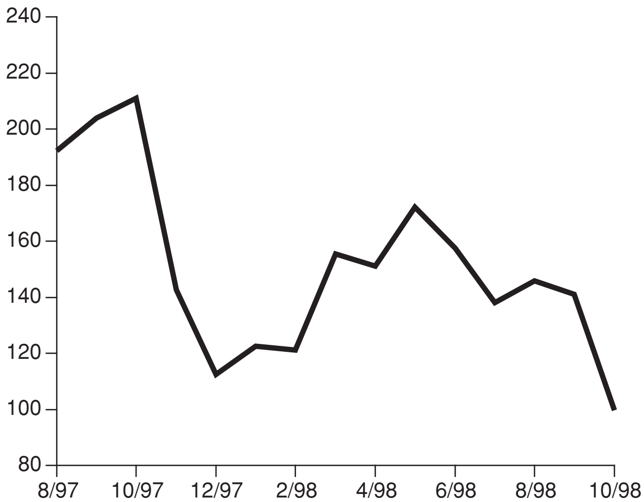
In Brazil, the talk is of the worst crisis in the history of the Brazilian auto industry, which is traditionally the motor of the entire industrial sector. Mass layoffs are inevitable. According to a report of the president of the Association of the Automobile Industry, Butori, some 30,000 jobs will be cut among the supplier industries alone in the first months of 1999. In the first three quarters of 1998, automobile sales in Brazil fell by 25%. In October 1998, the financial crisis with the interest-rate shock assured a collapse of demand for automobiles by 50% of the previous year's levels, and the lowest level since 1990. While price inflation was less than 3%, the central bank's interest rates went to 50% levels. The government, under President Cardoso, wanted to use this high-interest-rate policy to keep foreign capital in the country. As is well known, the policy was a resounding failure.

Brazilian economic activity was strangled. Like dominos, the producers, including VW and Mercedes, announced "forced vacations" at unprecedented levels. At Mercedes, which employs 11,000 people in Brazil and which sells three-fourths of the produced vehicles—mostly busses and trucks—on the domestic market, turnover dropped in October 1998 by 59%. The situation for the Brazilian economy deteriorated further with the conditionalities imposed by the IMF in the context of the international "rescue" package (rescuing the credits of foreign banks). The Brazilian automobile association reported a drop in production for 1998 of 24%, the

FIGURE 4

Brazil: automobile production, August 1997–October 1998

(in thousands)



Source: Banco Central do Brasil

lowest level in five years. Brazil, along with China, used to be seen as the most important auto market of the future. Once assembly plants for the new Daimler-Chrysler, Renault, and VW/Audi are completed in 1999, Brazil's capacity will increase to 3.3 million units annually. Under current conditions, the highest level of achievable sales will peak at 1.5 million units, at best (**Figure 4**).

In the United States, Chrysler Corp. reported a drop in exports of 23% for the month of October 1998. Sales to the Asia-Pacific region collapsed by 51%, followed by Ibero-America at 25%, and the Mideast/Africa by 42%.

In western Europe, as well, where the auto industry is a crucial pillar of domestic economic activity, the period of prosperous growth in newly registered vehicles belongs to the past. According to a study by EIU, the European auto market faces several years of recession. Sales of new automobiles did reach a record of 14.2 million in 1998, but in the following years this is expected to drop, in steps, to 12.7 million in the year 2001. The first warning indications have been visible for some time. The European Association of Auto Dealers (ACEA), to which 17 European countries belong, reported a rise in newly registered vehicles of only 1.1% for October 1998 with respect to the previous year, which is far below the usual rates of 5-10%.

Sales of new automobiles in Italy dropped by a full 23.5% following the government's decision to put a stop to tax benefits.

The market research firm Marketing Systems, in Essen, Germany, pointed out that there would be a radical drop in new registrations in Germany in 1999, by approximately 9%, were it not for the fact that a considerable portion of the orders booked in 1998 will be carried forward into 1999 due to delivery bottlenecks. In May 1999, at the latest, the sharp drop in new orders will make itself felt on the production side, and that will boomerang into the employment situation. The IG-Metall trade union chairman, Zwickel, warned at the beginning of 1998 that the next downturn in the German auto industry could cost 200,000 of the current 720,000 jobs.

Machinery

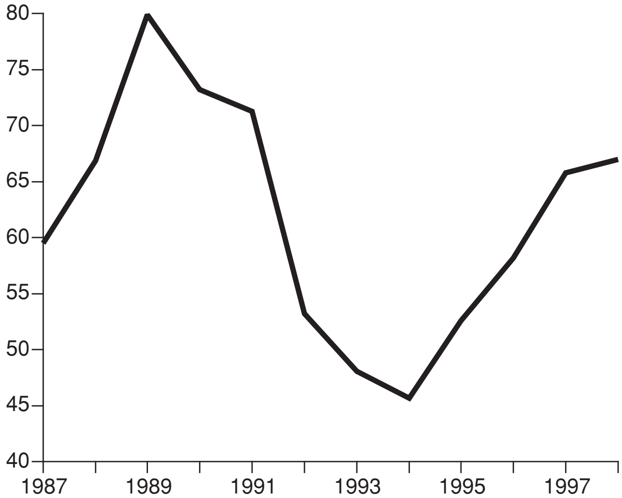
The German machinery industry reported an alarming drop in foreign orders by about one-third, 35%, for September 1998, with respect to the previous year. Prior to that, developments had been negative for two months running (–15% in July, –4% in August). On the whole, foreign orders in the third quarter were 21% below the levels of the previous year. In particular, exports to Asia had collapsed by 30%, but the downturn had just begun in Ibero-America and in the OPEC region. Business with the European neighbors and the United States, which had been the most important pillar of the German machinery sector, which has an export dependency of 60%, had cooled down strongly and ultimately stagnated. In October 1998, foreign orders were 10% below the levels of the previous year; in November 1998 they had dropped by 24%. In November 1998, orders from European Union countries dropped for the first time, which, with a share of 45%, is the most important export market for German machinery. Incoming orders from Thailand, the Philippines, Indonesia, and Malaysia were 50-80% below the levels of the previous year.

The Swiss machinery industry, which is among the five leading producers in the world in some areas—such as the vital machine-tool sector—took a drop in orders of 12.1% in the third quarter of 1998, whereby domestic orders fell by 24.2% with respect to the previous year. As a direct consequence of the financial crises in Asia and Russia, foreign orders fell by 7.9%. Asian exports fell in the first three quarters of 1998 dramatically: South Korea –66.2%, Malaysia –48.9%, Indonesia –44.9%, Thailand –37.6%, Hong Kong –28.7%, Singapore –23.6%, Japan –9.7%, and China –8.4%.

The machine-tool sector—the most important technological motor of the productive world economy—went through its worst collapse in postwar history in 1992-93 (**Figure 5**), when investment activity in the territory of the former Soviet Union came to a near standstill, and the economic crisis in large parts of the Western industrial countries led to a doubling the unemployment rate in Germany. In 1989, worldwide trade in machine tools reached a volume of DM 80 billion. In 1993 and 1994, it was only DM 48 billion and DM 46 billion, respectively, or a drop of DM 40 billion.

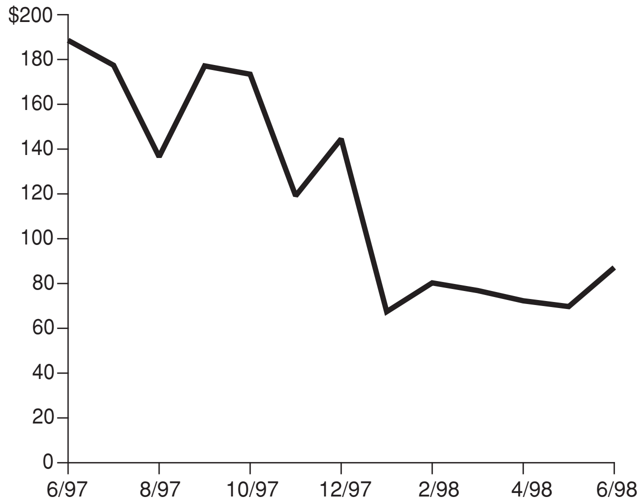
In Germany—the second most important producer of machine tools worldwide, following Japan—the number of employees in this area dropped from 100,000 in 1990 to 64,000

FIGURE 5
Worldwide machine tool production, 1987–98
(in DM billions)



Source: VDW

FIGURE 6
South Korea: machine-tool imports, June 1997–June 1998
(millions $)



Source: Bank of Korea

in 1997. The worldwide market for machine tools has not recovered from this shock. Although there was a gradual upturn, the volume of production in Germany rose from DM 10.4 billion in 1994 to DM 13.7 billion in 1997, far below the DM 17.4 billion achieved in 1991. And now the next shock is just around the bend. Over the course of 1997, there was a strong decline of exports of German machine tools to some of the leading customer-countries of Asia and Ibero-America, for example to China by 49%, South Korea 44% (see **Figure 6**), India 23%, and Brazil 45%. The order books of German machine-tool producers were indeed filled up somewhat in the first half of 1998, but should the remaining pillars of the export market crumble, i.e., the United States, China, and western Europe, the prospects for German machine tools are indeed dark. Incoming orders registered since November 1998 show negative growth.

The Japanese machine-tool industry, number one in the world ahead of Germany since 1981, has been gripped by a continuous decline in orders. In February 1998, growth rates turned negative for the first time. In the first eight months of 1998, incoming orders were 20% below the levels of the previous year. While exports to China still rose by about 68% in the first eight months, exports to South Korea, Taiwan, and Hong Kong dropped by 36%, and to the Southeast Asian countries by 47%. In September 1998, the decline in orders had already reached 35%, in October 30%, in November 26%. Domestic orders dropped at the same time to half of the levels of the previous year.

In mid-December 1998, the U.S. Association for Manufacturing Technology and the American Machine Tool Distributors' Association reported an alarming decline in consumption of machine tools by U.S. industry. Machine tool purchases of American firms had dropped 23% with respect to the previous month and were 21% below the level of the previous year. At the same time, U.S. machine-tool exports dropped by 35% with respect to October 1997.

In the area of large plant construction, the world market leader in the construction of foundries and rolling mills, the SMS firm of Düsseldorf, reports an abrupt decline in business since mid-year on account of crisis developments in Asia, which was then followed by a "dam-break" in August with the Russian debt moratorium. The Asian market, according to SMS, has all but ceased to exist; the worldwide market volume will drop this year by 30-40%. The firm announced in December 1998 that it was merging with Mannesmann Demag AG as a reaction to the shrinking world market.

Linde AG in Wiesbaden announced a decline of incoming orders from Southeast Asia, China, and Japan for 1998 in the conveyor technology segment of 25%. In November 1998, Linde did land a larger contract for the construction of a turnkey cracker-plant in Malaysia, with an annual capacity of 600,000 tons of ethylene and 85,000 tons of propylene. This will be part of a large petrochemical complex on the east coast of Malaysia, with which Malaysia will rise to the status of the leading petrochemical supplier in Southeast Asia. But this was the only large contract booked by Linde plant construction for 1998, while in past years Linde's turnover in Southeast Asia accounted for about 25% of its total plant construction turnover.

The German branch of Asea Brown Boveri AB (ABB), headquartered in Mannheim, one of the market leaders in energy production plants, suffered a collapse of incoming orders from Asia in 1998, because infrastructure projects where either given up or postponed. The decline here was about one-third. Domestic orders declined at the same time by 10%, so that the total volume of new orders was 20% below the levels of the previous year.

Steel industry

The world's largest steel producers are currently China, Japan, and the United States, with 100 million tons/year, followed by Russia, Germany, and South Korea, with an annual production of 40-50 million tons. Worldwide, some 750 million tons of steel are consumed in construction in the transportation sector, homes, factories, machines, vehicles, and other industrial goods. Per-capita consumption of steel is an important measure of real economic activity, and even a measure, in a certain sense, of the standard of living of the population in the respective national economies. In the past ten years, annual per-capita consumption of finished steel rose rapidly in some Asian countries, by about 470% in Malaysia, 240% in South Korea, and 80% in China. According to recent statistics, per-capita consumption of steel was 635 kilograms in Japan, 979 kg in Taiwan, and, leading the list, 830 kg in South Korea, while in North America it was 420 kg on average, in Europe 340 kg, and in Africa only 17 kg.

On account of its ambitious investment activity in the recent past, Southeast Asia became the most important market for steel in the whole world, and the region absorbed 75 million of tons of steel from abroad, in addition to its own production. In consequence of the financial collapse in the region, worsened by the IMF-dictated austerity measures targetting infrastructure investments, almost nothing is left of these imports. The most important market for steel in the world disappeared, practically overnight. At the same time, the most important industrial customers of the steel industry, machinery, and the automobile industry, went into a tailspin worldwide. The president of the Düsseldorf Steel Association, Ruprecht Vondran, thus speaks of a "weather catastrophe in the world steel market" since mid-1998. Steel prices are dropping through the floor everywhere. Over the course of 1998, prices in Asia fell by a third.

Since September 1998, this development is reflected in a global decline in steel production, and, according to reports of the International Iron and Steel Institute, to the extent of 6.3% worldwide with respect to the previous year. In November 1998, the decline had accelerated to annualized rates of 9.3%. The picture is the same wherever one looks: In the European Union, production declined by 10.3% (Germany –14.6%, Italy –11.6%, France –7.1%, Great Britain –13.4%, Spain –8.7%). The East European steel industry was hit even harder. Production dropped there by 19.1% below the previous year's level (Czech Republic –16.4%, Slovakia –9.1%, Poland –30.9%, Romania –18.5%, Bulgaria –17.5%, Turkey –10.9%). In the CIS states, production dropped 15.9% (Russia –14.8%, Kazakstan –32.8%, Ukraine –15.3%). In North and Central America, production declined by 12.3% (United States –14.0%, Canada –7.4%, Mexico –4.3%), and in South America the decline was 6.0% (Brazil –4.6%, Argentina –3.8%, Venezuela –13.8%). In Asia, production rose in Taiwan (+1.7%) and in China (+4.4%), but even these rates reflect a dramatic downturn in comparison to the double- and triple-digit growth rates of the recent past years. South Korea (–12.0%), Japan (–13.6%), and India (–4.2%) recorded considerable declines. In Australia, steel production dropped by 12.2%, and in Africa by 5.2%.

The five leading steel producers in Japan—Nippon Steel, Kobe, NKK, Sumitoma, and Kawasaki—reported the worst declines in orders in postwar history for the first fiscal half-year (April-September 1998-99). The world's largest steel producer, Nippon Steel, cut production by 12.3% to 12.04 million tons, the lowest rate of production since the firm was established in 1970.

The case of South Korea demonstrates the boomerang effect on the steel producers in America and Europe: Production declined in Europe in 1998 by 13%, steel consumption fell by 33%, and steel imports dropped by 60%. But to save its own industries and to earn urgently needed foreign exchange at he same time—particularly to service immense private foreign debts—South Korea boosted its steel exports over the course of 1998 by 46%, and profited handsomely from the devaluation of the national currency, the won, in the process. Many other threshold countries followed suit. But since the world market is shrinking, the scream of protest by the Western producers is understandably loud.

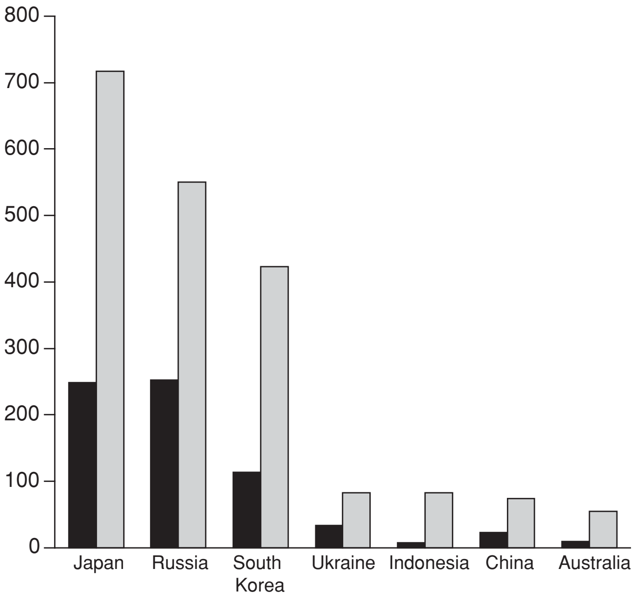
On Nov. 5, 1998, representatives of the U.S. steel industry stormed the American President, demanding immediate action against the "invasion" of cheap steel from Russia, Japan, South Korea, and Brazil. Otherwise, mass layoffs in the United States would follow. In the third quarter of 1998, U.S. imports of steel had risen 56% above the levels of the previous year, or 27% for the first three quarters of 1998. In the first nine months of the year (see **Figure 7**), Japan increased its exports to the United States by 148% to 4.6 million tons, and Russia boosted its exports by 37% to 3.8 million tons, South Korea followed with a hike of 112% to 2.6 million tons, Australia by 171% to 704,000 tons, and Indonesia went for broke, increasing the rate of its exports by 458% to 346,000 tons.

On Nov. 23, 1998, the umbrella organization of the European steel industry, Eurofer, launched a legal suit at the EU Commission against the dumping of wide rolled steel from Bulgaria, India, Iran, South Africa, Taiwan, and Yugoslavia. These countries stand accused of selling their steel below the cost of production, and up to 30% below the usual price levels in the EU. Steel imports of the EU increased in 1998 by 55%.

FIGURE 7

U.S. steel imports from CIS and Asia/Pacific explode, September 1997–September 1998

(in 1,000 tons)



Source: AISA

That makes the EU a net steel importer for the first time in its history.

Computer chips

Information technology is also no safe haven in the world economic crisis. According to a report of the U.S. Semiconductor Industry Association (SIA), worldwide sales of semiconductors declined in September 1998 by 13.5% with respect to the previous year, to 11.8 billion units. Sales in America dropped by 12.7%, in Europe by 0.4%, in the Asia-Pacific region by 11.4%, and in Japan by a full 27.9%. The SIA expects a worldwide decline in the chip industry of 10.9% for 1998, the first negative record for the industry since 1985. The market for memory chips collapsed in 1998 by 25.7%, not least due to the pattern of falling prices, which began at the beginning of 1996. The turnover in microprocessors stagnated in 1998.

The association is indeed announcing a return to double-digit growth rates in the coming years, but the relevant firms seem to believe that that is a dubious perspective. In November 1998, Siemens announced that it would lay off 60,000 people worldwide, i.e., 15% of its international employment, and that it would get rid of the entire semiconductor segment of its business, as well as parts of its electronic components business, as a reaction to the collapse of world market prices for computer chips. Siemens chief Pierer said that the reason for the firm's action was the catastrophic situation on the worldwide semiconductor market. Siemens suffered losses of DM 1.2 billion in these areas in 1998. The company had announced just a few weeks before that it was closing its new computer chip plant in Newcastle, Great Britain, which began production in 1977. The question now is, what will happen with the model plant in Saxony, and with its Microelectronics Center (Simec) plant in Dresden, co-financed by the German government to the tune of DM 800 million, and employing 2,700 people. Since the fall of 1995, some 100 million 16-MB memory chips are produced there annually, whereby the unit prices have collapsed in the meantime by 95%.

The Dutch electronics firm Phillips will close about one-third of its 244 plants worldwide in the next four years. Phillips will shut down 43 plants at home and abroad this year alone. These steps are being taken, despite the fact that the European semiconductor industry made it through 1998 better than many of its competitors in Asia and America. Texas Instruments reported a drop in turnover of 18.4%, Motorola 14.2%, Toshiba (Japan) 16.5%, Fujitsu (Japan) 16.4%, and Hitachi (Japan) a hefty 26.2%. Japanese producers are speaking of the worst collapse ever in the semiconductor branch. At the beginning of 1999, the South Korean firm LG announced that it was withdrawing entirely from its semiconductor business.

Europe gripped by shock over 'gathering of war clouds'

by Michael Liebig

Undoubtedly, Germany's Green Foreign Minister, Joschka Fischer, has mastered with perfection the art of diplomatic parlaying—saying nothing with raised eyebrows and many words. However, when he was asked, on March 13, at the European Union foreign ministers meeting in Eltville, Germany, whether he could clarify the status of the debate around the new NATO strategy, Fischer remained speechless.

A foreign policy expert of another European Union country elaborated on the reason for this speechlessness in a background discussion. Behind the scenes, he said, "total consternation over the world situation" is spreading among the European governments. A military escalation is approaching ever closer in both the Kosova and the Middle East crises. Probably, attempts will be made to somehow buy time, but a military dynamic of its own has already gone too far. One senses ever more clearly, that supposedly "limited conflicts" in the Middle East, and also in the Balkans, carry within themselves the danger of escalating to a "big war." It is inconceivable to him, this expert said, that the "Anglo-Americans" are expressly looking for military conflicts. How could they believe, through "limited wars," that "quick military victories" could so easily be achieved, without calculating the devastating consequences of this policy for the totality of the world political situation? This borders on "insanity," he said.

The foreign policy expert referred to a private discussion he had had with a high-ranking European government representative, who had told him: "We can't tell the population what's really going on, because if we did, panic would break out."

A view from Moscow

Similar views were expressed by a high-level expert from a strategic studies institute in Moscow. What so deeply worries him, he said, is the "gathering of war clouds," which are darkening ever larger portions the world political horizon. There are always more, and in fact more difficult conflicts, all over the world. Heads of state and government are becoming "unnerved," he said, and thus he fears that they "will simply let things proceed." And then, the catastrophe will suddenly be there.

In the next four weeks, three meetings will take place in Washington, where it will be essentially decided whether the "dark clouds of war" will converge to such an extent that they will release a deluge of "war storms":

On March 22, Russian Prime Minister Yevgeni Primakov arrives in the United States. Primakov's talks in Washington will be decisive for the question of whether or not the crisi in the Balkans will come to war. Certainly, the talks will also deal with the military escalation against Iraq, planned for April, by the Anglo-Americans, and will also involve the situations in Syria and North Korea.

These conflicts, and the visibly intensifying dynamic of a "New Cold War" in world politics, will also be on the list of themes for discussion of Chinese Prime Minister Zhu Rongji, who arrives in Washington on April 8.

Finally, the NATO 50th anniversary summit convenes on April 23, to discuss the "new strategic concept" of NATO. At this summit, the decision in essence will be reached, whether or not the train already building up steam—Cold War and "hot" regional wars—will irreversibly leave the station.

Whoever thinks here that we (and the strategic experts cited) are simply taking pleasure in painting apocalyptic horror scenarios, should listen exactly to what Willi Wimmer, a defense expert in Germany's conservative Christian Democratic Union (CDU) and former State Secretary in the Defense Ministry, has to say. He currently holds a leading post in the

Organization for Security and Cooperation in Europe (OSCE). Wimmer is definitely someone who does not belong to the category of peace movement softies.

Wimmer: 'The extinction of the world'

On March 13, in an interview with the German national radio Deutschlandfunk, Wimmer, in response to a question about his assessment of the discussion over a new orientation for NATO, said: The Americans are working on a new doctrine for NATO, where the Europeans are not really involved nor are they being listened to. NATO till now has been more than merely a defense alliance, it has been a community of values, where goals such as securing the peace and human rights have stood in the forefront. Now, a totally new orientation for NATO is being planned, where combat deployments anywhere in the world are uppermost. NATO is to become a global power instrument. Even a terrorist attack somewhere in the world, for example in Japan, could lead to a NATO intervention, said Wimmer.

In Europe, the attempted new orientation of NATO is being watched with great concern. He said that he believes that Germany will not go along with this transformation, with its foreseeable global military operations. Even more concerned, however, are "our friends in Asia," said Wimmer, who are always asking him about the already ongoing redefinition of NATO. NATO, Wimmer said, is being rebuilt into a global war instrument, and that could lead to "the extinction of the world."

