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This Week You Need To Know

Nemesis Stalks Chickenhawks: Iraq — Failure Fuels Countercoup

by Michele Steinberg

President Abraham Lincoln famously pointed to a principle of republican leadership in a national crisis, with his optimistic epithet, "You can't fool all of the people all of the time." And all signs are that time is up for the ignoble lies of the Straussian conspirators in the United States and Israel who pushed the Iraq war, and want America involved in world imperial "perpetual wars."

As of May 22, White House spokesman Ari Fleischer was gone; Israeli Prime Minister Ariel Sharon had cancelled his trip to Washington to see President Bush; Gen. Tommy R. Franks, CENTCOM chief and the Iraq and Afghanistan wars' commander, was gone; calls were being made on the floor of the Congress for the resignation of Deputy Secretary of Defense Paul Wolfowitz, the leading warmonger, and disciple of fascist philosopher Leo Strauss, in the Bush Administration; Sen. Robert Byrd (D-W.Va.) was denouncing the entire rationale of the Iraq war as a pack of deliberate lies coming from the Bush Administration; and the Central Intelligence Agency had assembled a panel of retired analysts to review "what went wrong" and "whodunnit" over the concocted intelligence reports that hyped a "clear and present danger" of Iraq's weapons of mass destruction, and predicted an Iraq where milk, honey, oil revenues, liberty, and democracy would flow after Saddam Hussein was defeated and ousted.

Throw into this boil, the fact that Godric Smith, press spokesman for British Prime Minister Tony Blair, resigned just hours after Fleischer. "Goddie" was second to Blair's chief spokesman Alistair Campbell, who pushed through the "British dossier" on Iraq's alleged ABC weapons on the eve of the crucial Feb. 5 UN Security Council debate; the dossier turned out to be a hoax.

The Role of Ariel Sharon

White House spokesman Fleischer did not resign, but was fired, say Washington sources. There were differences between Fleischer and the President, which likely overlap the question of why Prime Minister Sharon abruptly, on May 18, cancelled his May 20 meeting with Bush. This could be the beginning of "regime change" in Washington—and Jerusalem—what LaRouche has been calling the "countercoup" President Bush must implement to take back control of his Administration and the nation from the Cheney-Rumsfeld-Wolfowitz cabal.

LaRouche, acting as a "shadow President," accuses the Cheney cabal of having carried out a "coup d'état" under the cover of the Sept. 11, 2001 attacks, to implement a domestic police state, and put the United States at the head of an international "Waffen SS" imperial force. Iraq, for the Cheney gang, is only the first step in a succession of wars that include Syria, Iran, and Saudi Arabia. A countercoup is the *only* way, says LaRouche, for the United States to exit from the Iraq mess, for which the neo-conservative cabal is fully responsible. This exit strategy must include a peace plan in the Middle East leading to a Palestinian state.

Various Republicans have told Bush that he will not be able to win the election in 2004, unless he can push through the "Road Map" in the Middle East. He will not be able to win if he enters another war, or does not do something about the economic crisis. This advice would put Bush at loggerheads with the neo-conservatives, especially Cheney, and with Sharon and his allies. As *EIR* reported on May 23, Powell didn't win the "Road Map" issue in his May 11 meeting with Sharon, but once back in Washington, did establish the point that Sharon shows no respect for President Bush, and has gone too far.

Just before the Israeli Prime Minister was due in Washington, signs emerged that Bush was *not* backing Sharon's stiff-arm of the Road Map; pro-Sharon events in the United States *flopped* entirely. Without Bush's "green light," Sharon faces an existential crisis, needing U.S. backing to stay in power. That reveals the reason he stayed away from Washington.

On May 17, under intense pressure from Washington, Sharon met with Palestinian Prime Minister Abu Mazen, in Jerusalem, in the first Israeli-Palestinian summit meeting in nearly three years. Sharon had done everything possible to avoid such a meeting, but despite a Palestinian suicide bombing incident in Hebron just hours earlier, it went ahead. As expected, a deadlock resulted when Sharon refused Abu Mazen's request that he accept the Road Map. Sharon boasted that he would only discuss his reservations with George W. Bush. Then abruptly, the meeting with Bush was off, when a second suicide bombing in Jerusalem on May 18—the first Jerusalem bombing in *six months*—killed seven Israelis.

But, Sharon didn't cancel his trip because of terror incidents; rather, he used the excuse of the terrorism, so he wouldn't have to come to Washington and face a potential reproach from Bush. American and Israeli intelligence circles that know Sharon intimately, suspect that the recent terror wave in Israel bears the mark of his dirty tricks, since it was he who built up Hamas and Islamist terror networks to counter the PLO. The extremists on both sides use terror to derail peace.