Wimmer surely didn't say all this lightly; rather it requires courage to state so clearly where the transformation of NATO will lead to, under the designs of Chairman of the U.S. Joint Chiefs of Staff Gen. Henry H. Shelton and Defense Secretary William Cohen, or of British Prime Minister Tony Blair. A high-ranking military figure who previously had occupied a top position in NATO, confirmed Wimmer's assessment. Behind the scenes, there are deeply worried discussions occurring in the countries of Belgium, the Netherlands, and Luxemburg, because the United States and Britain have demanded, as part of the new NATO doctrine, the "selective use of nuclear weapons" in case of terrorist attacks using biological and chemical weapons.

Sharping's 'stubborn resistance'

German Defense Minister Rudolf Sharping has been a lot more reserved and his remarks a lot murkier over the new NATO doctrine. At a Washington session of the Trilateral Commission on March 14, Sharping said that at the April 23 NATO summit, "we will also agree on a new strategic concept, outlining how to contend with new challenges and new opportunities. For the Alliance, which is capable of both meeting a wide range of threats to our common values and interests, and working in trusting partnership with other nations and organizations; for the only alliance capable of promoting security, prosperity, and democracy in and for the whole Euro-Atlantic area, the new strategic concept must keep the right balance: affirming the fundamental capability for collective defense and at the same time providing for the full range of future conflict prevention and crisis mangement tasks."

All that is, of course, very abstractly formulated, but represents nonetheless a diplomatically worded attempt to save as much as possible from the "traditional" NATO.

Along these lines, Sharping told the German financial daily *Handelsblatt,* that he expects no "serious disputes" at the NATO summit, and that "work on the summit's texts" is far advanced. One can add that here it is not a question of "text formulation," but rather, the life-and death-question of war or peace, which those responsible should address in clear language. Somehow, Sharping must have sensed that urgency, because he told *Handelsblatt* that NATO collective defense covers the "entire Euro-Atlantic area," but "the Gulf region certainly doesn't belong to that," even if there are other views from the Americans.

British: 'adapt or die'

Different views clearly exist from within the British government. Despite Sharping's diplomatic niceties, a deep rift is opening between the German and British positions concerning NATO, if we compare Sharping's statements with those of British Defense Secretary George Robertson. Robertson declared on March 8, at the Royal United Services Institute conference in London titled "NATO at 50": "The updated strategic concept will confirm . . . that NATO's fundamental tasks extend beyond simple collective defense. . . . The breadth of missions that NATO might undertake or support is staggering." The security of the NATO area now has to involve military capabilities for operations "outside NATO's borders. . . . [NATO] forces must be deployable to where they are needed, requiring strategic lift capability, and equipment that is readily transportable and instantly usable. Once there, they must be flexible enough to meet the diverse demands placed upon them, sustainable over long periods. . . . The troops have got to be trained and ready enough to survive when they arrive." And here there are "serious deficiencies," among the continental European NATO partners, who need armed forces that are "actually deployable" and "not only on paper." NATO, like all security organizations, has "two fundamental choices," namely, "they can adapt, or they can die."

The British Defense Minister, and General Shelton, are not exactly concealing their demands for a completely transformed, "new NATO." It's high time in continental Europe, not for diplomatic "stubborn resistance" to a NATO reorganization, but for clear words to be officially spoken by governments. This is all the more important, because, in the United States, there is no "monolithic" position regarding the new NATO doctrine. In the American government, in the U.S. military, and even in Congress, there are indeed forces who, in light of rapid slide into a new Cold War and "hot" regional wars, are saying: "Think of how it will end."

The NATO 'new strategic concept' or American-German partnership

by George Gregory

> Irony is the art of not saying what you mean; diplomats never say what they mean, but diplomats are never ironic.
> —Soren Kierkegaard

The North Atlantic Treaty Organization (NATO) celebrates its 50th anniversary this year. The reason why most people believe NATO was created, the Soviet Union, ceased to exist not quite ten years ago. So, NATO's existence, its tasks, and its future, provide much to talk about and much to decide. The German-Atlantic Society teamed up with the Academy for Political Education, in Tutzing, just south of Munich on March 5-7, to sponsor a conference on these and related subjects. Conference participants ranged from American Ambassador to Germany John Kornblum and other U.S. diplomatic representatives, to a broad spectrum of German national as well as high-ranking NATO military officers, German parliamentary and government defense officials, and diplomatic and academic representatives from many eastern European countries, the Baltic nations, and Russia.

This conference occurred, thus, amidst a spate of semi-public and public events and institutional military and political backroom wrangling, which is supposed to be consummated with a "New Strategic Concept" for NATO at the Washington, D.C. NATO summit in April. Kornblum's remarks, as well as those made from the podium and privately by German participants at this conference, reflect the fact that there is neither consensus nor coherence *within* the American policy thrust at this time on the "New Strategic Concept," nor within the most NATO-ized European member, Germany. There was much more common ground between Ambassador Kornblum and the Germans than between either of them and the new Cold/Hot War schemes of the U.S. State Department, the Department of Defense, and the Chairman of the U.S. Joint Chiefs of Staff, Gen. Henry H. Shelton. That uneasy situation created some slippery diplomatic ice for Ambassador Kornblum to tread, while the German side was cautious but outspoken in drawing the line which they will not cross in a so-called "New NATO."

It bears noting at the outset, that the conference reflected a refreshing and hardened maturity and honesty achieved in the American-German partnership, which is not identical to "NATO," since the dissolution of the Soviet Union. A leading German parliamentarian (in an officially unattributable remark) stated, for example, that Germany would not *need* NATO for its defense, because America would enter bilateral defense-treaty obligations, if necessary, at the drop of a hat. That remark implies that Germany and America can very well have a partnership based upon shared principles, but if a "New NATO" is used to tie Germany into a policy which is against any principle of partnership, Germany would draw the line. Since Germany has been reunified and the country is now formally sovereign, one would think German representatives would openly state what such a remark implies, but that debate is still simmering beneath the diplomatic veneer.

NATO previously provided Europe with security against the Soviet and Warsaw Pact threat, it provided Germany with "security *in* Europe, and it provided Europe security *from* Germany," as the Social Democratic Parliamentary State Secretary in the German Ministry of Defense, Brigitte Schulte, put it. With that remark, Schulte was, again, only implicitly, identifying the policy known as "integrate and constrain Germany," which was applied following the reunification of Germany by the Thatcher, Bush, and Mitterrand governments to assure both that Germany would not employ its economic and technological potential to reconstruct the formerly communist economies in eastern Europe and the Soviet Union, and also to assure that Germany would go along with the "shock therapy" policy of reducing Russia to the status of a criminalized economy which does little more than export cheap raw materials. Citing the late Manfred Woerner, former German Defense Minister and NATO Secretary General, Schulte also noted that "the greatest merit of the North Atlantic alliance is that it put an end to the evil of European power politics."

That formula still expresses wishful thinking, but such a superlative, "the greatest merit," also betrays Germany's hope that NATO will protect it against the evils of European power politics.

American-German realities

The Tutzing conference provided a backdrop for what seems to have been a well-orchestrated demonstration of a German-American initiative to support the current efforts of the Primakov government in Russia to stabilize the economy and kick the engines of growth and production back into gear. That happened as follows.

A U.S. F-15E Strike Eagle approaches the refueling boom of a tanker aircraft during a patrol over Northern Iraq on Jan. 12, 1999. The idea of a "new strategic concept" that would expand NATO's mission to include out-of-area deployments, in areas such as Iraq, is meeting considerable resistance in Europe—and not only there.

Ambassador Kornblum's remarks differed significantly from the thrust of U.S. Secretary of Defense William Cohen's remarks at the annual Wehrkunde Conference, in Munich on Feb. 5-7 (see *EIR,* Feb. 26, pp. 38-40). Cohen had claimed that the "old thinking," i.e., the Soviet-era imperial policies, still dominate today in Russia, which is understood in Germany to imply that the West as a whole must continue to strangle the Russian economy, as if such a policy would provide security and stability in Europe or beyond. Ambassador Kornblum, by constrast, said in his keynote speech (this author's unofficial translation): "Now we have a new paradigm. The external security shield supported by the United States is no longer relevant for the challenges we face today. . . . Today, the establishment of security means the consolidation of democracy in Central and East Europe," which is inconceivable if the economies of Russia, other Commonwealth of Independent States members, and eastern European countries continue to collapse into chaos.

The Ambassador added, "It means cooperation in the pursuit of solutions to a possible worldwide financial crisis. And perhaps the greatest irony is that the threat from Russia is more one of weakness and economic instability than that of military confrontation."

Kornblum did not, of course, say explicitly that he disagrees with Defense Secretary Cohen, and he left it up to the conference participants to see the difference between his emphasis on economic stability and Cohen's stance of belligerence. Kornblum also neglected to say explicitly that his remarks imply a completely different economic policy toward Russia and eastern Europe.

Kornblum did not expand upon these remarks before leaving the conference at the end of the first evening's session, nor were his remarks discussed later in the conference. Instead, part of the specific sense of the Ambassador's remarks emerged the next day. During the panel on the eastward expansion of NATO, a former high-ranking German NATO officer, who now works for Deutsche Bank, reported that Deutsche Bank had conducted a seminar just that week with German firms which have extended considerable volumes of advance financing money to Russian firms and projects in the past. The officer did not report in any detail on the content of the seminar, but he did say that the big question for the German firms was whether additional advance financing *now* would suffer the same fate as in the past, i.e., disappearing down a great black hole of corruption, and then onto the foreign bank accounts of officials who (under the Chernomyrdin government, in particular) were indistinguishable from the mafia.

The report on the Deutsche Bank-led seminar and the concerns of German firms was met with nods of acknowledgment, rather than indignation or embarrassment, on the part of Prof. Igor Maximychev, the head of the Europe Institute for the Russian Academy of Sciences, who was one of the podium participants in that conference panel.

There has been no fanfare in the German or other media over the fact that German industry has extended some 2-300 billion deutschemarks, and possibly more, for specific projects with Russian firms, which is all money hopelessly lost into the sewers of International Monetary Fund (IMF) "shock therapy" and "free-market" corruption in Russia. German firms have frozen their advance financing flows, but now a shift of policy is occurring. Even under healthy conditions, German firms would not commit their own resources to such projects without the backup of the financial resources of the *formerly*—and perhaps once again—industrially oriented German banking system. And the German banks would not commit their resources if the Bonn government did not itself provide the political support for it, and that means to de facto declare to the relevant institutions that it is government policy that the Russian economy get back on a healthy footing as soon as possible. The German government, in turn, could not have that sort of policy unless it had American support for breaking with the IMF punitive agenda against Russia, and, thus, to break away from what Germans call "the Kissinger strategy": drive the Russians down and keep them down so that they are never again able to exert their supposedly nationally incurable tendency toward empire.

To those in Germany who are familiar with the "Kissinger strategy," Kornblum's remarks were a clear signal that *this Ambassador* does not hold to that strategy. It is also known that President Clinton does not hold to that strategy. What leading Germans did not know is whether the difference in strategy would ever have any practical effect.

The problem is that no one, neither the U.S. government, nor its Ambassador to Germany, nor the German government, is articulating a shift of economic policy.

Given the way that NATO, as well as international financial institutions work, neither would currently be a forum for discussing or implementing such a turn, and a *turn* it is. Germany and America can obviously agree on important matters, which NATO, the Group of Seven, or the IMF could not agree on, if they were asked at this point. It is, however, a turn thus far only in the sense of byzantine "crisis management," which means it is a necessary move at this time to tell Russia that it is neither American nor German policy to drive Russia over the brink into chaos. But, it is not yet an active policy to create a real foundation for peace.

What is 'NATO' all about?

Kornblum's keynote touched upon other issues which are directly relevant to the "New Strategic Concept" of NATO, and several strong "Americanisms" did ruffle the feathers of quite a few of the participants. Speaking in German, he said, "It is correct that America is the most dominant power in the world. It is also correct that only we have a unified conception of our goals, the military strength and the familiarity with the role of leading to be able to tackle the broad spectrum of security policy challenges in the world as a whole."

To some, these remarks seemed quite in line with a completely different "New NATO," in which the world order would be a geopolitical *Pax Britannica-Americana-Canadiense* with "NATO" as the logistical base in tow. That line was reflected in the speech of General Shelton at the "NATO at 50" conference of the Royal United Services Institute in London on March 8 (see *EIR,* March 19, pp. 35-37, 47-48). However, Kornblum continued, immediately following the remarks just cited, "But these facts can be deceptive. The United States does not want to be designated the fire-brigade or police chief of the world. We are not a nation with an imperial past. The maintenance of a complex balance of power is not part of our national character. In order to obtain the support of the public for our role and to be able to employ our power successfully, we need common goals and partners. Power alone is not the answer. Power must be supported by a feeling for the direction of the goals and especially by a community of like-minded nations. . . . The guarantee of a feeling of security today requires the creation of a complex matrix of values, economic stability, and military defense."

Conference participants noted that Kornblum did not say that America had "*won* the Cold War," but rather that the Cold War had ended. The difference between the two diplomatic formulas is that, if America had "won the Cold War," then all of world politics is determined by America as the sole remaining superpower, which decides to brand non-conforming nations as "rogue nations," against which the superpower can do what it wants, without having to fear effective opposition from any other power. If America had "won the Cold War," it would not need public support for its policies, nor would it need other nations as partners. Germans and all Europeans are familiar with that formula from the days of George Bush's sermons on "the new world order."

Kornblum also said that one of the issues of security was how to deal with heads of state such as Iraqi President Saddam Hussein or Serbian dictator Slobodan Milosevic, "who simply do not hold to the rules of international humanitarian law," but he did not once use the term "rogue nation." When he spoke of "expansion," Kornblum said he supported the "expansion strategy of NATO and the European Union," and then departed from his text to cite President Clinton. "European integration is not, as President Clinton understands it, the equivalent of the expansion of NATO," he said.

Reading between the lines of diplomatic jargon, Kornblum in effect encouraged the Germans present to wage the debate on the "New NATO" much more sharply. "Too much dependence" of Germany on the United States, he said, "does not make for good feelings." A real German-American partnership will require that the sense, very prevalent in Germany, that Germany often huddles close by American apron strings, has to be overcome. A "security community" cannot take shape if Germany takes no responsibility for deciding what is right and what is wrong with the policies the partnership is supposed to implement.

Kornblum spoke of the "partnership" between the United States and Germany, but not about NATO in this connection.

Schulte presented a second keynote address, which answered the American Ambassador, without hanging onto his apron strings. To the contrary. Following a spirited account of the dramatic history of NATO, Schulte worked a number of remarks into her own keynote, which stung the ears of many.

First of all, Poland, the Czech Republic, and Hungary will soon be full members of NATO. Schulte emphasized that this is only possible "in a cooperative climate with Russia." That "cooperative climate" is contrary to expanding NATO in order to counter a presumed imperial Russian thrust, but Schulte apparently thought such an explicit remark was superfluous.

That "cooperative climate" would, of course, be little more than a diplomatic formula or wishful thinking, were it not for concrete steps, such as helping to reconstruct the economic basis for Russian political and social stability.

Schulte salted the diplomacy with the following remark: Without any conditional "if . . . then," she said, "The alliance stands for common security and common values. The notion of 'defense' of *interests* is, therefore, not entirely unproblematic, because it opens the character of the alliance, in terms of its aims and also its regional extension, into indeterminate dimensions." "Out of area" military operations, either with NATO components or with the utilization of NATO European-based logistics and infrastructure, would then implicitly obtain no consensus-agreement with Germany, if NATO is merely the institutional cover for the pursuit of arbitrarily defined "interests."

That "indeterminate dimension" explicitly concerns the so-called "out of area deployments. Schulte obliquely remarked that Germany has no conceivable military missions in Asia or Africa: "These areas need economic development," she said.

German NATO officers commented privately that there are also "interests" being pursued without a policy ever being formulated, and so, no one is ever asked to agree on the legitimacy of the interests or the non-existent policy. U.S. policy in Iraq has been to "bomb now, think later," or even "keep bombing to avoid having to think." The Germans or other U.S. allies have no choice but to conclude that the United States is "defending its own interests," whatever they might be, and not any common aims or values. Or, as Schulte, departing from her written text, said, "Whether to bomb or not to bomb in Iraq cannot, for Pete's sake, be reduced to an issue of the *date* on which to bomb." Furthermore, she stated, whatever movement there has been toward solving the crisis in Kosova has depended "quite decisively on the constructive cooperation of Russia."

Kornblum answered these and other remarks from the floor. The U.S.-British attacks on Iraq were correct, he said, but the decision to proceed was made out of impatience. "Our leadership said it would do no good to consult [with NATO allies], and that bothers me." But, said Kornblum, apparently shifting his attention from Iraq to the Balkans, "the Europeans" have a habit of continuing to want "political solutions" under conditions when politics is impossible, and the United States feels it has to act. "The Europeans" think they have "diplomatic wisdom," and that their job is to restrain the United States "from military adventures." "Not only is it not true; it doesn't work!" said Kornblum.

In fact, before, during, and following the Dayton peace accord on Bosnia, President Clinton's hands were tied by British and French obstruction and sabotage, so, implicitly, the blunders of U.S. policy cannot be taken as establishing the "wisdom" of European so-called diplomacy.

The new evolution of the Atlantic Alliance is causing shifts in the meaning of many old and familiar terms. "NATO" has forces in the Balkans, ostensibly for peacekeeping purposes, along with the United Nations, but "NATO" is also "the Europeans" to which Kornblum referred, and "the Germans" have to decide whether they are "the Europeans," referred to at this conference as a "chicken coop full of cackling hens," or whether they have a policy, which they can articulate and responsibly carry out.

More NATO expansion?

Prof. Igor Maximychev led off the discussion on the expansion of NATO. He was answered first by Gen. Wolfgang Altenburg (ret.), former Inspector General of the German Bundeswehr and Chairman of the NATO Military Committee. Prof. Zenonas Namavicius, Ambassador to Germany from the Republic of Lithuania, and Ewald von Kleist, formerly the organizer and master of ceremonies of the annual Wehrkunde Conference in Munich, were also on this panel.

The issue of NATO's eastern expansion will not be over and done with when Poland, the Czech Republic, and Hungary have full-member status. Other countries of the former "East bloc" have also applied for membership, and the question is, indeed, "Where does NATO stop, and what is it for?"

Professor Maximychev painted a drastic picture. NATO and the United States see themselves as victors of the Cold War, he said, and where there are victors, there are losers. The former U.S.S.R. and Russia are seen as identical, so Russia is the loser of the Cold War. The reality behind this view of the world, Maximychev claimed, is that the United States and NATO want to enforce their will as law, a "*Pax Americana*." He raised the question of whether Europe were not returning to conditions such as those prior to 1914. There are no set limits to NATO's expansion, which is sold as protection against Russian imperialism. Russia is not anti-Western, he said, but Russia refuses to be treated as a defeated country.

Professor Maximychev then shifted his focus to future tasks, as he sees the Russian view of these tasks. Russia, he said, will soon overcome its economic problems, and this will be done pragmatically along the lines outlined by the

Primakov government. “With a minimum of support, Russia will stabilize by the year 2002,” he stated optimistically, “and then there will be neither an explosion, nor an implosion in Russia which could represent any danger to Europe.”

Maximychev said that, in his view, “the West” is not at all enthusiastic over the prospects for stabilization in Russia, but Russian policy is aimed at a “common house of Europe.” He praised German Chancellor Gerhard Schröder, and said that there was no fissure in Russian-German policy with the transition from the Kohl government. “Russian policy aims at the development of all of Europe,” he said.

General Altenburg responded that “we want our economic cooperation to be the foundation of partnership.” He had been initially critical of NATO’s taking in new members, Altenburg said, but NATO could not deny the sovereign wishes of independent nations. He would, however, think long and hard, he said, about taking in additional members, and particularly ones from the CIS states.

Europe without Russia, he said, is inconceivable. Altenburg picked up a remark which Maximychev had made, but which is highly ambiguous in German: *“Rußland hat nichts in Europa verloren,”* by which he meant that Russia was not a “loser” in Europe. To say that “Russia has lost nothing in Europe” means, in German, that Russia wants nothing to do with Europe. Altenburg humorously noted that Professor Maximychev did not mean it that way.

Economic chaos or survival became the paramount issue of discussion again. As Ambassador Namavicius said, Lithuania has also applied for membership in NATO, and hopes for a positive answer. There are two primary issues involved: The first is simply a matter of principle, that a sovereign and independent country has the right to its own foreign and security policy; the second is that Lithuania does fear that, with the economic chaos in Russia, Russian military garrisons in the vicinity of Lithuania might one day decide to cross the border in search of bread to eat, “and who can assure us that it won’t happen?” Professor Namavicius asked.

No one, of course, can give such an assurance. Professor Maximychev conceded that point. But it is questionable whether Lithuania, as a NATO member-state, would have such an assurance.

Lithuania’s predicament highlights the conditions under which former “East bloc” countries made application for membership in NATO: Once freed of the Soviet Union, they wanted to belong to the “winning” side of the Cold War, and they wanted a military alliance with the winners, because they expected it would accelerate their integration into a supposedly prosperous Western economic system. Under current conditions, little more remains of the wishes of these sovereign states than the matter of principle, that, as sovereign states, they ought to have the right to join whatever alliance they wish, and there is only one alliance left, i.e., NATO.

Perhaps Ewald von Kleist’s contribution to this debate was most thoughtful, because he did not analyze or discuss “others,” but the tasks of German policy and what understanding is required of German policy. Von Kleist was introduced as a “critic” of NATO’s eastward expansion, so some of his radical formulations were expected.

NATO, he said, has been the most successful alliance of all time, because it had ended a war, but not as its victor. Bolshevism collapsed in that war, not Russia. But Germany deceived itself: The confrontation was over, so now the agenda would move onward to cooperation, “or so we said,” von Kleist remarked, since everyone knows how thin the cooperation has been. “We have to continue the cooperation and not let ourselves slide into a contrary role,” he said.

Even Russia, said von Kleist, accepts the rights of sovereign states to conclude alliances as they wish, “unless reality creates problems.” Russia will not be a threat, he said, “but if a red line is crossed, they will rethink their position. For us, a tilt even slightly in the direction of a new Cold War is highly precarious.”

General Altenburg and von Kleist may be said to represent the older generation of the German military-political establishment. The Tutzing conference indicates that no consensus on a “globalized NATO,” or a “rogue-state bounty-hunter” NATO is to be had with Germany, either with the old guard, or with the Atlantic Alliance-oriented Social Democrats.

Prime Minister Zhu Rongji turns power of wit against China-bashers

by Mary Burdman

Chinese Prime Minister Zhu Rongji

Chinese Prime Minister Zhu Rongji demonstrated, in his press conference in Beijing on March 15, just what can be done, to effectively counter the flight-forward of the current world's biggest power—*not* the United States per se, but the lunatic faction of Wall Street and the City of London, and their power-mad Presidential candidate, Vice President Al Gore. Using truth, history, humility, and, especially, the great power of wit, Zhu Rongji punctured the hysteria and lies which are being used, especially in the United States, to attempt to force the United States and China, two nations whose every vital interest lies in strategic cooperation, toward a dangerous confrontation.

Zhu Rongji spoke with the authority of the Prime Minister of the world's most populous nation, a nation with more than 5,000 years of history. He also used gems of Western culture, such as Shakespeare's *Merchant of Venice,* to encourage his listeners to reflect on just where the world's critical problems lie.

Any honest American who learns what Zhu Rongji has to say, would have to first laugh, and then toss his television, newspaper, and, in far too many cases, Congressman, out of the window as liars.

Zhu Rongji gave this press conference for Chinese and foreign journalists at the close of the Second Plenary Session of the Ninth National People's Congress in Beijing. It was broadcast live in China.

Visit to Washington

Asked whether he might "walk into another minefield" by visiting the United States in April, Zhu Rongji said: "Since the exchange of visits between the state heads of China and the United States, the two countries have started to work on building a constructive strategic partnership. The momentum of the growth of the Sino-U.S. relationship has been quite good. However . . . there has emerged an anti-China trend in the United States. . . . I do not think that by paying a visit to the United States I will step into a minefield. But I do expect to encounter some hostile or unfriendly reactions."

Zhu cited the article entitled "China, What's Going Wrong?" in the Feb. 22 issue of *Business Week,* predicting all sorts of dire calamities for China. "I think the emergence of such an article reflects the emerging anti-China trend, and that the Sino-U.S. relationship has been victimized by partisan politics in the United States," Zhu said. "I am also a victim, for on the cover of that magazine I was portrayed like a dead person," he joked. Many media are predicting that his visit will not succeed, but, Zhu generously offered, "I will go anyway to lend them a chance to vent their anger or complaints."

Seriously, however, he said, "By going to the United States I will try to clarify the truth and also to resume the momentum of developing a constructive strategic partnership between China and the United States."

Zhu Rongji debunked the allegations that China had stolen "U.S. military secrets." Credulous Americans believing these allegations have made two mistakes, he said. First, "they have underestimated the ability of the United States to guard its secrets. To my knowledge, the Los Alamos laboratory has very tight security measures. As each of those working there knows about only a part of a project, it is impossible for them to leak any secrets." No one has any evidence to prosecute accused Chinese-American Dr. Wen Ho Lee, Zhu said; they only have the ability to throw him out of his job.

Then Zhu hit home: "We shall never forget history," he said. "Historically, both China and the United States have experienced such periods when hysteria becomes the norm. A typical example in China is the 'cultural revolution.' "

Zhu also made it clear that China's military capabilities are commensurate with its status as a developing sector nation, which has consistently maintained, throughout its millennial history, a defensive, rather than an offensive, military strategy. Those accusing China, he said, "have underestimated China's military research development capabilities. The Chinese are intelligent and diligent. . . . China independently developed its atomic and hydrogen bombs and man-made satellites. China is fully capable of developing any military technology. It is only a matter of time.

"But please keep in mind that China is the first country to declare that it will not be the first to use nuclear weapons. Why should China take the political and moral risk of stealing others' military technology or secrets? The alleged Chinese theft of U.S. military technology is only a fiction."

The bankers' 'pound of flesh'

On the case of the Guangdong International Trade and Investment Corp. (GITIC), a government investment company which was allowed to go bankrupt in October 1998, Zhu said: "This incident is of great significance, for it has sent a message to the entire world, which is that the Chinese government will not repay debts for financial institutions if the debts are not guaranteed by the governments at various levels in China." Foreign banks and financial institutions should "act prudently" and assess their lending, Zhu warned. The reaction of some foreign banks and financial institutions, trying to claim that China is undergoing a financial crisis, "is going too far," Zhu said. The question is not *if* China can repay the debts of institutions like GITIC—which it can—it is "*whether* these debts should be repaid by the government," Zhu said. "The answer is, of course, they should not."

Although GITIC's bankruptcy is lawful, "one should not assume that one can benefit from the bankruptcy," Zhu warned. "When I was in middle school, I read the *Merchant of Venice* by Shakespeare, translated into Chinese as *One Pound of Flesh*. According to that script, the merchant, Shylock, lent 3,000 ducats to Antonio. According to the contract they signed, if Antonio failed to repay the money in three months, Shylock would have the right to cut one pound of flesh from any part of Antonio.

"Of course, nowadays if one fails to repay debts, he will not face the risk of sacrificing one pound of flesh. But even so, creditor banks will not let you go so easily. . . . The creditor banks should not press too hard for debt repayment beforehand or in advance. . . . If you press too hard, they would have no choice but to apply for bankruptcy."

'How can you know?'

Zhu Rongji directly challenged the incompetent, insane policy being pushed by U.S. Secretary of Defense William Cohen and the rest of the "new Cold War" crowd in the Principals Committee led by Gore, to develop (or, to try to develop) a Theater Missile Defense (TMD) system for Asia, which might be extended to Taiwan. Stating his firm opposition to the TMD, and especially to including Taiwan in this system, Zhu mocked the alleged basis for this flight-forward operation. "The reason given for the development of TMD is the allegation that China has deployed 600 missiles along the Taiwan Strait and that in the past only several dozen were deployed there. But I did not know that. How could you know that 600 missiles have been deployed? I did not know that."

The deployment of any missiles is a sovereign issue for China, Zhu stated. Unlikely as it is that China would ever use them, especially against Taiwan, "We could not but deploy the missiles," he said. "We cannot declare that we renounce the use of force in this regard, because otherwise Taiwan would be in a state of perpetual separation from the motherland." As to the line that China "has not exerted its influence" to contain North Korea, Zhu asked: "How could you know that; why do I not know that? How can we exert influence or how can we interfere in the D.P.R.K., which is an independent country?

"I think there is an overestimation of the so-called threat. As all those advanced weapons originate in the United States, then what is the need for the United States to be afraid of that, anything?"

Russian-Chinese friendship

While describing the "very significant achievement, mainly in the field of economic cooperation and trade," of his recent visit to Russia, and the growing warmth of Chinese-Russian ties, Zhu said he thinks that his reception in the United States would also be warm.

"I can reveal a secret to you," Zhu said. "I received a very warm welcome in Russia." President Boris Yeltsin embraced him, and told Zhu "that just as President Jiang Zemin is his best friend, I am also his best friend," Zhu said. "As one belonging to a people known for its courtesy, I also embraced him," Zhu said. "I view this as an indication of true friendship. I believe that upon my visit to the United States I will receive the same warm reception. I do not think I will step into a minefield. Maybe President Bill Clinton and I will not necessarily hug each other, but we can shake each other's hands very firmly, which might be no less than a strong indication of true friendship."

Zhu was cautious about the speculation that there may be some "breakthrough" on China entering the World Trade Organization (WTO). Zhu noted the absurd length of this process. "Thirteen years have passed since China started its negotiations, first for resuming contracting-party status in GATT [General Agreements on Tariffs and Trade] and then for applying for WTO membership. The black hair has turned grey. So now it is time to conclude such negotiations," he said. But for any who might hope that China could be forced into the disastrous concessions being demanded by Western free-marketeers, Zhu stated: "The gap between the positions of China and its partners is narrowing. But there remains a considerable gap."

Financial policy

Much more important than speculation on China joining the WTO, is what Zhu stated about the Chinese, and the world financial situation. Already in 1993, he said, "China set up its policy of macro regulation and control." While China had been successfully carrying out its policy of "opening up to the outside world," the speculative bubble economy had also penetrated China. Speculation in real estate and the stock markets pushed China's inflation rate to over 20%. Under the leadership of Deng Xiaoping, the Chinese government took rapid steps to bring the situation, especially of the banking and financial sectors, under control. Within two years, the country was able to resume real economic growth, Zhu said.

"The reason why China had managed to avoid the impact of the Asian financial crisis last year was that it already experienced such a kind of financial crisis in 1993. Fortunately, we managed to check such financial crisis before it spread. It was precisely because of the accumulated experience of macro regulation and control, that we were able to stand rock-solid last year amid the Asian financial crisis," Zhu said.

Zhu referred his audience to a Feb. 16 article in the *New York Times,* which had reported that the United States has played a role in flooding Asia with the speculative capital which led to the outbreak of the financial crisis in 1997. Then, the International Monetary Fund and other institutions stepped in with their "bailout" programs, demanding austerity, higher interest rates, and other policies "which were not appropriate to their national conditions," and worsened the crisis, Zhu said.

"I expressed the very same view last year during discussions with many foreign visitors, including [Federal Reserve chairman] Mr. Alan Greenspan, [U.S. Treasury Secretary] Mr. Robert Rubin, and [Deputy Treasury Secretary] Mr. Lawrence Summers, who were on the cover of the Feb. 15 issue of *Time* magazine. . . . I discussed this question with all these three gentlemen, and I believed they agreed with me on that," Zhu said. However, Zhu drily noted, he does not intend to ask the *New York Times* authors for shared royalties, since he did not patent his viewpoint.

"Economic development and financial liberalization must be accompanied by proper macro regulation and control," he stressed. "Different strategies of macro regulation and control should be adopted according to the specific conditions of different countries."

Finally, Zhu patiently took up the question of "human rights," the obsession of so many Western visitors. One especially obsessive Westerner is U.S. Secretary of State Madeleine Albright, who sang and danced her way to the defense of mega-speculator George Soros, who has done so much to wreck the economies of so many Asian nations and the lives of so many of their people.

Albright had nothing to dance about during her visit to Beijing at the beginning of March. At his meeting with Albright, Zhu said, "I told her that I started my struggle for the protection and preservation of human rights much earlier than she did. She asked, 'Really?' That shows she did not quite agree with me. I replied, 'Isn't that the case?' I said I was 10 years older than she is: When I took part in the movement for democracy, freedom, and human rights against the Kuomintang government at the cost of my life, she was still in middle school."

Iran's President Khatami pursues 'dialogue of civilizations'

by Muriel Mirak-Weissbach

The visit of Iranian President Seyyed Mohammad Khatami to Italy on March 8-11, marked a turning point in relations between the Islamic Republic and Europe. Coming as it did at a time when tensions in the Persian Gulf and Middle East were being exacerbated by the British-American-Commonwealth faction, the visit also constituted a powerful counterweight, a peace offensive. Although occurring in Europe, the event also sent an unmistakable message to President Clinton: that if Washington desires normalized relations with Iran, it can develop the means to do so, and benefit thereby; if not, then the United States risks becoming the isolated party, cut off from the development dynamic which Iran is engaged in, within the broader Central Asian and Eurasian context.

President Khatami, accompanied by a large delegation including Foreign Minister Dr. Kamal Kharazzi, spent three days in Rome, meeting with the government, as well as leaders of industry and banking. He concluded his visit with a private meeting with Pope John Paul II, and talks with Vatican Secretary of State Cardinal Angelo Sodano. Khatami made a brief visit as well to Florence, where he addressed students at the European University.

Contributions to progress

This was the first official visit of an Iranian President to any European country since the Islamic revolution of 1979. Although visits are also scheduled for France, Germany, and Spain, it was Italy which the Iranian government chose as the first venue. When asked about this, President Khatami told *La Repubblica:* "Some European countries have greater importance, among them especially Italy. The Renaissance, the movement that began contemporary civilization, had its cradle in Italy." He continued, "Iran, too, should be numbered among those countries which in the history of humanity have contributed significantly to the progress of civilization. The relationship between the Iran and Italy of today, is an easier relationship: It is the relationship between two consolidated civilizations." Further on, he said, "The important thing is reciprocal respect, and on this point I see a complete agreement between Italy and Iran: The relationship between Rome and Tehran can become a strategic relationship, for the long term." And, he pointed to the fact that Italy, "fortunately, has not had in our country or in the Middle East, a colonial presence."

Commenting on the ways to further improve Iran's relations with its neighbors, Khatami pointed to the country's "privileged" geographical position. Given its position on the Persian Gulf, the Strait of Hormuz, its extraordinarily long coastline, and so forth, Iran "has a strategic position which allows it to mediate between the West and many developing countries," he said. He suggested that Italy should function as the "bridge between Islam and Christianity."

Italy, in fact, has historically occupied a privileged position in the region. In the modern period, it was under the political leadership of humanist and industrialist Enrico Mattei, that Italy pioneered relations with oil-producing countries in the Persian Gulf and northern Africa, defining such relations in a manner diametrically opposed to the looting approach championed by the big oil cartels, later known as the Seven Sisters. As Mattei's interest was to develop the raw materials resources of these countries, as an impetus to their industrialization, his conviction was that the producer countries must receive a fair share of the revenues, to be able to reinvest them in development. Thus, Mattei undercut the Seven Sisters, offering Iran and other countries 50% of the revenues. Mattei, a fervent Catholic, paid for his economic cooperation policy with his life, when he was killed in an airplane crash, suspected to be the result of sabotage, in 1962. Despite the tragic end of Mattei's life, his legacy has not died, and its spirit lives on, albeit weakened, in Italian industrial and economic institutions, including the national energy company ENI (Ente Nazionale Idrocarburi), which he created.

It is largely due to the revived Mattei impulse, that Italy took the initiative in Europe to reestablish full diplomatic relations with Iran, following the crises which ensued in the wake of the Salmon Rushdie affair and the Mykonos trial—a trial in Berlin, which charged high-level Iranian authorities with responsibility for the murder of four Iranians in 1992. Contacts developed between the two governments, with delegations exchanging visits throughout 1997-98, leading up to the visit to Rome of Speaker of the Parliament Nateq Nouri, and former President Hashemi Rafsanjani, in his capacity as head of the Expediency Committee. For its part, Rome sent Foreign Minister Lamberto Dini and Prime Minister Romano Prodi to Iran, during 1998.

Thus, when Khatami praised Italy for its honest efforts toward normalization, and for "reciprocal respect," this was not rhetoric.

The central square of Isfahan, Iran, the capital of the Safavid dynasty, which unified Persia as an Islamic nation in the 16th century. Although both Italy and Iran have imperial traditions in their past, it is the great humanist renaissance traditions which the two countries have highlighted, in establishing sister city relations between Isfahan and Florence.

Improved economic ties

On the economic level, the visit consolidated a process of Mattei-esque diplomacy, which included the institution of an Iran-Italy Joint Economic Commission, which held its third meeting last summer. The idea discussed during Khatami's visit, is that Iran could serve as a bridge to link Italy with Central Asia and Caucasus, while Italy would pave the way for consolidation of Iran's ties to the European Union. The volume of Iran-Italy trade was $13 billion during 1992-96, and reached $2.6 billion last year. In the course of consultations over the last year, it was agreed to reschedule Iran's debts to Italy, signed between the State Insurance Agency and the Central Bank of Iran. This involves 90% of Iran's debts, and was considered important in light of Iran's economic problems, due to the collapsing oil price.

Just one week prior to Khatami's landing in Rome, the Italian energy group ENI and the French Elf Aquitaine signed a $1 billion deal with the National Iranian Oil Co., for development of the offshore Dorood oil field in Iran. ENI is the largest Italian company to participate in Iran's tenders, with a massive amount of investment.

During the visit, further agreements were made, in a series of memorandums of understanding: on overall economic, political, and cultural cooperation, signed by President Khatami and President Luigi Scalfaro; on scientific and technological cooperation, signed by Foreign Ministers Lamberto Dini and Dr. Kharazzi; on the joint fight against narcotics trafficking; and on joint investments, signed by the respective heads of the Joint Economic Commission: Iranian Minister of Mines and Metals Eshaq Jahangiri and Italian Foreign Trade Minister Piro Fassino. In a large meeting with the *crème de la crème* of Italian industry and banking, the Iranian delegation signed further specific contracts, among them one on "promotion and protection" of Italian investments in Iran. This agreement ensures firms the right to repatriate profits, and even initial capital, as well as providing guarantees against future nationalizations of industries set up in Iran. As Khatami said, Iran is particularly eager to profit from Italy's rich experience in the small and medium-size industry sector.

The net effect of the economic agreements signed, is also political. Without any specific references having to be made in the texts of the deals inked in Rome, the fact is, they constitute a death certificate for the infamous sanctions policy, associated with the name of former U.S. Sen. Alfonse D'Amato (R-N.Y.). Although the legislation is still on the books in Washington, it is a fact celebrated in the Rome events, that Iran does indeed have trade partners in Europe who are willing to sign contracts worth tens of millions of dollars, simply ignoring the existence of the sanctions regime. If sanctions against firms investing in Iran are not imposed—and they will not be—then they do not in effect exist.

Iranian Foreign Minister Kharazzi was explicit, when asked by *La Stampa* about the repercussions of the visit on relations with the United States. Kharazzi answered, "The visit will send a strong signal to Washington: Numerous European countries are eager to revive their relations with Iran. Now it is up to the United States to adapt to this, or not." He concluded, "If Washington makes a correction, it can improve relations, including trade relations, with us." As Dini had noted to the press, the U.S. government was watching the visit "with great interest."

The meeting with the Pope

The high point of President Khatami's visit to Italy was, without a doubt, his meeting with Pope John Paul II in the Vatican library, on March 11. It was, as Vatican spokesman Joaquin Navarro Valls said, "the first time that a President of the Islamic Republic of Iran" met John Paul II. It was a meeting of historic dimensions, considering that Khatami is a descendant of the Prophet Mohammad, and the Pope is the successor to the founder of the church, St. Peter. Furthermore, Khatami is also rotating chairman of the Organization of Islamic Conference (OIC), which includes 55 nations. His meeting with the Pope was therefore of even broader significance.

But the encounter assumes a significance which is deeper than institutional affiliations. The meeting showed that, when dialogue is defined on the highest conceptual level, and amid an awareness of the historical dimension, then minds representing different personal, cultural, and religious experiences, can meet in fruitful exchange.

It was President Khatami who first launched the proposal for a "dialogue of civilizations," when he was elected President by an overwhelming margin in May 1997. Explicitly juxtaposed to the "clash of civilizations" thesis championed by Harvard geopolitical strategist Samuel Huntington, Khatami's approach aims at finding common principles among different civilizations, by reference to the greatest achievements they have made in history, and building upon that heritage. The proposal made by Khatami during his address to the UN General Assembly in September 1998, for the first year of the millennium to be dedicated to this great theme, has been endorsed by the UN.

Thus, when asked why Italy was the first of the European countries he had visited, Khatami had answered with reference to the Renaissance tradition. Although both Italy and Iran have imperial traditions in their past, which he also noted, it is not these, but rather the great humanist renaissance traditions which the two countries have highlighted, in establishing sister-city relations between Isfahan and Florence. Isfahan was the magnificent capital of the Safavid dynasty, which unified Persia as an Islamic nation in the 16th century. The great art and architecture of the city, represents the high point of a tradition that spread throughout Central Asia.

Little detail is known about the meeting between Pope John Paul II and President Khatami, but it was reported that they covered relations between Christians and Muslims, and the situation in the Middle East and Jerusalem. The talks were "cordial, in the spirit of dialogue between Muslims and Christians," said Vatican spokesman Navarro Valls. He added, that there were cordial gestures as well, including improvised ones. This may refer to the report that one of the Muslim clerics in Khatami's delegation embraced the Pope at the end of the meeting.

At the close of their discussion, Khatami said to the Pope, "I ask you to pray for me, too. I pray to Almighty God that He give you success and good health. At the end of my trip to Italy, and after this meeting with you, I am returning to my country full of hope for the future. May God protect you!"

Khatami was presented with a gold key to the city of Rome, by the mayor. He was given a Pontifical seal and a bas relief of Saints Peter and Paul, by the Pope. In return, he presented an arras (a hand-woven tapestry) showing a scene of St. Mark's in Venice, an old manuscript of the poems of Hafiz, and six videos of a series presented on Iranian TV, about Christians who had fled Roman persecution, to find refuge in Persia. The purpose of the arras, was to show the historical interest in Persia in the country and culture of Italy, while the poetry by the 14th-century poet Hafiz was an example of the great tradition of Persian poetry which has had a profound impact on European letters.

In their talk about relations between Muslims and Christians, the Pope and Khatami explored ways through which they can be improved, particularly in situations where one is a minority community, like Muslims in Europe, or Christians in the Middle East and Persian Gulf.

The issue of Jerusalem

One word which sums up the type of problem presented here, is Jerusalem, which was very much a topic of discussion. Considered a Holy City by all three Abrahamic religions, Jerusalem was assigned a status as an international city, a "separate entity" by the United Nations in 1947. In 1948, Israel declared West Jerusalem to be its capital, and since the occupation and annexation of East Jerusalem in the 1967 war, considered it to be its "undivided and eternal capital"—although the Palestinians desire to establish the Arab part of the city, East Jerusalem, as the capital of a future Palestinian state. Jordan's Hashemite monarchy has historically held responsibility as custodian of the Islamic holy sites there, among them the Al Aqsa mosque, which fanatical Jewish extremists have targetted for destruction, in their intention to rebuild the Temple of Solomon. The aggressive settlements policy of successive Israeli governments, most emphatically that of Prime Minister Benjamin Netanyahu, has aimed at altering the demographic identity of East Jerusalem, by moving in large numbers of Israelis, to outnumber the Arabs. Thus, the lines of conflict between the Jewish and Muslim community. But, a large part of the Arab population of Jerusalem is Christian; indeed, the Christian part of the city hosts churches from every denomination, most prominent among them the Roman Catholics, the Russian and Greek Orthodox, and the Armenian Apostolic. The continuing state of conflict, and aggressive settlements policy of Israel, has contributed to reducing the Christian community in the Holy City, a cause of great concern to the Pope. This de facto expulsion of Christians from Jerusalem, has been coupled with massive emigration of Christians from Lebanon, during and after the civil war there in the 1970s.

How to solve the question of Jerusalem, thus requires thinking at a level not currently in evidence in debates on its status in Tel Aviv. The position of the Vatican on Jerusalem, is that it cannot be the capital of any single nation, given its unique history and religious significance for the three monotheistic religions. As the Vatican's secretary for relations with states, Archbishop Jean-Louis Tauran, stated during a U.S. tour in mid-March, the principles of the Holy See, as established in the "fundamental agreement" with Israel in 1993, are "the peaceful resolution of differences, rejection of the forcible occupation by one of the parties of an area of the city of Jerusalem, and the request for an internationally guaranteed statute for the most religious parts of this unique city."

The fact that Khatami met the Pope and Secretary of State Angelo Sodano, and discussed Jerusalem, indicates a desire on the part of Iran to utilize its position as chairman of the OIC to explore avenues toward a solution to the status of the city. It comes as no surprise that, on the heels of these talks, the Israeli government, ostensibly in reaction to a diplomatic gesture by the European Union, issued its most categorical statement to date, rejecting the relevant UN resolution 181, which established the city as a *corpus separatum*.

Respect the territorial integrity of Iraq

The other burning issue related to the region which was discussed, is Iraq. The absolutely principled position of the Vatican has been voiced repeatedly by Pope John Paul II, not only in public discourses, but also in diplomatic encounters, most recently his meeting with President Clinton. Since the catastrophic descent into barbarism with Margaret Thatcher and George Bush's "splendid little war" in 1990-91, the Pope has been indefatigable in denouncing all use of force, and demanding that the genocidal sanctions against Iraq be lifted.

When queried as to Iran's position on the "conflict between Iraq and two Western nations like the U.S. and Great Britain," Khatami replied: "We had an eight-year war with Iraq, we suffered much damage from the war. Also for this reason, we have decided to solve all our problems with Iraq peacefully. We condemn politically Iraqi aggressions both against our territory and that of other states of the region; Iraq must respect the resolutions of the UN, of the Security Council." When asked what Iran could do to solve the conflict, he said, "Any solution to the problems of the Middle East must come through cooperation among countries of the region; foreign interference will do nothing but aggravate the existing crises. . . . We have condemned and we will condemn the attacks against Iraq by England and the U.S.A., we reaffirm the respect of territorial integrity of Iraq, we believe that the presence of foreign military forces in the region is a cause of instability and danger for the region." He added, "Fortunately, we note that European countries like France and Italy have ideas similar to our own. These aggressions must cease as soon as possible; the countries of our region have the power and the political will to reach a solution to the crisis without any foreign interference."

In the future, looking back on this visit, it may emerge that the meeting between Khatami and the Pope was of deepest significance. Not because any specific agreements were reached, but because an actual dialogue between the two was started. As Khatami has noted, in presenting his idea for such a dialogue of civilizations, it must be "launched among men of culture, intellectuals." And, he added, "unfortunately, it is not always the politicians who embody the men of culture, the intellectuals of a country."

'We must better understand each other'

In a meeting with Pope John Paul II, Iranian President Seyyed Mohammad Khatami praised the role of the Pope and his responsibilities in the world of Christianity. Stressing that humanity needs peace, he said that the root of all conflict is the lack of "peace based on justice" in the international arena. "If Western man has overcome fascism and the dictatorship of the proletariat, despotism and prejudice still persist in international affairs. Hence to achieve lasting peace, injustice has to be removed, and divine religions should be at the forefront of the call for administration of justice," Khatami said.