It is now a problem for Sharon that he didn't go to Washington. For the first time in his 27-month tenure, he has not been able to use conveniently-timed terror to further his real desire—to cancel the Oslo Treaty, and move the Palestinians out of Israel and the Palestine National Authority completely. The five suicide bombings in 48 hours, from May 17-19, did not cause Bush to drop the Road Map. At the same time, a growing number in the American Jewish community are telling Sharon that the American Jews, like the majority of Israelis, actually support a Palestinian state, if that could bring an end to terrorism. The Sharonists are enraged that Bush phoned Prime Minister Abu Mazen on May 20, reiterating his commitment to a sovereign Palestinian state. Abu Mazen told Bush he is committed to combatting terrorism.

In Israel, the fascists in Sharon's cabinet are now calling for Israel to assassinate Palestinian President Yasser Arafat to stop the Road Map, and in the United States, Likudnik neo-cons are attacking Bush. Sharon wants to delay visiting Washington, hoping the neo-cons regain their monopoly around the Administration. But, Bush is now pressuring him to come *before* the President leaves for the G-8 summit in Evian, France on May 30.

Et Tu, Tommy?

But the biggest news was at the Pentagon, where on May 22, General Franks announced he was resigning. This left Rumsfeld twisting in the wind, reports a high-level Washington intelligence source, who agreed with LaRouche that Rumsfeld had acted like Adolf Hitler in running a purge of the traditional generals who opposed his utopian war plans for Iraq. Recall that Rummy had canned Secretary of the Army, retired Gen. Tommy White, as part of his plan to push through *Notverordnung* (emergency) laws to "transform" the military. Rumsfeld had also tried to silence Army Chief of Staff Eric Shinseki, who warned that Rummy's plan for Iraq would lead to a disaster, endangering civilians and spreading disease and chaos, because of an inadequate deployment of U.S. forces. Rumsfeld announced Shinseki's replacement *months* before his term was up. But now, the purges are backfiring—Rummy's intended replacement for Shinseki, General Keane, announced he wasn't taking the job; Shinseki stuck to his guns, and is considered "prophetic," within uniformed military ranks, because

he stood up to the chicken-hawks. Rummy has no Army Chief of Staff, and Franks, his "conquering hero," has quit.

The most important thing about these developments is that a fight started in Congress against the Rumsfeld plan after LaRouche declared that it was unconstitutional, and if it were pushed through, Rumsfeld was impeachable. LaRouche called the separation of powers concept the baseline of the Constitution, starting the fight which some Democrats and others have begun to join.

On May 21, the Cheney/Rumsfeld cabal also took a direct hit in Congress. Senator Robert Byrd, during the debate on the National Defense Authorization Act for FY 2004, said, "The American people have been lured into accepting the unprovoked invasion of a sovereign nation, in violation of long-standing international law, under false premises." He accused the Administration of manipulating the events of Sept. 11, falsely equating Osama bin Laden and Saddam Hussein. "It was the exploitation of [Americans'] fear," said Byrd. The Bush team's "extensive hype of WMD in Iraq as justification for a pre-emptive invasion has become more than embarrassing," since troops have so far found "fertilizer, vacuum cleaners, conventional weapons, and the occasional buried swimming pool." The hype has revealed, Byrd said, "the reckless use of power," with the "lucrative contracts" to rebuild Iraq's infrastructure. In the House, Rep. Barney Frank (D-Mass.) called for neo-con kingpin Wolfowitz to resign.

Investigation Announced

There is more to come. A Washington diplomatic source told *EIR* that there is tremendous anger in the capital against the neo-con coup, and there will likely be hearings—along the lines of Iran-Contra, or the 1970s Church Committee—to uncover how the Iraq fiasco was pushed through. Retired Marine Gen. Joseph Hoar, who opposed the utopian Iraq war plans, and remains a critic of what happened, called for full Congressional hearings, as soon as the combat ended.

On May 22, the first step of this emerged when the *New York Times* revealed that the *CIA* has begun a review of the reports circulated inside the government before the war—including sworn testimony to Congress—to compare them with what has actually been found—or not found—in Iraq. *CIA* Director George Tenet has named a team of retired intelligence analysts to run the review.

What is really targetted is the Rumsfeld/Wolfowitz "deception" unit in the DOD Office of Intelligence, and leading Straussian Abram Shulsky, who ran a "Chicken-hawk Intelligence Agency" that cooked intelligence reports using information from convicted Iraqi crook Ahmed Chalabi, to present so-called evidence about Iraq. Shulsky, who is featured in LaRouche's campaign pamphlet, *Children of Satan, the Ignoble Liars Behind Bush's No-Exit War*, is one of the first on the line.