President Khatami addressed a group at the Florence European University, and expanded on his notion of a dialogue of civilizations. "Meeting a group of academics is always a pleasing experience for me. For it is in their presence that matters revolve around speaking, listening, and understanding." In Oriental studies, he said, "it is the Orient which is the subject of study, not a party to dialogue. In order to attain a real dialogue among civilizations, the East should be transformed from the object of understanding to a general party to dialogue." This, he said, is not a one-sided matter. "As Iranians, Muslims, and Asians, we, too, are obliged to take long strides in the direction of understanding the realities of the West. Such understanding will help us improve and bring order to our economic and social way of life. Taking such strides, whether on our part or on the part of Europe, requires certain moral and mental dispositions, which were first recognized and promoted in Europe by Italians.

"However, to delve into past history without looking at the future can only be an academic diversion. To help human societies and improve the condition of the world, it is necessary to consider the present state of relations between Asian, in particular Muslim, countries, and Europe.

"Why do we say, in particular, Muslim? Because Islam is Europe's next door neighbor; unlike individuals, nations are not free to choose or change neighbors. Therefore, apart from moral, cultural, and human reasons, out of historical and geographical necessity, Islam and Europe have no choice but to gain a better and more accurate understanding of each other, and thus proceed to improve their political, economic, and cultural relations. Our future cannot be separated from each other, because it is impossible to separate our past."—*Muriel Mirak-Weissbach*

FARC alliance with Venezuela's Chávez ignites Andean region

by Valerie Rush and Dennis Small

In less than two months in office, Venezuelan President Hugo Chávez has:

1. decreed an illegal referendum to ram through a proposal for a Constituent Assembly, designed to throw out the country's existing national constitution, shut down the Congress and other national institutions, and lay the basis for Jacobin mob rule in Venezuela;

2. threatened to personally lead street demonstrations against the Venezuelan Supreme Court, should they rule against his referendum proposal;

3. announced that the Venezuelan Army must be "politicized," effectively transforming it from guardian of the state into his own political party (Chávez is a former Army lieutenant colonel, forced to resign after attempting a coup d'état in 1992);

4. encouraged Brazil-style land seizures, by announcing that people have the right to steal if they are hungry, and that the military and national guard will *not* be used, as they have been historically, to stop such actions (an epidemic of land and building seizures, both rural and urban, has followed his statement);

5. pledged full allegiance to International Monetary Fund dictates, including making full debt repayment and budget austerity a priority.

But most dangerous of all has been Chávez's public encouragement and support for the FARC and ELN narco-terrorists in neighboring Colombia, establishing a de facto alliance with them which threatens to ignite Africa-style warfare throughout the entire Andes region, and the South American continent beyond. In light of the current economic and social volatility of the area, reflected most immediately in Ecuador, Chávez's de facto alliance with Colombia's narco-terrorist armies could turn the area into a global hot spot overnight, as in the Middle East or the Balkans.

Pro-terrorist 'neutrality'

On Feb. 22, Chávez declared at a Caracas press conference that he would grant asylum in Venezuela to any Colombian soldier or guerrilla, "equally, because they are combatants in an internal conflict in which we are neutral." When challenged by reporters as to whether the Venezuelan head of state had not, in effect, just granted "belligerent" (co-equal) status to the narco-terrorists, Foreign Minister José Vicente Rangel rushed to deny it, insisting that President Chávez was speaking "colloquially, not juridically."

Chávez, however, never retracted his comment. In fact, he poured oil on the fire, by declaring on March 10 that "belligerent" status had *already* been granted by the Colombia government of President Andrés Pastrana itself, when it agreed to demilitarize 50,000 square kilometers in southern Colombia as an incentive for peace talks with the FARC. Chávez added that, in the demilitarized zone, "the guerrilla now governs, sets rules, and has its own taxes."

The FARC and ELN responded to this de facto diplomatic recognition with delight. In an extensive document put out on the Internet, FARC scribbler Héctor Mondragón wrote that, with Chávez's electoral victory in Venezuela, "the political perspective in this region of Latin America has become extremely interesting." Mondragón said that the FARC extends its congratulations to Chávez on his election victory, and described the new Venezuelan head of state as "one of the best sons of the fatherland of the Liberator Simón Bolívar."

The ELN also publicly expressed its gratitude to Chávez for what they called his public recognition of their status.

Colombians across the political spectrum were outraged at Chávez's provocative intervention into their country's internal affairs, and Colombian President Pastrana abruptly cancelled a border summit that the two heads of state were scheduled to hold that same day.

Former Colombian President Alfonso López Michelsen explained what was at stake, when he described Chávez's granting of belligerency status to the FARC as "recognition that there are two governments in Colombia: one is Pastrana's, and one is [FARC leader] Tirofijo's. Then the arms trade becomes legitimate with both, because as President Chávez says, he would be observing neutrality. Chávez could send his ambassador to Tirofijo and treat him as a representative of another government."

Despite the furor his statements triggered, Chávez not only did not back down, but he escalated his offensive, announcing that he might have to reconsider his "collaboration" with the Colombian peace process, while Foreign Minister Rangel warned the Colombian government against trying Chávez's patience.

London's scenario

This has all brought Colombia and Venezuela to their worst bilateral relations in a decade, and has created tensions throughout the region. As *EIR* has been emphasizing all along, Hugo Chávez is functioning as a pawn of the London financial elites, who are determined to ignite the region, sowing revolution, insurgency, and assassination, the better to splinter and control the disintegrating continent.

As in Africa, the sovereign nation-state and its legitimate defense forces are being replaced by private, irregular armies. Colombia is the worst case, where the battered and under-funded Armed Forces are under perpetual assault, both at home and abroad, from London-controlled non-governmental organizations (NGOs) such as Amnesty International and Human Rights Watch, while the FARC-ELN narco-terrorist armies use their profits from the drug trade to import high-tech weaponry and secure their half of the country.

London is creating irregular armies on the right as well as the left. According to an interview with the Bogotá daily *El Tiempo* on March 15, paramilitary leader Carlos Castaño announced his readiness to deploy heavily armed "self-defense forces" into Venezuela, in hot pursuit of any guerrillas that take Chávez up on his offer of refuge. "And if the [narco-terrorist] chieftains take refuge in Caracas, the self-defense forces will arrive in Caracas. . . . The [Colombian] Army cannot enter there, but we have a natural, moral obligation to pursue those bandits there. We don't want a border problem, but President Chávez needs to take a more sensible attitude. . . . He cannot convert his country into a refuge for guerrillas."

Foggy Bottom, foggy mind

One would think that in the face of this narco-terrorist threat so close to the United States, the U.S. State Department would do everything in its power to strengthen the Colombian military, isolate the FARC, and box Chávez's ears—hard—to bring this scenario to a halt, while encouraging an economic policy that would develop and stabilize the area.

Not at all. The U.S. State Department has instead fully committed itself to Colombian President Pastrana's lunatic "negotiation" strategy with the narco-terrorists, to the extent of holding two separate face-to-face meetings last December with FARC representatives, in Costa Rica.

Then, two weeks after Chávez's statement of "neutrality" toward Colombia's narco-terrorists, a FARC commando squad along the Colombian-Venezuelan border kidnapped, tortured, and murdered three Americans who were working with an isolated Indian tribe in Colombia. The bullet-riddled bodies of the two women and one man were dumped on the Venezuelan side of the border.

Although FARC spokesman Raúl Reyes at first denied his organization's responsibility for the crime, Colombian military intelligence turned up irrefutable evidence from a radio phone intercept of a FARC chieftain's conversation, in which he gives the orders for the kidnapping and assassinations. The FARC finally admitted responsibility, but blamed it on a low-level local leader, "Commander Gildardo," who had allegedly acted "without consulting higher leadership bodies," and had violated FARC policy. "It is not FARC policy to disappear Colombians or people of other nationalities," stated a ludicrous FARC communiqué. Adding insult to injury, the FARC leadership then refused to turn "Gildardo" over to the Colombian authorities, promising to discipline him themselves.

The FARC's only problem is that "Gildardo" was probably invented! A March 7 intercept of a FARC transmission by military intelligence caught the voice of FARC military commander "Mono Jojoy," demanding that his brother, "Commander Grannobles," come up with a scapegoat for the assassinations. Says the intercept: "This is the biggest f—king political disaster. . . . Give me any name. . . . This is urgent, because I need to put out a communiqué."

Did this outrage cut through the foggy minds at Foggy Bottom? Hardly. At a March 8 press conference to decry assassinations, State Department spokesman James Rubin insisted that U.S. support for the Colombian "peace process" would continue.

Not everyone in the area is so deluded about the pursuit of an illusory "peace" with these bloody assassins and drug traffickers. Peruvian President Alberto Fujimori made waves back in early February, when he told a Washington conference of the Inter-American Defense College that negotiations with the FARC will turn Pastrana into a "half-President." He said that he had never agreed to dialogue with Peru's narco-terrorists who were committed to destroying the Peruvian state, because "had I done so, I would have been a half a President, negotiating with the country's other half-President," the terrorists' leader. Fujimori received a standing ovation from the military representatives present from around the continent.

Since then, Fujimori has mobilized thousands of Peruvian troops along the border with Colombia, determined to prevent an infiltration of Peruvian territory by the increasingly powerful and newly emboldened FARC. Such statements and actions are also a clear message that direct, or "multinational" U.S. troop intervention into the region is not acceptable to Peru. There are some in Washington promoting precisely such a U.S. intervention into Colombia, usually in the form of a "multinational" or "Organization of American States" deployment, but this would only make an already disastrous situation even worse, very possibly creating the "Vietnam-like quagmire" that the FARC has threatened.

Cambodia asserts sovereignty in case against Khmer Rouge

by Gail G. Billington

No one questions that Cambodia was the victim of one of the worst genocidal regimes in this century, and one of the most horrific geopolitical "secret" wars, as well. But while these crimes are admitted, few are the voices clamoring for the truth, the whole truth, when faced with the mounting pressure to convene a tribunal for Khmer Rouge leaders. With the arrest on March 6 of former Khmer Rouge Defense Minister Ta Mok, a.k.a. "The Butcher," it is also generally accepted that the last of the Khmer Rouge armed resistance has disintegrated. Ta Mok is the only Khmer Rouge leader currently in custody, but for other leaders who have surrendered to the Phnom Penh government, such as senior leaders Khieu Samphan and Nuon Chea, there is no grant of amnesty to protect them from prosecution.

Cambodia continues to be held hostage to its nearly 30-year civil war, a war that was always a surrogate war for greater powers, especially members of the Permanent Five of the UN Security Council. Thus, it is clear in the ongoing tussle over the who, where, when, and how of any legal proceeding involving the Khmer Rouge, these same international "interested parties" have no plans to relinquish their seats in any deliberations.

Now the Phnom Penh government, led by Prime Minister Samdech Hun Sen, is being blamed for upsetting the neatly packaged plan presented by three UN experts in February to convene an international tribunal outside of Cambodia, possibly in one of three Asian venues, that would try 20 to 30 senior Khmer Rouge officials for crimes committed under the government of Democratic Kampuchea from April 1975 to January 1979, when an estimated 1.7 million out of 7.5 million Cambodians died. Every Cambodian family suffered. Prime Minister Samdech Hun Sen has warned of the risk of "panicking" Khmer Rouge leaders, who might prefer restarting the war, than being put on trial—a threat that U.S. Secretary of State Madeleine Albright summarily dismissed during her stop in Bangkok, Thailand, in early March.

Left out of the UN's tribunal is the "undeclared war" of 1970-75, when the United States backed the "anti-Communist" coup of Gen. Lon Nol, followed by the B-52 carpet bombings in 1973-75, in which more bombs were dropped on Cambodia and Laos than on all of western Europe during World War II, and in which 500,000 to 1 million Cambodians were killed. Also carefully neglected is the aftermath of the Khmer Rouge era, when, from the ouster of the Khmer Rouge government in 1979 to the Paris Peace Talks of 1991, the UN Security Council continued to recognize the Khmer Rouge coalition as the legitimate government, giving it title to Cambodia's UN seat. Prime Minister Hun Sen has suggested that any inquiry should continue up through the violence and collusion of opposition politicians with the Khmer Rouge following the July 1998 general elections.

Conveniently, the UN experts figured out how to economize on the tribunal, suggesting that the same team of prosecutors who oversaw similar tribunals for Rwanda and Bosnia, could also handle a Cambodian tribunal. It is sad to think that genocide tribunals have become such a permanent fixture of the United Nations.

A counterproposal

On March 12, Cambodian Foreign Minister Hor Nam Hong met UN Secretary General Kofi Annan in New York where he explained the government's objections to the proposal, and offered a counterproposal that the trial take place in Cambodia, either in civil or military court, and with the assistance of international jurists to guarantee a judicial process according to international standards of practice. Such a court, Hor Nam Hong told the Secretary General, would have the authority to try not only Ta Mok, but "the whole Khmer Rouge organization and other Khmer Rouge leaders. I personally do not believe Ta Mok will accept full responsibility for the genocide and that he will reveal other names of people to be tried."

Any specific discussion of a tribunal only became possible because of the disintegration of the Khmer Rouge armed resistance in the past year, highlighted by the death of "Brother No. 1" Pol Pot in April 1998, the spectacular surrender, without amnesty, of the two next most senior officials Khieu Samphan and Nuon Chea in December 1998, and the arrest and capture of Ta Mok on March 6, 1999. According to experts who have participated in the gruesome task of compiling evidence against Khmer Rouge leaders over the past decades, the strongest direct evidence points to Ta Mok and Nuon Chea,

Millions of Cambodians died on the Khmer Rouge's "killing fields" (shown here), but justice can only be served if a White Paper is produced on the entire period, "which begins with Henry Kissinger's [inset] actual role in launching the expansion of the Indo-China War from Vietnam into Cambodia," says Lyndon LaRouche.

while even these researchers acknowledge that much of the evidence is circumstantial.

While experts, analysts, and non-governmental organizations charge that Prime Minister Hun Sen is "waffling" on a tribunal for the Khmer Rouge, he told *Time Asia,* in an interview in their March 22 issue, that the pace of these recent developments has overtaken events, and that the opportunities for bringing peace to the country for the first time in 30 years must be acted on with all due speed. But the evidence is abundant, including in an interview with the Prime Minister by this correspondent in Phnom Penh on Jan. 18, 1999, that he has been the most consistent and relentless, since 1979 and the overthrow of the Khmer Rouge government, in creating precisely the conditions that now exist, which give his critics the luxury of second-guessing his intentions. As he said in that interview, "My way is different from that of other people, who have only artificial morals. The group with artificial morals would like to choose what fish to bake, what fish to fry, or what fish to broil, at a time when the fish is still in the water. . . . I wouldn't say what fish to bake, or to fry, or to broil unless I had the fish in my hands. . . . Right now, the fish is in our basket, so we can decide how to cook it."

UN Secretary General Annan objected to Cambodia's proposal of a domestic trial, saying that its judicial system "in its current state is unlikely to meet minimal standards of justice," and that Cambodia had a "need for accountability and a need to end impunity," as reported by spokesman Fred Eckhard.

The nation supersedes trial mechanics

Foreign Minister Hor Nam Hong, in his talks in New York, made clear that "the group with artificial morals" includes the UN Security Council. Cambodia, he said, has a lingering mistrust of an international tribunal, dating from the refusal of the UN Security Council to punish the Khmer Rouge after its government was overthrown in 1979, and the continuing recognition of that illegal government by the UN until 1991. Hor Nam Hong, who served as Cambodia's Foreign Minister during the Paris Peace Talks, drove home the point, that "the international community forced us to accept the Khmer Rouge as equal partners and forbid the use of the word 'genocide' in any peace agreement."

Since the signing of the seriously flawed Paris Peace Accords, at least 10,000 Khmer Rouge soldiers have defected to the Phnom Penh government. Pointing to the success of the government's policy, Foreign Minister Hor Nam Hong pointed out to Annan that the Cambodian government "has achieved what the United Nations peacekeeping plan and the Paris Peace Accords failed to achieve," and, thus, Phnom Penh should be given respect for accomplishing "national reconciliation."

In his interview with *Time Asia,* Prime Minister Hun Sen enumerated five points, which make clear that the crux of his government's objection to further "globalization" of the Khmer Rouge issue is defense of the nation's sovereignty. The five points are: 1) an international tribunal would be managed by those who formerly supported the Khmer Rouge; 2) UN Security Council members would exercise their veto power to kill any tribunal; 3) the Phnom Penh government has successfully worked to dismantle the political and military organization of the Khmer Rouge and is entitled to complete the task; 4) under Cambodia's constitution, it is illegal to extradite any Cambodian for trial abroad; 5) those who committed the crimes are Cambodians, their victims were Cambodians, and the crimes were committed in Cambodia, thus a Cambodian court should have jurisdiction.

On March 16, in the first indication that the UN might compromise on its trial recommendation, Secretary General Annan's special representative for human rights in Cambodia, Thomas Hammarberg, said from Phnom Penh that the UN is willing to organize a trial in Cambodia, if authorities can guarantee the proceedings will be fair.

From Jakarta, Indonesia, where he is on a state visit, Prime Minister Hun Sen invited the UN to find a lawyer for Ta Mok.

Before the lynching, define the crime

On Feb. 15, during the Presidents' Day conference of the Schiller Institute in northern Virginia, Gail G. Billington had an opportunity to raise the subject of a tribunal covering Cambodia's tragic experience with EIR*'s founder Lyndon H. LaRouche, Jr. His answer follows:*

What should be done in the case of Cambodia, is that a White Paper should be produced, as a national White Paper on the entire period, which begins with Henry Kissinger's actual role in launching the expansion of the Indo-China War from Vietnam into Cambodia and that whole period. There should be a White Paper on the overall case, and the question of the trial, of responsibility and culpability of individuals and parties, should be located within the White Paper of what happened to the country.

What was done to the country?

That should be our view, and that should be the view, I think, we should recommend to the country and to other countries. The idea of trying to find a few scapegoats to try is a way of cleansing the conscience without actually addressing the problem—and is itself an injustice. You have to do justice for the whole nation, and, therefore, you have to have a White Paper which deals with the crime to the nation and, within that context, identifies individuals and organizations which played an exemplary criminal role.

Don't go for exemplary criminals without defining the crime done to the nation, and that crime involves Henry Kissinger. He is the number-one person to go on trial in this case because, as head of the National Security Council and, later, as Secretary of State, Kissinger's role in this whole affair, particularly in the transition from Lon Nol to the overthrow of the Lon Nol government and the Khmer Rouge's "killing fields"—that was Kissinger. Kissinger set it up. And that should be done.

But it would be an injustice to go for specific criminals without defining, as a White Paper should do, what was done to Cambodia from the whole period. This [has been going on] now since the end of the 1960s, when the war was being first spread from Vietnam into Cambodia. There were cross-river fights all the way through, cross-border fights. And then you had the official business, which is the transfer of power to Lon Nol, who was set up by Kissinger and company, and then you had, of course, the overthrow, the killing of the Lon Nol government, and the "killing fields" policy which followed.

But this is a long period; this is almost 30 years, and without covering that 30-year, or nearly 30-year history, there can be no truth and no justice therefore.

China-India relations are on the mend

It looks as though misunderstandings that followed India's Pokhran II nuclear tests are getting sorted out.

China and India, two members of the "Survivors' Club" (a designation by Lyndon LaRouche of nations seeking to protect themselves from the collapse of the global financial system), during recent weeks have earnestly begun to find ways to normalize their bilateral relations. The Indian daily the *Asian Age* reported on March 10 that Indian External Affairs Minister Jaswant Singh is likely to visit China this year.

On March 15, a 15-member Chinese team led by An Chengxin, the vice president of the China Council for the Promotion of International Trade, came to New Delhi to hold a meeting of the India-China Joint Business Council for the first time since last year's nuclear tests conducted by India. Expectations run high among observers that the Joint Business Council will identify new areas of cooperation, especially joint bidding in third countries, participation in project tenders, equipment supply, and infrastructure projects.

Sino-Indian relations were frozen when Indian Defense Minister George Fernandes provoked Beijing by identifying China as India's main enemy, following New Delhi's testing of nuclear devices in the Rajasthan desert last May. China considered the statement to be irresponsible and a deliberate distortion to justify India's nuclear weapons development.

Following an informal meeting organized by the Schiller Institute between academics of both nations in Germany, the first signs of thaw in the two countries' relationship began to show.

The issue was given a decisive push last December following the visit of Russian Prime Minister Yevgeni Primakov to India. During his visit, Primakov mooted the concept of a "strategic triangle" among the three most populous nations in the region: China, India, and Russia.

Subsequently, Russian Communist Party leader Gennadi Zyuganov told the foreign correspondents in Moscow on March 5 that a strategic triangle among Russia, India, and China would be the central issue in world affairs in the 21st century. Around the same time, Prime Minister Primakov, in an interview with the Chinese newspaper *Jhintsin Ribao,* talked about the "parallel development of relations between Russia-China, Russia-India, and India-China."

But the most powerful diplomatic move was initiated recently by Indian Prime Minister Atal Behari Vajpayee. His historic "bus diplomacy" with Pakistan in February, where he held meaningful talks with Pakistani Prime Minister Nawaz Sharif to ease tensions between the two countries, must have convinced Beijing of New Delhi's sincere intent to promote peace, and helped convince China that India had undertaken the nuclear tests strictly to ensure its national security.

The final confirmation of the thaw was reflected in the upbeat mood of India's Foreign Office personnel upon their return from Beijing in early March. Indian media reported that their meetings with their Chinese counterparts were positive, and that the chances of Sino-India ties returning to normal were good. Soon after, Chinese Foreign Minister Tang Jiaxuan told reporters in Beijing during the ongoing session of the National People's Congress that he expects, "maybe soon, the Joint Working Group on the boundary question between China and India will resume its activity." He also indicated that the official talks between India and China held in Beijing were "useful discussions."

Another positive development has been the efforts undertaken by the outspoken Chinese Ambassador to India, Zhou Gang. Speaking at a recent seminar in New Delhi organized by the Indian Center for World Affairs, the Chinese envoy made clear that the recent consultations between foreign office officials was a "new starting point" to improve relations between the two countries. According to Ambassador Zhou, there is no change in China's stated objective of forging a "long-term neighborly, constructive, and cooperative partnership with India into the 21st century."

Ambassador Zhou pointed out that such a partnership will be based upon the "foundation and potential" for evolving mutually beneficial cooperation. India and China, the Ambassador said, share "similar or common views" on such issues as peace and development, human rights, environmental protection, and population control.

At the same time, a fresh impetus is likely to be given by both countries to enhance their two-way bilateral trade. Prior to the India-China Joint Business Council meeting, China Council for the Promotion of International Trade vice chairman An Chengxin told newsmen in India that the meager $2 billion trade between such two large countries is not commensurate with the enormous natural resources and size of the population of India and China. He called for a redoubling of efforts by both sides to expand two-way trade to at least $5 billion before this millennium comes to an end.

Big push for Timor independence

Australia has sowed the wind over this Indonesian province, and now it will reap the whirlwind.

With one eye to major troubles in East Timor, the Indonesian province just a few hundred kilometers to the north, the Australian government announced on March 11 that it is doubling the percentage of its 32,000-man defense force which can be deployed for combat within 28 days.

This dramatic shift in Australian Defense Force readiness is just the latest in a series of fast-moving developments that have followed Indonesia's shock announcement in late January, that 24 years after taking over the former Portuguese colony in 1975, it is prepared to withdraw its troops and grant the Timorese independence if they reject an offer of greater autonomy in a vote now scheduled for July. This raised the specter of a resumption of the civil war which erupted after Portugal's abrupt pullout in 1975. However, any threat to Australia's security is largely of its own making, because, together with Portugal, it helped force Jakarta's policy shift.

Indonesia's sudden shift on East Timor was preceded by a dramatic announcement by Australia in December, that it supports East Timorese "self-determination." It was a clear break with a 24-year policy, in which Australia had been one of the only countries in the world to recognize Indonesia's claim to sovereignty over East Timor, against the official position of the UN. This position dated from 1975, when Prime Minister Gough Whitlam supported the Indonesian takeover of East Timor.

Australia had come under intense criticism for that position, most notably from the brutal former colonial master of the province, Portugal. The tension between the two countries reached a high point in 1992, when Portugal lodged a complaint against Australia at the International Court in The Hague, the Netherlands, over an oil treaty Australia had just signed with Indonesia relating to reserves in the oil-rich Timor Gap. Australia responded by closing down its Lisbon embassy.

However, in 1995, under the government of Socialist Prime Minister Antonio Guterres, who is very close to British Prime Minister Tony Blair, Portuguese Foreign Minister Jaime Gama began overtures to Australia, and expressed his wish that the embassy be reopened. In February 1998, Gama had a dinner meeting with Australian Foreign Minister Alexander Downer, which, though fiery, apparently initiated the beginning of a shift in Australia's attitude toward the province. Last December, Australian Prime Minister John Howard wrote to Indonesian President B.J. Habibie pressing for Timorese self-determination. Howard took personal credit for Indonesia's subsequent policy shift: "We are pleased at the change of heart in Jakarta," he told Melbourne radio 3AW on Jan. 29. "We played no small role in that. As you know, I wrote to President Habibie before Christmas indicating that we thought the time had come for a change in Indonesian policy."

However, the implications of Timorese independence are only just beginning to be fully understood. Thousands of non-East Timorese residents, including a large percentage of the province's doctors, engineers, teachers, and businessman, have begun fleeing the territory, while pro-Indonesian guerrilla forces there have threatened to kill an Australian diplomat or journalist as a "sacrifice," to demonstrate that Australia's push for independence will inevitably lead to massive bloodshed. "It is better to sacrifice an Australian diplomat or journalist to save the lives of 85,000 East Timorese," two militia leaders wrote Downer in early March.

Ironically, even longtime independence agitator, Fretelin resistance leader, and Nobel Prizewinner José Ramos Horta expressed opposition to independence when Indonesia first mooted it, demanding instead that Australia play a key role in a UN interim administration. "It is obvious that the Indonesians are not going to be able to stay on in Timor, and I would object to immediate independence, so I would prefer to have an international transition administration in East Timor under the UN flag, in which Australia would play a major part," Horta said on Jan. 29. UN Secretary General Kofi Annan announced on March 13 that a UN peacekeeping team would be in Timor in April, and Australia has committed "administrative and technical" (as opposed to military) assistance to that force.

The British-American-Commonwealth cabal, of which Australia is a leading member, is on a mad drive to break up nation-states, as the world plummets deeper into financial and economic collapse. No doubt that cabal's cartels also have their eyes on the super-rich oil and gas reserves in the Timor Gap seabed under the Timor Sea, the exploitation of which is governed by the complex Timor Gap Treaty between Australia and Indonesia, and which are expected to be ceded to the newly independent East Timor.

Green party is heading for a split

The fight between the "pragmatists" and the ideologues is making the Greens the sick man of the red-green coalition.

Young voters want jobs and a sound economic and social future; they do not want feminism or to engage in fringe group activities, and they care little about anti-nuclear and anti-military issues. That is why they do not vote for the Greens. Youth priorities have changed.

These observations are in a report compiled by Gunda Roestel, one of the two women at the top of the Green party. She says that these trends were already evident last year. But, the fact that a majority of voters wanted the national government of Chancellor Helmut Kohl out at all costs last September, clouded the fact that 93% of German voters did not cast their ballot for the Greens. Since last autumn, the Greens have lost considerable support and are now hovering around the 5% minimum which, under German election law, must be met to gain entry to the parliaments. If the trend is not reversed, the party will fall below 5%. Roestel reports all of this.

But strong radical currents in the Green party do not want to read the writing on the wall. And they also dislike Gunda Roestel: First, because she belongs to the "pragmatist" faction, and second, because she comes from Germany's east. The rift between the Greens east and west of the former division of Germany is very deep; the radical faction controls the western party sections, while the Greens in the east have always been more pragmatic.

After the September elections, the western radicals staged a coup, pushing "easterners" out of leading posts in government and parliamentary groupings. Roestel got her post as one of two women at the top of the party only because the radical faction had to make a concession to the feminist current. The "male-female" issue is a dogmatic ideological issue among the Greens, and the 50% "female quota" for party posts brought Roestel in, along with her male party colleague Jürgen Trittin, two years ago. Trittin became a cabinet minister in Bonn in October 1998, leaving his party post vacant. Because only one of the three federal cabinet posts held by the Greens, that of the public health minister, was held by a Green woman, his party post was given to a woman to keep the balance.

Since Roestel is a "moderate," according to the Green quota, her co-leader had to be a "radical": Antje Radcke. However, the two have not had a cooperative relationship, and so, sentiment had been building to replace both of them, at the Greens' Erfurt European Policy convention on March 5-7.

Recognizing the alienation of the party from the young voters, the pragmatists around German Foreign Minister Joschka Fischer, a Green, fear the party will lose its ability to keep posts on the state and national level. Therefore, Fischer proposed streamlining party structures, putting heavier emphasis on technocratic efficiency at the expense of the ideologues. Fischer also proposed replacing the two women with a party chairman or chairwoman.

With that, Fischer poked a stick into a nest of vipers: The radicals mobilized on the feminism issue, and although Fischer had declared that he would not run for chairman, he was accused of anti-feminist views, ending any debate at the Erfurt convention on his proposals or the Roestel report. On the surface, things remain as they are until the next national party convention, but below the surface, the knives are out for fierce factional warfare.

Fischer himself announced the end of the 10-year internal cease-fire. At a separate gathering in Erfurt of the "realists," Fischer said that the gloves must come off against the radicals, or "fundamentalists." The cease-fire can no longer be honored, because the party can only be run efficiently, i.e., win votes and stay in the government, if it is run by one, united policy, he said.

Thus, the Green party is heading for a split, with one or the other faction either walking out or being expelled. These faction fights will pit the radicalized currents at the party base against the red-green national government and the parliamentary group of the Greens. A deep gulf will emerge, from the national party organization down through the state and local branches. And until this war is decided, none of the ruling bodies that are based on Social Democratic Party (SPD) coalitions with the Greens, from the national level to the local, will be able to function. Chancellor Gerhard Schröder (SPD) will have no choice but to rule by decree, which will increase the frictions. Against that background, the red-green government, which is losing its capacity to govern by the day, is unlikely to survive the next big blow coming from the world financial markets.

Anticipating that, the Social Democrats have recently met secretly with leaders of the post-communist PDS party, to prepare the ground either for a new government majority, should the Green party split, or for PDS support for a minority government between the SPD and rump Greens. But with that kind of arrangement, things would turn even worse in Germany.

Italians join LaRouches' call for New Bretton Woods

by Claudio Celani

Italian political and economic leaders joined in supporting the call put out by Lyndon LaRouche and Helga Zepp-LaRouche, for Italy to become part of the "Survivors' Club" of nations—those working to establish a New Bretton Woods monetary system and to build the Eurasian Land-Bridge great infrastructure project. The call was issued to organize for a Rome conference keynoted by Mrs. Zepp-LaRouche on March 11. The conference, attended by about 80 institutional representatives, was sponsored by *EIR* and the LaRouche movement in Italy, the Italian Civil Rights Movement Solidarity. The proceedings were opened by Paolo Raimondi, chairman of the Italian Solidarity Movement, who reminded his listeners that Lyndon LaRouche had launched the proposal for a New Bretton Woods exactly two years ago, on April 10, 1997, in that very room at the Columbus Hotel. Today, Raimondi said, we must send a message to the world, to get behind the motion for a New Bretton Woods and of the development of the Eurasian continent through the Land-Bridge program.

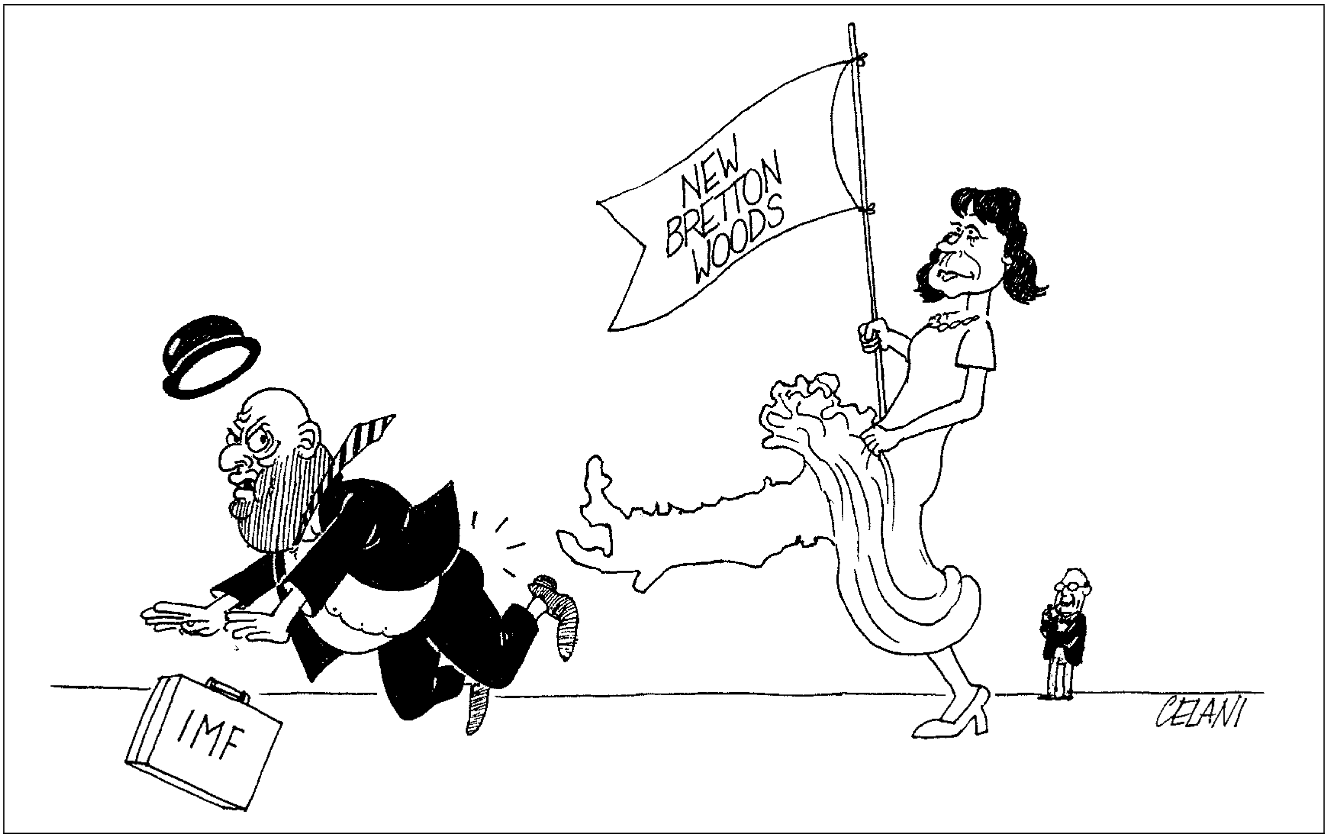
Raimondi was followed by Flaminio Piccoli, former chairman and secretary general of the Christian Democratic Party, which ruled Italy for more than 45 years, before it dissolved in 1992-94 under the hammer of the "*Britannia* plot." Piccoli's speech appears below. He expressed the "high esteem that I always had for Lyndon LaRouche. He is a man who can look forward, and speak his thoughts with great precision." LaRouche, he said, "spent five years in prison because he told the truth," and Piccoli stressed the "usefulness of his prophecies to be repeated here."

Helga Zepp-LaRouche, president of the Schiller Institute and candidate for European Parliament from Germany's Civil Rights Movement Solidarity slate, then presented an in-depth view of the world strategic situation, whose dynamic is dominated by the disintegration of the world financial system. Her speech is printed below.

No surrender of national sovereignty

The next speaker was Jan Lopuszanski, a member of the "Our Circle" caucus in the Polish Sejm (lower house of Parliament), and a member of the National Christian Party. He told the audience, that while Poland is not yet a member of the European Union, it soon will be. Membership in both the EU and NATO are offered to Poland as "the most prudent step" toward prosperity and security, but this proposition is challenged by his faction, which sees a greater threat from Poland's being told to resign its national sovereignty. "The experience of Polish history," said Lopuszanski, "has proven to us beyond doubt that the violation of the rights of a nation always results in the violation of the rights of individuals forming that nation." Uppermost in our mind, he said, is the tragedy of Polish agriculture: "Polish farmers are being told that their farms must face competition without government support, or else they must perish." At the root of the problem, Lopuszanski said, is a wrong-headed system, in which capital, instead of being made available to increase investments and productivity, gets channelled into speculative activities. The proper solution, therefore, is found "by working out cooperation among the governments of sovereign states in controlling the movements of capital, particularly if this cooperation can be based on the principle of the solidarity of nations."

Luciano D'Ulizia, the next speaker, took up the issue of such financial cooperation, commenting on LaRouche's proposals for a new financial and monetary system. D'Ulizia is an economist and chairman of the Italian National Cooperative Unions, which includes 6,000 firms in the agriculture, trade,



and construction sectors. These firms employ 300,000 workers and have a global turnover of 7,000 billion liras. It is clear, he said, that the Bretton Woods agreements no longer exist, and therefore they have to be revived. But, he said, in doing so we must bring financial aggregates into correspondence with monetary values, and monetary values into correspondence with the values of actual production. He then elaborated a theory which he calls "reciprocal atomism." At the same time, one must acknowledge that the Keynesian model did not work and must be replaced, he said.

The International Monetary Fund model, which has not worked, also has to be replaced, he said. Look at the Russian disaster. As a functioning model, he proposed the philosophy of the cooperative model, which rejects dogmatism.

Understanding national credit

An interesting discussion followed the next speaker, Alberto Servidio, the former president of the Fund for the Mezzogiorno (Cassa del Mezzogiorno), the central planning and financial body through which infrastructure was built in southern Italy (the Mezzogiorno) in the postwar period. He pointed to the postwar experience, where Italy would cover part of the financing needed to build infrastructure, and private firms would join in, with a concession to run the infrastructure projects with a toll system, in order to pay back investment costs. He posed the question: Today, how can we build infrastructure, if the state is bankrupt and the bureaucracy prevents private capital from coming in?

Zepp-LaRouche answered by developing the concept of the National Bank, an agency that *issues* credit specifically for infrastructure projects. Who decides whether the state is bankrupt or not? Take the example of Japan, where hundred of billions of dollars are created, only to bail out the banks. Therefore, money can be created; the question is only whether it is created to be used productively or to create hyperinflation.

Another contribution to the discussion came from attorney Giuseppe De Gori, who raised the importance of the Italian Solidarity Movement's legal suit against speculator George Soros. It's not that we think we can defeat Soros in court, he said, but we want people to know about it and discuss it, so that they understand. Soros, thanks to the legal suit, is currently under investigation for his role in the speculative attack that devaluated the lira in 1992 and forced Italy to abandon the European Exchange Mechanism.

Greetings to the conference

Two messages to the Rome conference came from Roberto Formigoni, president of the Lombardy Region, and Mons. Alan de Lastic, Archbishop of New Delhi and president of the Catholic Bishops Conference of India.

Formigoni wrote: "I am very sorry I am unable to attend your conference, because of urgent institutional commitments. I wish full success to your initiative. The only possibility to avoid the economic depression threatening us and the ongoing financial crisis is the courageous realization of a policy of development and economic growth, investing public and private capital in great strategic projects, which are instead going to financial speculation."

Archbishop de Lastic sent his greetings: "I wish to send my blessing to this conference, which I unfortunately cannot attend. Creating a partnership for economic and human development is the key for India, as well as for the whole world, which is affected by a new era of colonialism and slavery, this time financial slavery. Sharing wealth and technology in a spirit of partnership, between Europe and Asia in particular, will be the key for the development of Third World countries and a better human life. To all speakers and attendants my blessing."

Sen. Flaminio Piccoli

Which way for Europe?

Sen. Flaminio Piccoli is president of the new Democrazia Cristiana, former general secretary of the Christian Democracy, and former president of the Christian Democratic International.

It was through a little coup that I immediately responded "yes" to the invitation to speak at the conference of the Solidarity Movement and *EIR,* the intelligent magazine of the American economist Lyndon H. LaRouche. I decided to say a few words of introduction not to be unkind to the two ladies who lead this movement, at least here in Rome, because I always had great esteem for Lyndon, because he is a man who can look forwards, who always expresses his thoughts with great exactness and without prejudice, and therefore can forecast the future. The first time I met him, more than 20 years ago, I listened to him a bit inattentively. But over the years, when I also intervened on his behalf when he went to jail, because he had told the truth on the homicidal folly of those who wanted a war, I realized that the financial and economic crisis he had warned us of had come true. I decided to accept the invitation to speak at this conference, when I heard that Mr. LaRouche, whom I wished to see here again, was unable to attend and the kind lady who works here in Rome with him asked me to comment on his forecasts and his proposals. I agreed, because I consider him one of those figures who are able to move on their own, who can think profoundly and because of this finds a lot of obstacles put in his way by false politicians, false scientists, or false economists. But then the crisis did happen, which might have been avoided.

He is also a man who not only says how things will go wrong and why, but also proposes remedies. I am a political figure with the only importance of being very old, and of having lived through two world crises. I was born a few days before Italy joined the First World War. I was an Austrian then, because I was born in Trentino, and I can still remember the poverty we experienced during that war. Then I had the luck, or ill luck, of joining the Alpini three months before the Second World War exploded, and I saw also that war and many events which made me suspicious about things I read every day in the newspapers, which pick up on violent incidents just to increase sales.

Listen to LaRouche

I want to say today that it is worth listening to LaRouche's economic, political, and military warnings and to his proposals, which have annoyed those who make trouble in economic and political life, but which he kept saying, without ever stopping, at whatever personal cost, always formulating proposals which—after many years of knowing him personally—are worth some reflection at the end of this century, since his words are not only prophetic, but the result of an intelligent interpretation of the greatest international crisis.

When we speak of politics these days in Italy, we find a confusion which is frightening, at least to those of us who witnessed the century of wars, and which recommends us not to tail behind politicians who are full of money and reckless ideas, but to rather attentively follow those few political figures who had from Providence the gift of seeing into the future.

I will say at the end, that the theme of this conference is very important, because it poses the question: "Will Europe have a future of stability, or become one of the regions of the world shaken by depression and wars?" I have been a journalist and a party man all my life, and if I look back on my life, I realize that sometimes things happen which remind us of events 30 years ago. The mistakes which were made in the 1920s, the events of the First and Second World Wars, tend to be repeated in a way which is even monotonous.

Lyndon's proposal this time is summarized by proposals he made four or five years ago, and which he now presents with new features, the idea to convoke a New Bretton Woods conference, to realize great infrastructural projects in Eurasia, which is struck by the Maastricht measures that are part of the problem, and by the systemic crisis. I am glad to invite Mrs. LaRouche, who is our main speaker today, to give her speech and start a debate which I think will be very fruitful and which we will speak of in the years to come.

Helga Zepp-LaRouche

Europe must choose the Survivors' Club

Mr. President, I thank you very much for your kind words. I want to start with the reference to the recent Bank of International Settlements (BIS) report.[1]

This report comes from the BIS, the central bank of the central banks, which is a very conservative institution. They note in the report that the financial markets in autumn 1998 were at the point of total meltdown, and that if the governments and central banks had not intervened, there would have been a complete disintegration of the system. They say that as the result of the intervention of these governments, the markets today are faced with an even bigger dilemma. They say that the problem started with a super cheap yen, which was a de facto 0% interest rate of the yen which started in 1995. The international banks and speculators could go to get this money virtually for free, and then go into the international derivatives speculation. They say that attacks with this money from the hedge funds then triggered the Asian crisis in 1997, which spread later to Russia and Latin America. They conclude by saying that it is merely a miracle that the markets still function in the spring of 1999.

This report confirms everything which Mr. LaRouche has been saying in the last five, six years. The first time Mr. LaRouche spoke about the systemic crisis of the system was in his famous "Ninth Forecast," which he presented in 1994.[2] Mr. LaRouche spoke about speculation as the financial AIDS of the real economy. In 1995, as the BIS report refers to it, at the Halifax summit of the G-7 nations, this idea that speculation is the AIDS of the economic system and must be removed, was on the table. President Chirac talked about financial AIDS; the Japanese spoke about financial AIDS. But then a decision was made: Rather than reorganize the system, they would pump in liquidity—more money, more liquidity.

As a result, Mr. LaRouche in July 1997 predicted that, because this would have produced an increase of the bubble—the bubble became bigger and bigger—the final phase of the crisis would start in October 1997. And this is exactly what happened.

In October, the Southest Asian crisis started, and from that time on, the world has been more than a half-dozen times at the point of complete meltdown. South Korea on Dec. 23—danger of complete meltdown. U.S. Treasury Secretary Robert Rubin had to intervene with $10 billion and the rest of a package of $47 billion. Three weeks later, Indonesia and Japan both became potential trigger points for a chain-reaction collapse of the system. The only answer was International Monetary Fund (IMF) rescue packages which made the situation even worse, as in the case of Indonesia, or gigantic bailout packages as in Japan, with half a trillion dollars to save the banks, which had $2 trillions in bad loans.

Then, on Aug. 17, 1998, Russia de facto declared state bankruptcy. On Sept. 14, President Clinton gave his famous speech at the New York Council of Foreign Relations, in which he declared that a new international monetary system was needed, and that this was the worst crisis of the last 50 years. Then, on Sept. 23 came the potential meltdown of the system because of the collapse of Long Term Capital Management (LTCM), the largest hedge fund in the world, which had a loss of $2 billions, but, through the leverage factor, commanded aggressive capital of $3.5 trillion. This was the point of the collapse of the entire system.

Again the G-7 reacted only with liquidity pumping: Pump more money into the system, no matter what would be the consequences. Therefore, the dilemma the BIS is talking about, consists in the fact that there are only two roads left: One is hyperinflation of the kind Germany had in 1922-23, or a chain-reaction collapse where money evaporates in one or two days.

How Europe was weakened

The problem we have, is that Europe has no policy and desperately needs a new policy. Europe has not had a policy since Bush, Thatcher, and Mitterrand used the first war against Iraq, the Gulf War in 1991, the Desert Storm, to take the momentum away from Europe. Bush at that time declared a new world order, which was just a new name for the Anglo-American hegemonism at the point that the Soviet Union had collapsed. The fact that Europe did not oppose the Gulf War, but participated in it, led to the Balkan war, and it continued because of the inability to act.

The purpose of the Gulf and Balkan wars was to prevent the development of the East after the collapse of the Soviet Union, and to contain especially Germany in taking a leading role in the economic development of Russia and eastern Europe. The German government published, last July, 2,000 pages of documentation showing some of the real background of German unification, and through all the publication which has come out in the meantime, it is very clear that what happened, was that Mitterrand put a pistol to the head of Kohl and said: France, and by implication England and the U.S.A., will only agree to German unification if Germany would eat up the deutschemark, the strong deutschemark, and agree to

1. See William Engdahl, "BIS Bankers: LaRouche's Ninth Forecast Was Right," *EIR*, March 19, 1999.

2. Lyndon H. LaRouche, Jr., "The Coming Disintegration of Financial Markets," *EIR*, June 24, 1994.

Helga Zepp-LaRouche (right) visited China in 1998, including the Pacific port of Lianyungang. With her are Schiller Institute representatives Mary Burdman and Jonathan Tennenbaum. Europe, Mrs. Zepp-LaRouche urged, should shrug off its persona as "the poor man's club," and adopt the policies of the Survivors' Club for a New Bretton Woods monetary system and great infrastructure projects, e.g., the Eurasian Land-Bridge.

a weak Europe. The aim of this was to weaken Europe as a whole. Ever since, Europe was preparing for the euro, and this is like preparing for your own funeral.

Now we are in a situation in which the British government and the forces around Vice President Al Gore in the U.S.A. are, at this point, running the government for the City of London, because Clinton, as the result of one year of the Monica Lewinsky question, is severely weakened. These are completely lunatic forces. They are now trying to create enemies out of China and Russia when these enemies did not exist. Combined with a policy of crushing Europe, which reflects itself in such arrogances as banana wars, the Cermis affair, the execution of two Germans, and the complete disrespect for the political role of Europe, there is, right now, an increase in the tendency from London and the U.S.A. to respond to the escalation of the financial crisis with political and military means. One can see an increased tendency to manage the crisis with military diversion based on British and American hegemonism.

Survivors versus the BAC faction

If one wants to characterize the present strategic constellation, one can presently see that there are three major groups playing a role now. On one side, you have the British-American-Commonwealth (BAC) grouping, which really is the representation of the financial elite of London and Wall Street. They are the ones who profit from the globalization of the present financial system. They are not identical with the national patriotic forces of the U.S.A.; they are not in the tradition of the Founding Fathers of the U.S.A., of Lincoln, Roosevelt, Kennedy, Martin Luther King. The patriotic forces are threatened by globalization in the same way the Europeans are. President Clinton by inclination and philosophy tends to belong to the second group, which is the reason why, from day one that Clinton moved into the White House, these forces have tried to drive him out of office.

Gore, the vice president, must actually be seen as the representative of the group of the British-American-Commonwealth. Do not forget that, if the impeachment forces had been successful, we would have a President Gore at the present time. The Monica Lewinsky affair had very little to do with the sex life of the President, but it was de facto a coup attempt by foreign intelligence, British and Israeli intelligence, in collaboration with Confederacy forces in the U.S.A., trying to eliminate the U.S. Constitution and weaken the American Presidency.

The way to understand the Monica Lewinsky affair is that it was a 14-month-long information war, brainwashing the American population, trying to paralyze President Clinton. If you complain about certain aspects of American policy right now, you have to understand that present American policy is run by Gore, by what one may call the Principals Committee, a parallel government, of the type that existed at the time of Vice President Bush during the Iran-Contra Affair. It consists of such people as Gore, Cohen, Shelton, Albright, and Larry Summers, who are the real forces in the U.S. right now.

The second group, strategically, is the poor man's club of Euroland, which has lost practically all influence in global policy and whose vital interests are threatened by globalization.

The third group is the quickly growing group of nations which are determined not to be pulled down by globalization and the internatioanl financial crisis, and which have formed a strategic triangle formed by China, Russia, and India, and which more and more nations are joining—like Malaysia, Pakistan, Kazakstan, Vietnam, Cambodia, Myanmar, and many more. It already represents half of the world population.

Many ordinary citizens have not noticed, but anybody who studies the strategic situation in depth has realized that there was something that one can only call tectonic change in the strategic situation after the Anglo-American bombing of Iraq in December; because this bombing occurred in an unilateral way, by the British and Americans, at the very moment the UN Security Council was meeting and discussing the issue of Iraq. The message transmitted was that all of a sudden the UNO, the international law, means nothing. There was a profound shock and reassessment of the strategic situation in Russia and China as a consequence.

Countdown to war: the case of Iraq

The military paper of the Chinese People's Liberation Army (PLA) has written an unusual article, saying that, behind the globalization of NATO, there is the intention of the Anglo-Americans to eliminate Russia as a world power. On Feb. 26, the *People's Daily* wrote a most amazing article, comparing the globalization of NATO to the attacks of the hedge funds against countries.

Next month at the April summit of the 50th anniversary of NATO, the only agenda on the table is globalization of NATO, out-of-area deployment, and a new doctrine which is a combination of air power, special forces cyber-war, and also the possible use of tactical nuclear weapons under certain circumstances. You have to see the current undeclared war against Iraq in this context, because this war is a test case of what the future Anglo-American NATO strategy is going to be.

The largest strategic game of NATO globalization is not Iraq; it is China and Russia. They know that China will not be a world power before 2010, and they want to eliminate this status before then. These forces are also committed to eliminating Russia along the line of Brzezinski's Book [*The Grand Chessboard: American Strategy and Its Geostrategic Imperatives*], where he proposes the partition of Russia. The aim of these forces is the early ousting of the Primakov government and the destruction of the Russia-China strategic alliance.

As I said, Iraq is just a test run. Presently you have the U.S.-British buildup for a war against Iraq at the end of March, beginning of April. In the last 12 days, there have been 4,000 sorties flown; this is more than in the period of Desert Fox in December. What is in preparation for the end of March-beginning of April, is an escalation of air bombardments, special forces, ground troops, combined with information war. This will not be an easy war, because especially troops do not function in desert areas. Anglo-American troops going into Baghdad or Basra will not have any logistical support. The likelihood is that this will be combined with a Turkish military operation in northern Iraq, and also this will not function because, if you remember, the *spetznaz* [Soviet special forces] war in Afghanistan was the beginning of the collapse of the Soviet Union. There is also the possibility that at the same time, Netanyahu, who is convinced that he will only win the new Israeli election if there were a war, may actually go for an escalation in Lebanon, and with the plan of the so-called clean-up operation in the Mideast eliminating Suddam Hussein and Assad.

Endorsers for a New Bretton Woods system

The call for a New Bretton Woods monetary and financial system was endorsed by the following leading Italian public figures:

Rosario Alessandrello, chairman of the Italian-Russian Chamber of Commerce

Ettore Bernabei, author and former head of Italian state television

Enzo Carra, Christian Democratic activist

Sen. Antonio D'Alo, from the conservative National Alliance

Luciano D'Ulizia, chairman of the National Union of Italian Cooperatives

Publio Fiori, vice secretary general of National Alliance and former Minister of Transportation

Roberto Formigoni, chairman of the Lombardy Regional government

Tullio Grimaldi, head of the parliamentary group of the Party of Italian Communists

Ugo Intini, from the Socialist Party

Aurelio Misiti, chairman of the High Council for Public Works

Enrico Nan, member of Parliament from the conservative Forza Italia party

Riccardo Pedrizzi, vice-president of the National Alliance parliamentary group

Flaminio Piccoli, longtime leader of the Christian Democratic Party

Giovanni Russo Spena, member of Parliament from the government party, Left Democrats

Cosimo Ventucci, vice-president of the Forza Italia parliamentary group.

The problem with this is that it has to be fast and successful, because lack of logistics and lack of popular support imply that it cannot be a long, stretched-out war operation. The danger is that if something goes wrong, if it does not go fast and clean, this doctrine includes the possibility of use of weapons of mass destruction, including tactical nuclear weapons. In this case, the Russian reaction is regarded as incalculable, and some of these scenarios even talk of limited nuclear exchange between U.S.A. and Russia. These are also discussions going on publicly.

What I am saying is in the public domain, including about possible war from the U.S.A. against North Korea, also in the context of the extension of the TMD, Tactical Missile Defense, over Taiwan and South Korea. This is obviously insane; it is a doomsday scenario which can go completely out of control, but this is the classical mechanism where financial crisis has let the depression of the real economy lead to war. At the NATO summit next month, this is the subject: globalization of NATO. And the new doctrine is NATO against the so-called rogue states, criminal states.

From the land of the Renaissance

Now, we are proposing that Europe must say no to this. The old NATO? Yes. That was a partnership, yes; but not against Russia and China. Europe, therefore, it must come out of its graveyard, in which it has been for the last ten years, and it must recognize that the vital interest of Europe is to tip the situation in the United States. Europe must consciously ally and cooperate with what LaRouche calls the "Survivors' Club," the bloc of nations like China, Russia, India, and others.

China has undergone, since the Deng Xiaoping reforms, the biggest economic transformation in the last 20 years of any country in the world. Before the Southeast Asian crisis, there had been 12% annual growth, and despite the crisis, last year still 7-8%. They have followed the ideas of LaRouche—either independently, or by indeed following them—by redirecting investment, after losing the consumer goods export markets in Southeast Asia, by consciously investing into the interior markets of China. They have consciously engaged in the policy of the Eurasian Land-Brige—a policy which is now also adopted by the Primakov government, by the Vajpayee government in India—after the visit of Vajpayee to Pakistan, making a new conciliation with the Sharif government of Pakistan.

These countries want to move in this direction, now therefore, if we have the kind of economic and financial reform measures LaRouche has been proposing: a new Bretton Woods system, a debt moratorium on almost all debts, private and public, a taking-off of the books almost $150 trillion of derivatives contracts (this speculative bubble must go), a return to the old Bretton Woods characteristics—fixed exchange rates, capital and exchange controls—plus national banking, to bring the power of credit generation back under the sovereign power of governments.

We are not only talking about a theoretical program, but we already have partners who are willing to cooperate. This is the way for Europe to overcome its unemployment; the Eurasian Land-Bridge can become a gigantic export market for European exports, for our technology, for machine-tools, for exactly what Africa, Latin America, and Asia need. This is actually in the vital self-interest of both Europe and the United States, to cooperate with this conception.

But it means that Europe has to revitalize itself. We have to bring ourselves together and get out of the vacuum we have been in for the last ten years. At this point, in some European countries, there are already impulses in the right direction—for example, the remarks Prime Minister D'Alema made in Milan at the international Socialist meeting about the character of the oligarchy. It is necessary for political forces in Europe, either in government or out of government, to come up with policies which indeed represent the interests of these three groups; the patriotic Americans, Europe, and Eurasia.

I'm quite optimistic that in Europe there are many capable individuals who can make a contribution, and I think Rome is a very good place for people to convene, given the fact that Italy is a bridge to the Middle East, a bridge to Africa; it's where the Vatican is located, and I think the visit of President Khatami of Iran just demonstrates that the future must belong to the dialogue between cultures, and not to confrontation.

If we agree that the future of Europe should not go into war, depression, and chaos, but that we have to agree on a New Bretton Woods system and the Eurasian Land-Bridge, and the establishment of a new world economic order, we must combine this with a cultural Renaissance. Europe has a great cultural tradition; the Greek Classics, the Italian or the Polish Renaissance, the German Classics, the great scientific tradition of France, Italy, and Germany. There is a similar tradition and similar values in Chinese Confucianism and neo-Confucianism, and there are echoes of these values in other cultures, for example, in the Arab Renaissance. Now, we are equally close to a complete collapse of civilization and the plunging of the world into a new Dark Age, of which the 14th century is just a faint image, as we are close to the greatest economic boom in the history of mankind. And I can see before me, a new Golden Age, comparable to and superseding the beautiful Italian Renaissance. For this reason, I propose that out of this meeting we come with the idea of a new Council of Europe, in the tradition of the Council of Florence, as a rallying point for people who want to shift Europe in this direction.

We are faced with an incredible danger, the immediate short-term danger of depression, financial collapse, and nuclear war. But I'm convinced that God has made man in such a way that when man is confronted with a great evil, God has given him an even greater power to answer that great evil with an even greater good. To this effort, I want to invite you to join.

Jan Lopuszanski

For solidarity among nations and humanity

Lopuszanski is a member of the Polish lower house, the Sejm, from the National Christian Party. Here are excerpts from his speech. Emphasis is in the original.

Poland is offered the creation of a liberal economy. When we remember our sad experience with a centrally planned economy, we appreciate the role of the *free* market, but we do not think that the *free* market, with uninhibited competition, can solve all the problems connected with production and the distribution of goods. In particular, we believe that the criterion of profit must not be allowed to be the only criterion of economic development. We see this as a sure way toward an economics of death. . . . We believe that it is the duty of a state to compensate for the injustices which might, and usually do, appear as the result of market forces. . . .

Our problems with liberalism, then, turn out to be a discussion, not simply about economy and the style of government policy. It is also a very basic question of ethics.

It seems that this debate reaches its highest temperature when it comes to the question of a financial system. . . . What we observe is the drama of indebtedness on a global scale, and a tendency for economic development to be slowed, because access to financial means and modern technologies is blocked. National economies fall prey to financial speculations, robbing individuals of the benefits of their work, and forcing them to face destructive political dictates. Absurd belief systems are being built to justify destruction of whole nations—among others, the myth of Mother Earth being poisoned by too many people, a myth which goes against the natural order of creation.

It seems, then, that we are dealing with the use of money and finances, not as an agent of development, but as a weapon. This makes it a serious threat to the realization of human rights, a serious threat to the rights of nations, and a serious threat to world peace.

Programs based upon globalism, upon a single global state, are not the right answer to these threats, because, instead of serving nations and their peoples, they serve the narrow elites which steer the processes of financing and distributing modern technologies. The proper solution to these problems can be found by working out cooperation among the governments of sovereign states in controlling the movements of capital, particularly if this cooperation can be based on the principle of the solidarity among nations.

Book Review

'The man you can trust' discusses Britain's conflict with America

by Claudio Celani

L'Uomo di Fiducia
by Ettore Bernabei with Giorgio Dell'Arti
Milan: Mondadori, 1999
311 pages, hardbound, 33,000 liras

Ettore Bernabei is one of the many prominent Italians who endorsed the call of the Rome *EIR* conference for a New Bretton Woods, but he was unable to participate in the conference because of ill health. Nevertheless, he contributed indirectly to the discussions through his book, which appeared on March 8, and which had created an uproar in the media even before hitting the book stands.

L'Uomo di Fiducia ("The Man You Can Trust") is in the format of an autobiographical interview with journalist Giorgio Dell'Arti, which covers 50 years of national and international politics, as seen through the eyes of a "man you can trust," like Bernabei. During those years, he was first in the nerve-wracking post of director of national state television and later served as general manager of Italy's largest general contractor for infrastructural works.

If you run the monopoly of radio-television communications, you are at the center of information power. You bear tremendous responsibility and must withstand great political pressure. You know the difference between what appears in public and the inside truth behind it. As a devout Catholic, Bernabei took his job as a mission in the service of truth which, translated into politics, means acting in the national interest. For the interest of the country you must act above party lines, and sometimes against your direct factional interests. Thus, he became "the man you can trust," for his Christian Democratic (DC) party, his government, the Vatican, foreign governments, and even for a few of his adversaries. That is why he often found himself at the center of delicate diplomatic initiatives, some of which he recounts in the book.

Bernabei sees postwar history, from the Cuban missile crisis to the fall of the Berlin Wall, from the defeat of fascism to the Balkan war, as a conflict between two tendencies: the Anglo-Dutch oligarchy (with its allies in the United States) and Christian and/or compatible forces. Contemporary politics is the recent unfolding of that struggle, which goes back to the Renaissance. Globalization is the effort of the Anglo-Dutch interests to prevail over nation-states. His book falls short of openly challenging one aspect of globalization, the current European Monetary Union. A careful and informed reader, however, can draw easily the right conclusions.

No wonder that, violating every tenet of "political correctness," Bernabei's book created an uproar even before it came out. Covered by all major newspapers, the book was the subject of the popular TV talk show "Pinocchio," where former Fiat manager Cesare Romiti and politician Giorgio LaMalfa were confronted with Bernabei's "conspiracy theory." At one point, the host pulled down a giant picture of Queen Elizabeth's yacht *Britannia,* and asked his guests if they were also on board the *Britannia* in 1992, when, anchored off the Italian coast, a private meeting of British and Italian oligarchs and bankers decided on the "denationalization" of Italy. This is the story that made *EIR* famous in Italy, after it broke the story in 1993. An embarrassed Romiti responded: "I was invited, but I preferred to go play golf."

EIR readers are familiar with the episode with which Bernabei concludes his book. The impact of the media reviews, which reached millions of Italians, cannot be exaggerated. This author had the experience of speaking with political observers from the extreme left to the far right, all of them eager to read the book.

Neither Marx nor Adam Smith

Born in Florence in 1921, Ettore Bernabei was a student during the intellectual ferment that gave birth to the Christian Democratic party. The group called the *professorini,* or "young teachers,"—including Italian influentials Fanfani, Dossetti, Vanoni, La Pira, and Boldrini—"would periodically meet in Camaldoli, a hermitage in the Tuscan Appennines, where they elaborated a 'code,' today we would say a 'document,' of economic and social policy . . . the Code of Camaldoli.

"The problem was to reject the economic free market, where only profit is important and you don't care whether people are unemployed or die from workplace accidents, but, at the same time, to fight the ideas of collectivist Marxism." They arrived at the solution of having the state take an active role, not in suppressing, but rather in challenging private enterprise to work for the public good. Thus, Italy, which under Mussolini's autarchy had fallen into desperation comparable to Romania today, could in a matter of a few years become fully modernized and reconstruct its industry, thanks to, among other factors, cheap steel and energy provided by the state enterprises IRI and ENI. Moreover, he says, "In Italy, the cost of labor quickly reached European levels and that was good for everybody, because it forced industrial firms to improve technologies, to modernize plants, to get more solid financial structures, in other words, to face international competition by rationalizing production and not by cutting wages."

The fight for modernization was not easy. Although emerging as the strongest political party, the Christian Democracy had to make a strategic compromise from the beginning, with political parties representing opposite interests. This was necessary after the outbreak of the Cold War, when the Italian Communist Party, the second largest, and the DC's natural ally on many issues, suddenly became an enemy. Thus, Alcide De Gasperi, Bernabei reports, made a deal with Raffaele Mattioli, the "unchallenged head of Italian financial circles," according to which "Catholics would get involved with politics, that is, they would run the government and Parliament, whereas the 'seculars' would have taken care of their interests in finance, industry, newspapers."

It soon emerged that Catholics had to outflank their "partners" in order to get things done. Bernabei's history is an example of that continuous fight.

The permanent bureaucracy

After serving with the U.S. Army in the Liberation war against nazi-fascism, Bernabei started a journalism career and soon became editor of the Christian Democratic newspaper, *Il Popolo*. In 1961, he was appointed director general of Radiotelevisione Italiana (RAI), the state television network. From the first day, Bernabei realized that the radio and television monopoly was in the hands of people who had been there under the entirety of Mussolini's regime, and even before Mussolini. Bernabei describes this "permanent bureaucracy" as centered around Turin's Whist Club.

"Families who counted in Italy and in the world, influential circles, of the utmost importance and discretion, I mean you would never read their names in the press; they were very discreet, silent, almost secretive, secret and powerful, secretly connected to other international circles, British, Dutch circles. An establishment, a real power class, a shadow government. They were able to speak to the historical Right and to the historical Left, depending on the moment and the need, they could stay with Giolitti and with Mussolini, provided that Giolitti and Mussolini took due account of the Whist Club, its good manners and its unassailable demands, manners and demands that had been shaped through the centuries."

As soon as he set foot in the RAI offices, Bernabei realized that the Whist Club controlled everything. The deputy director, Mr. Bernardi, was a member of the Club, ran the show, and had more power than Bernabei. It was clear to Bernabei that the situation had to change, and Bernabei started his fight. With full backing from the government, Bernabei undertook an internal revolution that, in a few years, changed the programming, the personnel, and the budget.

Although mass television includes everything from information to entertainment, Bernabei's idea was that television must be an educational tool, especially when there is only one network. At the time, a portion of the Italian population was still illiterate. Bernabei started an elementary school broadcast, "It Is Never Too Late," that aired every evening shortly before dinner, through which millions of Italians learned how to write and read.

With respect to entertainment, Bernabei also had a clear idea of what he wanted. In his interview, he is very polemical regarding the private "free television networks," and in particular the big American networks: "See, you and many others believe that America is freer because their public television (PBS) is small and the market is dominated by the big private networks. These networks do not demand a fee, which brings many to believe that the system is freer. Whoever thinks that is a fool." The private system is comprised of two elements, Bernabei explains: fiction based on a low level of attention, and concentrated, hard-hitting advertising spots. The system is so conceived that the viewer has to sustain a low level of attention for a long time—enough to stay awake, but without reaching a peak. He must be ready to receive the advertising message, which is the only thing he can remember after a soap opera. To keep such a low level of attention, sex and violence are the best means. Under this regime, he says, "we are so plagued, that we don't realize it. It is the worst dictatorship ever seen on the face of the earth! In comparison, Hitler was an illiterate in tyranny!"

"What would a peak mean?" asks Bernabei. "It would represent a deep, spiritual and intellectual satisfaction, something that, at one point, would prompt us to switch off and rest. You cannot watch Hamlet and afterwards listen to Beethoven's Fifth Symphony." By contrast with the tyranny of "free TV," under Bernabei, the RAI broadcast programs based on Classical or similar great works: Homer's Odyssey, Manzoni's "I Promessi Sposi," the Bible, Tolstoy's *War and Peace,* Pinocchio, etc.

Of course, news programs were very sensitive. During the Cold War, there were unspoken rules to follow. Italy was a member of NATO and had the largest Communist Party in the West. But when it came to the Vietnam War, for instance, RAI reporters were told not to take sides. This led to their being accused of supporting the Vietcong, but Bernabei did not care. The Cold War also meant traps had to be avoided: On the day Kennedy was assassinated, the news flashed in Italy only a few minutes before the evening news program. The program head called Bernabei and the two read an Associated Press dispatch saying that Lee Harvey Oswald, the alleged killer, "had stayed in Moscow for a time in 1956." As the news program was going on the air, Bernabei decided to censor the AP wire. Reading that dispatch, he explained, would have given the impression that the Soviet Union pulled the strings behind Kennedy's assassination. "This would have set loose unpredictable reactions. Remember, in Italy, one out of four listeners was a Communist." Instead, Bernabei and his director called the RAI Washington correspondent, who told them that the State Department had issued a statement denying any international connection in the Kennedy killing. Only then, did the two decide to quote the AP dispatch, and follow it with the State Department denial.

The Schiller Institute protested in October 1994 when Queen Elizabeth's royal yacht Britannia *made a port of call in Copenhagen, briefing fellow Danes on the 1992 "Britannia plot" against Italy.*

The Cuban missile crisis

Bernabei was not a passive viewer of events, but an active participant in shaping them, even at the highest international level. The story of his involvement in helping resolve the Cuban missile crisis reveals a spectacular sequence of back-channel diplomacy, exemplary of the effort to overcome the Cold War confrontation and promote a climate of East-West understanding.

During the Cuban missile crisis in October 1962, Bernabei was in the United States, to attend a meeting of the just-founded association of satellite broadcasters. The meeting was cancelled and the participants were informed about the breaking crisis. They were shown the satellite photos of Soviet missile sites being built up on Cuba. The next day, they were shown new pictures, of Soviet ships bringing more missiles to Cuba. Not a word had yet been printed in the media. Italian Prime Minister Amintore Fanfani reached Bernabei by phone, and ordered him not to leave Washington. The next day, the Italian ambassador informed Bernabei of a mediation effort being conducted by the Italian government and the Vatican.

Here is Bernabei's account: "The Russians . . . could withdraw, but they needed a *quid pro quo*. They could not lose face. The U.S. should therefore give something in exchange for the withdrawal from Cuba, and this something perhaps was in Italy, because the Americans had missiles in Apulia and such missiles were aimed at the U.S.S.R. . . . They could hit southern Georgia.

"There was a public call for peace by the Pope. Thereafter, Fanfani, referring to this call, proposed the Apulia solution to the Soviet and American ambassadors. At that point, Fanfani told me to get ready. . . . For two days, I stayed in my hotel room and a State Department diplomat, whose name was Lister, came, and an exchange of proposals and counterproposals began. . . .

"At the same time, in Moscow, journalist Norman Cousins was the go-between between the Soviet government and Monsignor Cardinale at the Vatican. . . . All this planetary talk went on for some days. On a Saturday morning, the U.S. diplomat told me: 'You must come to the White House because Mr. Arthur Schlesinger needs to talk to you.' He escorted me to the White House, where I entered through a back door, and led me into a room, telling me: 'There is the room where the Security Council is meeting with President Kennedy.' At one point Schlesinger came out. . . . He came immediately to the point: 'You can say that that proposal is definitely approved. Withdrawal from both sides, Apulia and Cuba.' The next day, Sunday afternoon, Kennedy gave the news over television that the Soviet ships had turned around and were no longer heading to Cuba."

The British-American conflict

As a Christian, Bernabei believes in man in the image of God, and he views history as the conflict between the forces who believe in that idea and the forces who oppose it. During his political struggles in Italy, he has met the personification of the anti-Christian forces in the Whist Club circles. That club is, however, only a national element of an international oligarchy, whose manipulations are the background for conflict among nations (such as the Cuban missile crisis), actual wars, and political assassinations. The center of this oligarchy is London, and the United States is split down the middle by the conflict.

Here is how Bernabei describes the overthrow of the Shah of Iran and the rise of Khomeini. He begins with Enrico Mattei, the founder of Italy's national oil company ENI, who "was killed" in 1962.

Who killed him? asks the interviewer.

"Mattei had taught all oil-producing countries, such as Iran, not to be defrauded by the big oil companies. They give you 10, 12, or 15%? You must claim 50%! Mattei made a fifty-fifty agreement with the Shah, and the big oil companies launched a coup against the Shah."

At the time of these events, Bernabei was no longer at RAI. In 1974, he had become manager of Italstat, Italy's largest general contractor for infrastructural works. "We were very well informed about the plots being run in the area," he says, "because we were building the Bandar Abbas port" in Iran.

Bandar Abbas, a project launched under the Shah, was a strategic threat to the London-centered oligarchy. Being a commercial port, it could readily become a military base from which the Iranian fleet would control all traffic in the Persian Gulf. Therefore Iran must be destabilized and the project cancelled. The Bandar Abbas port was interrupted after the revolution and the Italians were never paid, Bernabei said.

Are you saying that in Iran, a war between Great Britain and the United States was fought? asks the interviewer.

"It is the old split in the capitalist system, which runs even through the bloc of the Seven Sisters [oil multinationals]. On one side is American capitalism, where Jewish financiers live together with Yankee financiers, they talk, they make agreements, and they do not shoot at each other. On another side is Anglo-Dutch capitalism, which is headed by the royal families of England and Holland, and ends up coinciding with the freemasonic establishment of those two countries."

The Falklands War was another episode in this conflict, says Bernabei. The issue was the Strategic Defense Initiative. "Reagan wanted to build an SDI system over the North Pole," he says, which the British did not like.

Well, is the U.S.-British conflict still going on? asks the interviewer.

"It seems so," comes the response. "When we say 'the British,' we mean, above all, the City, that is, the financial world. From this world, comes the push towards so-called 'financial globalization': you aim only to generate profits out of pure financial speculation, you don't care at all about development, and it does not matter if the result is a doubling or tripling of world unemployment. The United States, by contrast, I would say, aims for a more human globalization, which does not neglect industrial and productive development."

The Anglo-Dutch globalizers

Bernabei sees globalization as the final battle in this conflict, which will decide whether the world will be free or enslaved for a longer period ahead. In several places in the book-length interview, Bernabei expresses this idea, as the quotes below present a coherent picture, even though they are taken from several different places in the book.

"Globalization is this: to disrupt nation-states by creating chopped-up blocks of rich and poor areas, to be set one against the other, as it was done in Yugoslavia, and as they would want to do now in Italy, between the rich Po Valley and the South, the latter to become like Africa. . . .

"There are only two ideologies left: on one side that kind of liberalism and capitalism—so-called 'lib-lab'—that subjects man exclusively to profit; on the other side, religions (Catholics and all others who believe in God), which put man first. . . .

"I see a fight ongoing . . . this word, which is now fashionable, 'globalization,' what does it mean? It means to conquer the whole globe through the homologation of a logic. What logic? Profit. Do you believe that those who play such a game are afraid of arming a faction of bloody fundamentalists? . . . The centers which organized and financed terrorism [in Italy in the 1970s] had Anglo-Dutch minds and executive arms in Eastern and Western secret services. . . .

"Anglo-Dutch capitalism always had a preference for the Socialist International. . . . Big world finance, the so-called Gnomes from the City of London or from Amsterdam, have always had a large interest in the European 'filet,' that is, the Rhone Valley, the Po Valley, Croatia, Slovenia, Bavaria. . . . Our secret services have always coordinated their policy within NATO. . . . The American allies did trust the Italian Christian Democracy, but our northern European allies did not, to such an extent that they did not let the DC run the secret service. The Italian secret services therefore took directions for their moves directly from within NATO. . . . Look, France left NATO exactly for this: They could no longer tolerate British or Dutch permanent secretaries who tended to manipulate secret services."

The 'Britannia' plot

At the end of the book, Bernabei says that if you want to know who is destroying the Italian nation, look at the *Britannia* plot. He hands the interviewer a newspaper clipping. "Here it is, *Corriere della Sera,* Oct. 29, 1996: 'This is not a spy story. It was June 2, 1992 and the Queen's yacht [the *Britannia*] was anchored at the Civitavecchia docks. One hundred people, both Italian politicians and public managers, go aboard. The invitations had been issued by a curious organization promoting the export of British services, the "British Invisibles." They set course toward Argentario Island, with a seminar on privatizations. The British present their experiences with denationalization. There was the Warburg bank, Barclays, the City legal firms. Most of the Italians listened. Mario Draghi was among the first to speak. Newspaper articles, Parliamentary interrogations, charges of having sold Italy out to Anglo-Saxon finance. A conspiracy theory is even built up, about a plot by the City and Wall Street bankers, allied with [Lega Nord leader Umberto] Bossi, to bring Italy to its knees and buy it up for a dime.' What do you say about this? . . . Here is another clipping, *La Repubblica,* Jan. 3, 1998. Under the headline 'London Spied on Europe,' you can read that the BBC reports how 'Her Majesty's 007s are particularly active in member-nations of the European Union.' Former Foreign Office head Callaghan, they report, admitted that 'such intelligence made his negotiating position stronger.' That is globalization."

Judging from the numerous and different reactions, the book has contributed to the advancement of truth and has struck a nerve in the enemy.

President Clinton counters the China-bashers

by Jeffrey Steinberg

On March 10, President Bill Clinton sent a letter to China's Prime Minister Zhu Rongji, formally inviting him to Washington for consultations beginning on April 8. The President's letter upgraded the long-planned trip by the Chinese Prime Minister to a full state visit.

The significance of the President's action is twofold: First, it means that he, President Clinton—not Vice President Al Gore—will be conducting the lion's share of the discussions. Second, it is the most direct response from the White House to the efforts by some Congressional Republicans and elements in the media to wreck the "strategic partnership" between Washington and Beijing that has been carefully nurtured by the two governments for the past several years.

Over the past month, since the Senate acquitted the President on the impeachment charges, the same "Get Clinton" forces who were behind that travesty, have been trying to lynch the President over his "soft on China" policies, and to launch a new McCarthyite "red scare" over alleged Chinese espionage at U.S. weapons laboratories.

The "New Cold War" push against China was launched via the release of a study by a special Congressional committee, chaired by Rep. Chris Cox (R-Calif.), on alleged Chinese theft of U.S. defense technologies *during the 1980s*. For the first half of March, the *Washington Post,* the *New York Times,* and the *Wall Street Journal* have been spewing out a steady stream of propaganda, all based on the militarily preposterous thesis that China poses a new "strategic military threat" to the United States. Such "X Committee" (the Israeli apparatus spying on the United States) enemies of Clinton as Frank Gaffney of the Center for Strategic Policy, have been screaming for months that the *real* crime for which President Clinton should have been impeached was his sell-out of U.S. national security to Beijing. A book by two former Republican Congressional staffers, *The Year of the Rat,* has been peddled for months by every Clinton-bashing outfit linked to the neoconservatives and the Christian Right. So, the seeds of the latest Clinton-bashing, China-bashing effort have been germinating for months—planted long before the President was exonerated by the U.S. Senate.

President defends partnership

Travelling in Central America during the second week of March, President Clinton took on the China-bashers, during a press conference on March 11, at the close of a regional summit in Antigua, Guatemala.

Asked if he had been covering up Chinese espionage in the United States in order to "further your policy of engagement," the President aggressively responded, "If you realize how China is growing, both economically and the size of their population, this affects the welfare of every person in Central America—whether the United States and China are at odds in a conflict or have a constructive relationship that has honest disagreements, where nobody is under any illusions that the facts are different than they are, I would argue that our efforts to have an honest and open policy with China, so that they don't think that we have made a decision in advance to try to contain and limit them in their economic growth and their development as a nation, has paid dividends."

Citing cooperation from China on a number of weapons non-proliferation treaties as evidence of the success of the administration's approach, the President added, "I do not believe we would have had the cooperation we have had in trying to limit the impact of the Asian financial crisis, which has plunged tens of millions of people from the middle class into poverty in Asia, and represents the biggest short-term threat to democracy and to stability in Asia. I do not believe these things would have occurred if we had not had an open, candid, honest relationship with China, aware of all the facts."

On the same day that the President was speaking in Guatemala, the Defense Department stated that there were no plans to scale back the military-to-military exchanges with China's People's Liberation Army (PLA).

Furthermore, on March 9, Commerce Secretary William Daley briefed reporters in Washington on a March 28-April 1 trade mission he will undertake to China, with a delegation including representatives from several Cabinet departments, as well as a large number of industrialists, such as representatives from Raytheon, Lockheed Martin, and Westinghouse. Secretary Daley stated that his "primary goal in China is to expand the role U.S. exports play in modernizing China's infrastructure."

Berger weighs in

It is no coincidence that the Clinton-bashers seized upon the release of the Cox report to call for the firing of Clinton's National Security Adviser Sandy Berger, on the spurious grounds that he failed to move fast enough on "evidence" that the Chinese were stealing missile secrets from Los Alamos National Laboratory. In mid-March, two GOP Presidential candidates, Pat Buchanan and Steve Forbes, demanded that Berger be sacked.

As *EIR* has reported, Berger is the one member of the Principals Committee, the Cabinet-level national security policy team, who remains loyal to the President.

Appearing on "Meet the Press" on March 14, Berger aggressively defended his actions and the President's policy of engagement with China, noting that "most countries are engaged in efforts to obtain American sensitive information by clandestine means. The world is not a playpen here."

The March 15 *New York Times,* reporting on China's nuclear arsenal, noted that China's nuclear doctrine is a "minimal deterrent"—just enough to retaliate with one or two missiles after an attack by a major adversary. China's ICBMs are extremely vulnerable to attack; they are in fixed sites, and because they still use liquid fuel that must be stored outside the rocket, it takes an hour or more to fire such a missile.

Paul Godwin, an expert on Chinese forces who recently left the U.S. National War College, is quoted by the *Times* saying: "This is not an offensive force."

A column by Robert Scheer in the March 16 *Los Angeles Times* noted that the W-88 warhead which the Chinese supposedly learned to build by stealing the design from the United States, is one that the United States mounts atop a Trident submarine missile. "No one in the media or Congress has stopped to ask just what the Chinese would or could do with such a weapon," Scheer wrote, pointing out that the Trident—of which the Chinese have none—was built as part of a war-fighting capability against the Soviet Union to ensure that the United States would have a retaliatory capability after a Soviet first strike.

"China is a half-century behind the U.S. in the deployment of an intercontinental nuclear weapons arsenal, possessing a mere 20 unreliable, liquid-fueled, land-based, nuclear-tipped missiles to wave at our 10,000 super-modern weapons deployed on land, air and sea," Scheer said.

Appearing on NBC on Sunday, March 14, Rep. Norman Dicks (D-Wash.), the ranking minority member on the Cox Committee, responded to a question from host Tim Russert about the "serious damage done to our national security by the leaks at Los Alamos."

"Let me put it this way," Dicks said. "Today the United States still has overwhelming nuclear and conventional superiority over China. We have 18 Trident submarines, 50 MX missiles, 500 Minuteman IIIs, and three intercontinental bombers that can reach China. They possess less than two dozen ICBMs with the capability of reaching the United States. I mean, we went against Russia for 20 years with nuclear parity. We have overwhelming superiority here, and I think we deter the Chinese from even considering an attack against the United States. So I think we have to keep this thing in proportion, not panic."

Not fooled

The Chinese government has demonstrated an acute understanding of the factional dimensions of the fight in Washington. On March 15, Prime Minister Zhu Rongji, in a press conference at the close of a session of the National People's Congress in Beijing, lamented that "Sino-U.S. relations have been victimized by the internal struggle in the United States. I don't think my visit to the United States will bring me into a minefield, but I do expect to encounter an unfriendly atmosphere there," which, he said, would be countered by the "warm handshake" he expects to receive from President Clinton.

The same day, *China Daily* charged, "A witch-hunt is on. And it has been worked up to frenzy. . . . This time the target is not the President of the United States. It is a potential 'strategic partner' . . . China."

Despite Clinton's actions to cool the frenzy, some Republican diehards in Congress remain committed to sabotaging the "strategic partnership" at all costs. Richard Shelby, chairman of the Senate Intelligence Committee, on March 15 called for a ban on scientific exchange programs with foreign governments by U.S. weapons labs, pending the outcome of the Congressional probe of the China spy scare.

Belatedly, American high-tech corporations—the main losers in the China-bashing—have begun to flex their lobbying muscle against the new "red menace" efforts of the GOP and the media. On March 15, the *Wall Street Journal* reported that all of the major U.S. electronic and aerospace companies have formed a new lobby, to pressure every member of the House and Senate to end the unilateral sanctions policies against China and other major potential trading partners, lest what remains of the U.S. high-tech industrial base collapse.

U.S. export policy will hurt American industry, not China

by Marsha Freeman

Over the past year, while China and other nations of the "Survivors' Club" have been turning toward real economic growth through investment in infrastructure and new technologies, trade policy in the United States has turned more and more toward using various spurious arguments to limit exports to those nations. It has been claimed by the new Cold Warriors that eliminating high-technology exports to China is necessary to stop the flow of dual-use products that the Chinese military can use to upgrade its capabilities.

Because virtually any advanced technology that will enhance industrial production could be used in defense applications, the logical extension of this "enemy image" point of view would leave industry in the United States unable to export virtually anything to China, that China would be interested in importing.

This push to increase the restrictions on exports to China comes at a time when the U.S. domestic market has shrunk because of the contraction of the U.S. physical economy. The goods this country needs are increasingly being provided by imports that are "cheaper" because they come from developing nations whose currencies have been devalued by speculative attack. Decreasing domestic demand has left high-technology industry in the United States more dependent on exports than it has ever been before.

In the past, the government has put sanctions on certain high-technology exports to China, in response to Chinese behavior that the United States did not approve of. The changes in export policy that are being considered, and are already being implemented, are not called sanctions, but they are heading in that direction. These restrictions and controls are unilateral, as other industrial nations have not been so foolish as to institute the same export constraints. Therefore, China will continue to import satellites, computers, nuclear power plants, and machine tools that are needed for its economic growth that the United States refuses to sell to it, from other nations. As U.S. industry is making absolutely clear, it is not China, but American companies and American workers who will suffer.

The attack on aerospace

One year ago, a handful of relatively minor violations of export rules for American satellites sent to China for launch on the Chinese Long March rocket, were blown up into a national political scandal, resulting in the convening of a special Congressional committee to investigate the transfer of dual-use technology to China that could enhance that nation's military capabilities. The investigation by that committee, chaired by Rep. Christopher Cox (R-Calif.), centered around the satellite technology transfer question, but included other aspects of U.S.-China relations.

In February, for the first time in the history of the U.S. aerospace industry, a company was denied an export license for a commercial communications satellite that was to be purchased by an Asian consortium, majority-owned by the Chinese, to be launched on a Chinese rocket. Despite denials by officials of the Clinton administration, this decision represents a change in U.S. export policy. It is a change that was recommended by the Cox committee as part of the "tightening" of export restrictions.

According to the Aerospace Industries Association (AIA), U.S. aerospace exports to China totalled $2.256 billion in 1997, and an estimated 27,585 highly skilled jobs were generated in the industry from that trade. In commercial jet aircraft alone, China is expected to purchase 1,800 airplanes over the next 20 years, worth $125 billion.

In testimony to the House Committee on International Relations subcommittee on International Economic Policy and Trade on March 3, AIA vice president Joel Johnson pointed to the dramatic shift in aerospace sales over the past decade. Ten years ago, he said, more than 60% of their business was with the Department of Defense, and overall government sales accounted for 75%. Today, only 40% of aerospace sales are to the government, and of the remaining 60% (commercial sales), *three-quarters* is for export.

Johnson proposed that U.S. companies should be allowed to sell products that are available to China from other sources, that if unilateral controls are imposed they must terminated if there is no multilateral support for controls, and that economic sanctions should be limited in any case because they do not accomplish their objective. Johnson referred to export controls as "unfunded mandates," because the cost of such political action is imposed on labor and industry, and not on the Federal budget, which is supposed to fund foreign policy.

Machine-tool exports stalled

At the March 3 hearing of the House International Economic Policy and Trade subcommittee, the most astonishing picture of what export controls are doing to industry was presented by Dr. Paul Freedenberg, the Director of Government Relations of the Association for Manufacturing Technology (AMT). Freedenberg was Assistant Secretary of Trade Administration and Undersecretary of Export Administration in the Reagan administration. AMT represents 370 member companies which produce machine tools, manufacturing software, and measurement devices. Freedenberg began by reporting that of the $7 billion of product the machine industry sells annually, one-third is for export.

He indicated that the export regulations that are *in place now* have made it almost impossible to sell advanced machine-tool systems to China. China is the largest overseas market for U.S. machine tools, Freedenberg said, "and it has the potential to grow significantly from its current total of machine-tool imports from all sources of $2 billion."

But restrictions on exports to China of high-technology machines have led to the approval of only a handful of licenses per year, 25 in the past five years. Unlike the European nations, the U.S. government is "far more likely to disapprove machine-tool licenses," he said.

Because the U.S. restricts machine-tool exports to China, while not to other Asian nations, China only imports 9.9% of its machine tools from the United States. By contrast, South Korea, which is not subject to such controls, imports 22.3% of its machine tools from the United States. "It can be argued," Freedenberg said, "that the cost to U.S. machine-tool builders of the restrictive export control policy is approximately a quarter of a billion dollars per year in lost export sales to China."

The export controls limit what China can buy from the United States not only in number, but in cost—an indication of the sophistication and precision of the product. "Western European countries are exporting to China modern machine tools that would be unlikely to be licensed by the U.S. government," Freedenberg said. In 1996, the average price of a machine tool sold to China by a U.S. manufacturer was $155,000. The average for Italy was $208,000; for Switzerland, $348,000; and for Germany, $407,000.

A particular source of frustration of American machine-tool manufacturers, Freedenberg said, is that the restrictive U.S. export policy has meant that in factories in China that are joint ventures and have co-production arrangements with American companies, where the Chinese factories are monitored or supervised by American executives, the machine tools inside them are produced in Europe!

The Association for Manufacturing Technology recommends that there be a strong provision of "foreign availability" for any export restriction, so that the American firms are on a "level playing field" with foreign competitors. AMT also recommended strongly against the Cox committee proposal that China must agree in advance to surprise inspections as a precondition to license approvals. (The White House termed this condition a threat to national sovereignty.) Finally, Freedenberg advised that the United States first figure out what its China policy is, and then try to come to some agreement with the other nations of the world on technology transfer.

What is an 'advanced' computer?

The third industry representative testifying at the subcommittee hearing was Dave McCurdy, president of the Electronic Industries Alliance. He stated that, similar to the other advanced industrial sectors, one-third of what the U.S. electronic industry produces, more than $150 billion in goods, is exported. "That means more than a third of the 1.8 million employees who work for U.S. electronics companies depend on exports for their jobs," McCurdy said. "And the percentage goes up every year."

Echoing a point that had been made recently by Undersecretary of Commerce William Reinsch, McCurdy said that no amount of government subsidy could have done more to develop certain European technologies than U.S. export controls. "While the U.S.-China relationship may be controversial in this country," he said, "there is no such dilemma for our allies. For them, China is a strategic partner to cooperate with, on a wide range of political and economic issues."

McCurdy reported that the FY 1998 National Defense Authorization Act had already increased the export control restrictions on computers, and that "the U.S., alone among exporting nations, keeps an extensive list of individuals, companies, and organizations with whom commercial business is prohibited from dealing." He said that the list now comprises nearly 3,000 entries, and is expanding "at a staggering rate."

According to the March 16 *Wall Street Journal,* U.S. computer companies have formed a lobbying group called the Computer Coalition for Responsible Exports. It has released a study showing that U.S. export restrictions are so out-of-date, that by the end of this year, computer manufacturers could have to apply for licenses to export run-of-the-mill laptop computers to China.

Kenneth Kay, chairman of Infotech Strategies, told the *Journal* that last year the Commerce Department reviewed 300 export licenses. "The study we're unveiling," Kay said, "suggests that we could soon have as many as 300 licenses a day," indicating how the growth in the export market could overwhelm the current system.

While the China-bashers complain that U.S. national security is threatened by selling high-technology to China, the point has been correctly made that real security depends upon a healthy domestic economic base, which, in the United States, is increasingly being eroded by destructive economic policies, including export controls.

Clinton gets out front on Africa policy

by William Jones

President Clinton has taken the lead once again in focussing attention on the crisis in Africa, calling for $70 billion in new global debt relief, in the keynote to the U.S.-Africa Ministerial meeting held at the U.S. State Department on March 16, in which 46 African nations participated. In so doing, the President personally took the initiative to put Africa back on the front-burner of U.S. policy.

Since his trip to Africa last year, Clinton has been working to push through Congress a bill entitled the "Africa Growth and Opportunity Act." Although it has bipartisan support, many in the Congressional Black Caucus considered it wrong-headed, with too much emphasis on free trade and economic reform and too little on dealing with the overriding problem of the debt, which is stifling African economies. The bill was passed by the House last year, but not by the Senate. It has been revived again this year.

A bill introduced this year by Rep. Jesse Jackson, Jr. (D-Ill.), entitled the "Hope for Africa Act," focusses on the fundamental question of African debt (see accompanying article). It calls for massive debt relief as a prerequisite for "growth" and "opportunity." The Jackson bill also places the onus where it belongs—on the policies of the International Monetary Fund (IMF) and the World Bank, which have imposed additional heavy debt burdens and austerity requirements on African nations. Jackson's bill has been cosponsored by 51 members so far, and will draw support away from the flawed administration bill, perhaps pressuring the administration to address the debt problem more directly.

Judging from Clinton's remarks at the Africa Ministerial meeting, the President himself is shifting the focus toward the debt problem. "Today, I ask the international community to take actions which could result in forgiving $70 billion in global debt relief," the President said. "Our goal is to ensure that no country committed to fundamental reform is left with a debt burden that keeps it from meeting its people's basic human needs and spurring growth."

The President's proposal includes complete forgiveness of all bilateral concessional loans to the poorest countries, and "deeper and broader reduction" of other bilateral debts. The President urged donor countries to provide 90% of development assistance on a grant basis, and to make additional contributions in order to help finance the initiative. He also called on the IMF to sell some of its gold for this purpose, and indicated that he would take up these proposals at the next Group of Seven meeting in June. How much cooperation the President will receive from the Republican Congress or from the IMF leadership, remains to be seen.

Problems in U.S. policy remain

The conference revealed some of the big problems remaining in U.S. Africa policy, which is dominated by Al Gore's Principals Committee. Nowhere is this more clear than in U.S. policy toward Sudan. One of the most fertile nations in Africa, Sudan could easily become the bread-basket of the continent. The United States, however, under the influence of Defense Secretary William Cohen and Secretary of State Madeleine Albright, has attempted to isolate the government of the Republic of Sudan. Under the direction of Assistant Secretary of State Susan Rice, Sudan was excluded from this meeting of African nations, on the false pretext that it supports terrorism.

Even after the insane U.S. bombing of the Al-Shifa pharmaceutical plant in Khartoum last year, a move which is widely considered to have been based on false information regarding the factory's alleged role in Osama Bin Laden's terrorist network, the United States has refused to back down from its obstinate policy toward Sudan, despite considerable opposition to that policy from within the State Department itself. In this respect, the new Africa initiative is certainly not all-inclusive.

Making all its initiatives compatible with the free-trade paradigm which dominates administration policy, and lacking the courage to buck the IMF bureaucracy, the Clinton administration has not undertaken the type of dirigistic measures which could tackle the problems in Africa head-on. Instead, the aid bills, the Africa Growth and Opportunity Act in particular, pussy-foot around the real problems, creating the illusion that the workings of the market will solve everything. As Rice's Africa show-case model, Uganda, clearly shows, these market reforms often result in the worst type of brutality and corruption. And yet, the seriousness of the situation in Africa, and steadily growing support for Africa within the United States—especially, but by no means limited to, the black community—might force through some real action.

A key factor in accomplishing that will be the desire on the part of the President himself to make a difference in Africa. As he expressed it at the Africa Ministerial: "Africa is the ancient cradle of humanity, but it is also a remarkably young continent. When I traveled through the streets of the African cities and I saw the tens of thousands, the hundreds of thousands of young people who came out to see me, I wanted them to have long, full healthy lives." Laudable as the debt forgiveness initiative is, to achieve such a noble goal will require a "Marshall Plan" effort for Africa, rather than the present piecemeal approach of throwing in a few new lines of credit and aid to the beleaguered continent—which is still under the watchdog eye of the IMF bureaucracy.

Jackson's HOPE for Africa Act challenges rule by the IMF

by Linda de Hoyos and Carl Osgood

On Feb. 23, Rep. Jesse Jackson, Jr. initiated a bill for an American policy toward Africa, entitled The Human Rights, Opportunity, Partnership, and Empowerment for Africa Act (HOPE for Africa Act), as an alternative to the Clinton administration's African Growth and Opportunity Act (H.R. 434), which the administration had put forward in 1998 in the wake of the President's visit to the continent.

Jackson's HOPE Act has 50 co-sponsors from the House of Representatives and is supported by the AFL-CIO, which regarded the Clinton administration's bill as a replica for Africa of the anti-labor North American Free Trade Agreement (NAFTA). That a broad swath of the constituencies of the Democratic Party, including African-American leaders and social justice organizations, and environmental groups, support the bill, is an indication of the disquiet throughout the country with the onerous globalization policies represented by Vice President Al Gore and his big-buck backers.

The bill is one of the most significant challenges to the free-trade globalization that is destroying the world economy, ever to be put forward on Capitol Hill. It immediately challenges the entire structure of the post-colonial regime over Africa on two counts:

- It calls for an end to the conditionalities and structural adjustment programs of the International Monetary Fund (IMF) toward Africa, which programs have proven in every case to have destroyed the productive sector of African countries and destroyed countries' ability to deliver social services to their people, with the result that African life expectancy is plummeting across the board. The bill is also clear that IMF conditionalities represent a violation of the "self-determination" of countries—their national sovereignty.
- It calls for debt cancellation for the African countries, and a cap of 5% on the ratio of debt service payments to annual export earnings. The bill calls for the immediate cancellation of all bilateral debt owed by Sub-Saharan Africa (SSA) countries to the United States, and "instructs the U.S. representatives to the IMF and the World Bank to advocate full debt cancellation for Sub-Saharan countries. "In the interim, while the existing debt is being canceled, the Act provides for a cap of no more than 5% of export earnings of a SSA country to go towards servicing foreign debt," it reads. Such ratios now stand between a minimum of 15% and usually far higher, in the range of 45%. The cap is modelled on a similar cap placed on the debt service payments of Britain and Germany in the aftermath of World War II.

The Act further "provides for the purchase by the U.S. government (at Jan. 1, 1999 market value) of debt owed by African nations to private U.S. lenders and the debt's subsequent cancellation. The face value of this debt, and thus its continual interest payments, are significant, but its market value is less than a single year's interest. By eliminating the principal, this provision will remove the burden of large annual interest payments." The bill adds that "SSA governments benefitting from debt cancellation will be encouraged to devote at least 20% of their national budgets to basic services, with civil society input into allocation decisions."

The Clinton administration's bill had not called for any debt relief, and the administration has followed a policy with the Paris Club of granting debt relief to countries only if they have met onerous conditionalities to cut government spending, privatize state-owned firms, and agree to a regime of free trade.

However, at the African Ministerial meeting in mid-March (see article p. 66), the President called for the cancellation of \$70 billion of the \$230 billion debt of Sub-Saharan African countries, reflecting the pressure coming from the HOPE Act *and* the President Clinton's commitment to changing its relationship to Africa.

The Act significantly addresses the necessity to address the HIV epidemic that is now rampaging through the entire continent at levels of virulence reminiscent of the Black Death of the 14th century. The Act calls for increasing the accessibility of pharmaceuticals to Sub-Saharan nations, since most Africans cannot begin to afford those medicines which have proven efficacious against AIDS.

The HOPE Act thus opens the debate on not only how the United States will treat African countries, but how it will deal with the current global financial collapse. It recognizes the fact that the African continent is dying—dying from poverty and the disease and wars such poverty produces. If the IMF conditionalities are continued, if the African countries are kept in a state of "debt slavery," as Zambian President Frederick Chiluba has called it, the 500 million people of the African continent will die, in the near term. But the depleted state of the African economies, where poverty levels are at 70%, is only the most advanced front of the general collapse the IMF is imposing also on Asia, South America, and Russia.

The HOPE Act is thus a first step, but by no means the whole answer, to addressing the fact that the entire world's productive economy has been run into the ground by the free-trade dogmas of the financial oligarchy and its IMF enforcer. The Act does not address, but begs the question, of the reorganization of the world monetary system, the creation of a New Bretton Woods System as called for by American statesman Lyndon LaRouche, based on the principle of a community of interest among sovereign *nation-states* in the development of global infrastructure and development (see LaRouche Action Memo which follows).

Falling short

Although the HOPE Act directly challenges the IMF, it does not challenge the prescriptions for the "development" of underdeveloped countries which have guided the actions of the Fund and the World Bank over the last 45 years.

First and foremost, the Act provides for only $500 million in Overseas Private Investment Corp. funds for the construction of infrastructure on the African continent, such infrastructure to include "basic health services, potable water, sanitation, rural electrification, and accessible transportation." This $500 million does not begin to address Africa's huge infrastructure deficit. Africa today consumes less than one-sixteenth of the world's *average* in electricity; in some countries roads are nonexistent; in most countries, less than half the country has the privilege of drinking clean water.

While giving infrastructure short shrift, the HOPE Act calls for "supporting sustainable development," a phrase connoting the continued infrastructural and technological apartheid against the continent. Thus, the Act's program continues the "piecemeal" approach of low-cost, small projects for African countries—"strengthening educational systems, particularly for women; strengthening health care, particularly for HIV/AIDS prevention and treatment; strengthening prenatal care; supporting democratization; enhancing food security and sustainable agriculture; increasing the incomes of poor individuals; protecting the environment; enhancing the social, political, and economic status of women;" and prohibiting the use of any aid funds for military purposes.

The Act provides that such aid "will be dispensed through non-governmental organizations," a measure that abrogates the principle of national sovereignty.

Such an approach will not solve the problem. Priority attention must be placed on construction of those infrastructural projects—such as the Transaqua Project for the Democratic Republic of Congo and Central Africa, which would permit the massive irrigation of the desertified Sahel; the Jongeli Canal in southern Sudan on the Nile River; the building of trans-continental railways both east and west, and north and south; the introduction of nuclear-powered agroindustrial complexes, which permit the introduction of modern agricultural methods and the production of desperately needed electricity through nuclear power. In short, there is no reason for Africa to be maintained at "sustainable levels" of deprivation—the mission is to bring Africa into the 21st century, through the prioritization of projects that *transform* the entire productive landscape.

Then, Africa's vast productive capacities can flourish.

Documentation

Free trade bill vs. HOPE for Africa

Here is a comparison of the HOPE for Africa Act (H.R. 722) with the African Growth and Opportunity Act (H.R. 434).

Economic policy: self-determination or paternalism?

H.R. 434 rejects Sub-Saharan Africa (SSA) nations' right to self-determination by coercing them to adopt the International Monetary Fund (IMF) economic development model which has already had devastating consequences in the region. In order to qualify for the bill's narrow trade benefits, SSA countries must be annually certified by the U.S. President as meeting a long list of U.S.-imposed, IMF-style conditions:

- cutting government spending, such as further depriving vital health and education services of desperately needed funding;
- cutting corporate taxes;
- privatizing public assets through divestiture and opening up most areas of their economies to ownership and control by foreign multinationals, such as mines, agricultural land, and telecommunications;
- abandoning economic development policies that nurture local industry and enable it to compete globally;
- joining the World Trade Organization, where the Organization of Economic Cooperation and Development has said African nations will be the big losers; and,
- adopting policies such as the abolition of price controls, that will jeopardize food security.

On the other hand, H.R. 772, the HOPE for Africa Act, is based on the recognition that African nations have the right to determine their own approach to economic development.

Rather than being conditioned on SSA nations' adopting a one-size-fits-all economic model, the substantial benefits provided (market access for a wide range of African products, business facilitation, debt relief, development assistance), are instead designed to provide SSA nations with the resources and the freedom of maneuver necessary to pursue the policies that are in the best interest of the majority of their citizens.

The HOPE for Africa Act is modeled on the policy priorities established in the Lagos Plan of Action drawn up by African Finance Ministers in cooperation with the Organization for African Unity.

Debt relief

H.R. 434 provides no debt relief whatsoever—despite the fact that Africa's crushing $230 billion debt burden is a massive obstacle to economic and social progress.

HOPE for Africa provides for comprehensive debt cancellation. With upwards of 20% of Sub-Saharan nations' GDP going to debt service, few resources are devoted to economic development and urgent local needs.

African debts have been repaid many times over, but the vicious cycle of taking out new loans to pay the excessive compound interest on the old loans ensures that its debt will never be "officially satisfied."

HOPE for Africa calls for full cancellation of African foreign debt, starting with the relatively small debt owed to the U.S. government and covering IMF, World Bank, and private sector loans. By eliminating the principal—whose market value is less than a single year's interest payments—HOPE will remove the burden of servicing the debt.

During the period of debt cancellation, HOPE for Africa caps debt payments so that no African country is forced to pay an amount exceeding 5% of its annual export earnings toward the servicing of foreign loans (the same percentage countries paid under the Marshall Plan).

LaRouche's plan of action for Africa

Here are excerpts of LaRouche's remarks at a March 18, 1998 EIR *seminar on his New Bretton Woods proposal. The full speech appeared in our March 27, 1998 issue.*

First, the fact that the present crisis is *global and systemic,* rather than *regional* or *cyclical,* must be acknowledged. This acknowledgment is the required premise for any rational discussion of policy to follow. Within those bounds, those recent decades' institutionalized changes in policy, which are responsible for a three-decades build-up of the present crisis, especially since August 1971, must be identified, and entirely removed.

That is, the policy changes, the relevant policies made since approximately 1966-1967, in the policies of the U.S. government and the British government, the policies expressed by the 1967 collapse of the British pound sterling, the ensuing disorders in the dollar, the first step of collapse of the Bretton Woods System in March 1968, and then the collapse of the whole Bretton Woods System in mid-August 1971—the changes which have come in that process and out of that process, are the cause of what is today a *global systemic crisis.* It is not a cyclical crisis, it is not a business cycle crisis, nor is it regional. It is global. The entire system has destroyed itself, and the unravelling, which has taken over three decades, has now brought us to the end point, to the boundary conditions of extreme turbulence, as many boundary layers tend to be, in which we either eliminate those policy changes which were popularized and institutionalized during the past three decades, *or this world is not going to make it, in its present form.*

Nothing less than radical excision of those institutionalized practices which are now generally accepted, will suffice to halt this crisis.

Second, the present fatally ill global financial and monetary system, must be radically reorganized. It can not be reformed, it must be reorganized. This must be done through the concerted actions of a key initiating group of governments. This must be done in the manner of a reorganization in bankruptcy, conducted under the authority not of international institutions, but of *sovereign governments.* The acceptable model for the reorganized international monetary and financial system, is the incontestably superior successful functioning of the old Bretton Woods System of the pre-1958-1959 1950s, over anything existing since those axiomatic changes in direction of policy-shaping which were introduced by the United Kingdom and the United States, during the period 1966-1972.

The required measures include:

a) periodically fixed exchange values of national currencies;

b) limited convertibilities, as may be required;

c) exchange controls and capital controls;

d) fostering of necessary protectionist measures in tariffs and trade regulations; and

e) outlawing of the creation of markets which conduct financial speculation against targetted currencies.

Third, as measured in physical instead of the usual monetary terms, the world's economy is presently functioning at levels of *negative free energy,* which are presently far below a breakeven point. The current levels of net physical output are insufficient to prevent the existing populations and economies from continuing to collapse into a spiral of accelerating general physical-economic contraction, and ultimate physical collapse.

Unless this shortfall in per-capita physical output is reversed and soon eliminated, no financial and monetary system, however sound in design otherwise, could function. No mere medication could save a man who is being starved to death. There is no financial and monetary system which could possibly succeed, unless it were accompanied by a general program of forced-draft physical-economic recovery, a program which must rapidly approach and reach the levels of sustainable, positive free-energy ratios. This means a recovery analogous in important respects to the Franklin Delano Roosevelt recovery in the United States, and on a global scale.

Congressional Closeup by Carl Osgood

House, Senate pass 'ed-flex' bill

An agreement between Senate Majority Leader Trent Lott (R-Miss.) and Minority Leader Tom Daschle (D-S.D.) broke the logjam on the Education Flexibility Partnerships Act, and the Senate passed it by a vote of 98-1 on March 11. The agreement allowed Democratic amendments to come to the floor on funding for hiring 100,000 new teachers, funding for after-school activities, and establishing a national program for dropouts.

The amendment that caused the most frustration for Republicans was the teacher-hiring amendment sponsored by Patty Murray (D-Wash.) and Edward Kennedy (D-Mass.). Kennedy had made a motion to recommit the bill to the Senate Health, Education, Labor, and Pensions Committee, with instructions to the committee to report it back with the Murray-Kennedy amendment. Several cloture votes could not get past the motion to recommit, leading an exasperated Lott to complain that, despite broad bipartisan support for the bill, "We now see there is a raft of amendments developing that would undermine or stop or add to, explode this legislation." He pleaded with the Senate to "find a way to move this legislation." After the agreement, the Murray-Kennedy amendment was tabled on a party-line vote of 55-44.

The House passed its version also on March 11, but with less Democratic support. The vote was 333-90, after a series of Democratic amendments to increase accountability of the states participating in the waiver program was voted down. The most contentious of these was an amendment by George Miller (D-Calif.) that sought to require states to develop systems to measure student performance from one year to the next and establish achievement standards as conditions for receiving waivers. It was defeated by a vote of 196-228.

Dems gird for battle on Patients' Bill of Rights

The Senate Health, Education, Labor, and Pensions Committee began marking up the Republican-sponsored Patients' Bill of Rights bill on March 17, setting the stage for a showdown on what the Democrats say is their number-one issue for 1999. The GOP bill, using the "prudent lay person" standard, requires group health plans to cover emergency services without prior authorization, and provides an appeals process should the patient disagree with a health plan's decision not to provide coverage. It also bars health plans from forbidding providers to advise patients of certain treatment options, and requires health plans to communicate with beneficiaries about their decisions in clear language.

The Democratic bill is much broader. It includes changes to the Employee Retirement Income Security Act that would allow patients to sue health plans in state courts for damages resulting from adverse coverage decisions, and it covers a broader range of health plans. Minority Leader Tom Daschle (D-S.D.) vowed on March 9 that, if the GOP refuses to bring it up, he would force the Senate to debate the Democratic bill one way or the other once a budget plan is passed. "Millions of families across the country have had their health insurance company interfere in the doctor-patient relationship by denying treatment or payment for something their doctor recommended. These patient protections are urgently needed now," he said.

In the House, Minority Leader Richard Gephardt (D-Mo.) issued a similar challenge to House Speaker Dennis Hastert (R-Ill.). He said, on March 9, that the Patients' Bill of Rights is the "first major test" of Hastert's leadership. "It will show whether there truly is a change in the way we do business in the House or whether the rhetoric will fall short when measured against reality." He called on Hastert to bring the bill to the floor in March.

Supplemental funding moves through committees

A $1.2 billion supplemental appropriations bill that includes $677 million for disaster recovery in Central America, will be the first in a series of budget battles developing between the GOP leadership and the Clinton administration in 1999. The administration's request also includes $188.5 million to replenish Department of Defense accounts that were depleted by disaster relief efforts, $80 million for border enforcement, and $300 million for support of Jordan following the death of King Hussein.

The two bills marked up by the House and Senate Appropriations committees differ not only in the amounts appropriated but also in the amounts and sources of offsets to pay for the appropriations, required by the 1997 balanced budget agreement. While the House bill offsets no money from the Defense budget, the Senate bill takes $209 million out of the Pentagon's operations and maintenance accounts, money supposedly not needed because of lower-than-anticipated fuel and other costs. The Senate bill takes $285 million from the food stamp program, and is also the target for amendments on Kosova and relief for hog farmers.

On March 9, Senate Majority

Leader Trent Lott (R-Miss.) said that he is committed to passing the supplemental, but warned that "if people start playing political games with it, . . . you start adding political or frivolous or expensive amendments to it, it could collapse."

House endorses U.S. troops for Kosova

On March 11, after nine hours of contentious debate, the House passed a resolution by a vote of 219-191 authorizing President Clinton to deploy U.S. troops in Kosova as part of a NATO peacekeeping force. The resolution adds that the President should submit written reports prior to such deployment that address the concerns expressed in the debate.

The debate reflected deep divisions on both sides of the aisle regarding President Clinton's Balkans policy and the role of NATO and the U.S. military in the post-Cold War world. Democrats, while largely supporting the President, expressed reservations about the timing of the debate. Minority Leader Richard Gephardt (D-Mo.) warned that debating deployment of U.S. troops before an agreement is reached by the warring parties "is the height of irresponsibility, and threatens the hope for an agreement to halt the bloodshed and prevent the widening of this war."

On the Republican side, House Speaker Dennis Hastert (R-Ill.) began the debate with an eloquent plea for support of administration policy, even though he personally has reservations about deploying additional U.S. troops into the Balkans. He said that one message that should come out of the debate is "that a free people can disagree without violence and bloodshed."

Only a handful of other prominent Republicans joined Hastert in support of the resolution, however. Armed Services Committee Chairman Floyd Spence (R-S.C.) declared his opposition to the resolution. "My abiding concern is for the ability of our fighting forces to respond to crises that amount to real wars," he said. Majority Leader Dick Armey (R-Tex.) and Majority Whip Tom DeLay opposed it. While neither participated in the floor debate, DeLay went on Fox News Sunday a few days later to attack the "new NATO strategic concept," because it is in violation of NATO's purpose as a defensive alliance.

Budget battle begins in earnest

One day before the Senate Budget Committee was scheduled to begin marking up a budget resolution, Ernest Hollings (D-S.C.) said that he will be introducing legislation that will "stop the spending." In his March 15 press conference, he declared, "Number one, there is no surplus. Number two, the so-called saving Social Security [both the GOP and the Democratic plans] devastates rather than saves Social Security; and paying down the public debt is now fancy rhetoric for exactly what has gotten us into trouble, namely, fiscal cancer."

The budget resolution that the Senate and House Budget committees will be working on is the result of a framework agreement reached between the GOP members of both committees on March 4. The plan reserves the entirety of the projected budget surplus—which, as Hollings points out, does not exist—for Social Security, continues the spending caps of the 1997 balanced budget agreement, provides extra funding for education and defense, and cuts taxes, including $15 billion in fiscal 2000 and $800 billion over the next ten years.

House Minority Leader Richard Gephardt (D-Mo.) called this plan a "budgetary house of cards" because it "fails to protect the retirement security of middle-class families." He added, "I fear the Republican budget plan will end up sacrificing fiscal responsibility on the altar of tax cuts" because "a non-Social Security surplus will not significantly materialize before 2002." He demanded that Republicans say what taxes they plan to cut.

Senators demand more aggression against Iraq

Sam Brownback (R-Kan.) used a March 9 hearing of the Senate Foreign Operations Appropriations Subcommittee, which he chairs, as a forum to demand more aggressive action against Iraq. "I'm very troubled," he said, "that despite the President's signature on the Iraq Liberation Act, little has been done to implement the act." John Ashcroft (R-Mo.) declared, "The continuing exchanges of fire between U.S. warplanes and Iraqi air defense forces have made it clear that the threat posed by [Iraqi President] Saddam Hussein is not going to diminish unless aggressive action is taken to undermine his government."

Principal Assistant Secretary of State for Near East Affairs Beth Jones defended the Clinton administration's compliance with the Iraq Liberation Act, which sets as a goal of U.S. policy, the overthrow of Saddam. "Regime change is what the administration is working actively and aggressively to cause to happen," she said. But "it is very important . . . that this be an Iraqi effort that we very much support."

Editorial

A strategic red alert

As we head into April, any sane person can see that the level of strategic crisis has reached "red alert" status. The standoff in Kosova, where both sides are digging in their heels, is the most dangerous at the moment, but it is followed by a number of other crisis spots, from the ongoing war against Iraq, to the Israel-Syria tensions, to Chechnya, to Colombia, and many other smaller hotspots around the globe.

Most dangerous is the fact that the new Cold Warriors in Washington, centered in the Congress and on Vice President Al Gore's Principals Committee, are committed to pushing confrontations with China and Russia on virtually every front. And so far, President Clinton, beleaguered as he has been by the impeachment assault, has appeared unable to retake the initiative, in order to reestablish the partnerships for peace and cooperation which he has sought.

What is driving these local conflagrations toward a larger strategic crisis is precisely the fact that Washington has joined the British Commonwealth crowd in acting against, and despite, the objections of Russia and China, as well as other nations. It is also clear that the weakness of conventional forces in all theaters tends to exacerbate the danger that a flight-forward will occur, including the possible use of nuclear weapons. This joint dynamic is clearest in the Middle East, where both China and Russia—which are nuclear powers and on the United Nations Security Council—have continually objected to the British-American bombing campaign, only to be ignored.

It now appears that the British-Principals Committee crowd is also determined to act against the will of the regional Middle East powers, which, like Egypt, are coming out more and more forcefully against the unilateral military action.

U.S. collaboration with the Russians would also be the key to defusing the Kosova confrontation, which is being fed by outrageous provocations by Milosevic. But the United States and NATO have not been able to collaborate with the Russians to control Milosevic, in large part because the Russians are responding to U.S.-Western support for the International Monetary Fund's arrogant moves against them, as well as the unilateralism in the Gulf. An insistence on military action is likely to light a match in Europe that will start an uncontrollable fire.

While personal collaboration between President Clinton and Russia's leadership is critical for resolving the crises in the Middle East and Europe, the hotspots in Asia require closer coordination between Clinton and the Chinese. On the most dangerous hotspot there, North Korea, there seems to have been sufficient flexibility on the U.S. side to come to a deal which the Chinese and South Koreans approve of. But one cannot overlook the fact that Defense Secretary William Cohen himself, as well as the Republican Congressional yahoos, have been in the forefront of stoking the fires in that region—and the deal could fall apart.

And the global issues of the new NATO doctrine, which moots intervention anywhere against "weapons of mass destruction," and the provocative U.S. stance on ballistic missile defense have created considerable new tensions between the United States, and Russia and China, which could easily disrupt other agreements.

The key to shifting out of the danger zone lies with President Clinton reasserting his power over foreign policy, and consigning the Gore-Principals Committee provocateurs to their lairs once again. Fortunately, we are in a situation where the opportunities for this happening are great. The Prime Ministers of both Russia and China are making visits to the United States over the next two to three weeks, and it is precisely the understandings that can be reached between President Clinton and these two leaders on the strategic front, which can reverse the momentum toward a strategic disaster.

How do we make this possible? It is up to every thinking citizen in every country to mobilize to the fullest on the strategic issue, with the demand that the Gore-Principals Committee warmongering be stopped, and President Clinton ally with Russia and China around the program for global reconstruction which is the only basis for lasting world peace.

These war crises, which are fed by the financial oligarchy's attempt to *prevent* cooperation around a new monetary system, can only be solved by exposing their insanity, and moving forward to build that monetary system. There can be no holding back. Once the confrontation escalates, it may be unable to be stopped.