LATEST FROM LAROCHE

Reply to a New DNC Abortion: — McAuliffe's Menstrual Cycle

by Lyndon H. LaRouche, Jr.

This statement was released by LaRouche's Presidential campaign committee, LaRouche in 2004, on May 21.

In what is clearly an expression of Democratic National Committee (DNC) Chairman Terry McAuliffe's simple lack of gentlemanly guts to face me in public debate, he proposes to gag all of the DNC's nine approved Presidential pre-candidates, by limiting their appearances in debates to once a month; that, on a controlled setting arranged by the right-

wing DNC mafia.

Before I tell you what I intend to do about McAuliffe's latest tantrum, I prepare for my announcement with a quote from the *New York Times'* description of one man's spin on McAuliffe's latest antics.

"Well, these forums are a lot more complicated than they might appear to be. It is not just a matter of a candidate hopping on a plane with an aide or two and stepping out in front of the klieg lights. In South Carolina, for example, it was not unusual to see candidates show up with a dozen aides to help them prepare for, and then get through, the big night. For campaigns keeping an eye on spending, that is a lot of hotel rooms, plane tickets, meals and, of course, bar tabs.

"For a nationally televised debate, a candidate spends two days out of public sight, running through practice sessions, and resting up for the big night. These days, there is already enough for a candidate to do, from raising money to hiring staff members, to figuring out what they stand for.... The more debates, the fewer new things there are for the candidates to say—which means that the only things that tend to draw attention are mistakes and miscues, as one campaign advisor said today."

If I could not walk into an impromptu debate, with no more than a few words from one of my associates, and deal competently with anything to which I should respond, I would not have started this campaign for the Presidency. With no more preparations than that, I would be prepared to respond on almost any relevant question of substance, any day of any week. A person who would require the kind of pre-grooming described by the *New York Times'* source, is not intellectually or emotionally fit for the office they seek.

Perhaps that is what really frightens the DNC's right-wing mafia—or, is it, perhaps, the mafia's DNC right wing?

If any among those candidates were fools enough to go along with McAuliffe's proposed menstrual cycle, I shall be waiting to reply to each and all as soon as I have seen the broadcast performance. I shall schedule a webcast, from anywhere in the world I happen to be, as promptly after the McAuliffe show as it is physically possible to arrange.

They are now all fairly forewarned. Think fast, fellows. It isn't McAuliffe; it is Michael Steinhardt's buddies, and perhaps, also, Vice President Cheney's I. Lewis Libby of Marc Rich fame, who are trying to make fools of you, just as Libby helped to set up outgoing President Bill Clinton.

Italy's No. 1 TV Channel Features Lyndon LaRouche

Italy's RAIUNO broadcast a lengthy interview with U.S. Democratic Presidential pre-candidate Lyndon H. LaRouche on May 20. The showing was especially appropriate given new developments around the LaRouche-initiated intervention in Italy calling for "A New Bretton Woods" (see [INDEPTH](#)).

'Anatomy of a Collapse'

The interview, taped in January 2003, was presented as LaRouche's policy for reconstruction of the collapsing world economy, as spelled out in LaRouche's call for a New Bretton Woods accord, among sovereign nations, focussed on great infrastructure projects, led by the Eurasian Land-Bridge.

Program directors piqued viewer interest by staging the reconstruction theme as a crime scene, including short film clips of mega-speculator George Soros and Bush family members, juxtaposed to the outline of a corpse on the floor, suggesting the

assassination of the economy.

LaRouche was presented as a world-reknown economist, on whom many try to stick more or less colorful labels, but who has the most insightful analysis so far on the world financial collapse.

Cheney and Rumsfeld Imperial Obsession

In his May 21 interview on *RAIUNO*, Lyndon LaRouche declared: "We have come to an end of the current financial and monetary system, and at this point, these people want to impose their model of world empire.

"Islam has become the target to start a clash of civilizations, and destroy Asia or Eurasia, before the latter succeeds in developing an alternative model to the empire. That is the target. Persons like Cheney and Rumsfeld are nothing but a reflection of these kinds of monsters."

President Bush, LaRouche said, "is not realizing what is happening to the U.S. economy. His attention is totally turned on the 2004 Presidential elections. He is a man of no intellectual depth; he is a man of passion, a man who uses a number of fixed expressions, charging them with a significant amount of passion.

"Bush is somewhat like a ball, kicked by the various forces present in the Administration, which make the ball spin in all directions. The hope of many in the United States, is that Secretary of State Powell wins the highest number of strikes and that Cheney, instead, misses them."

The Truth About September 11: An Inside Job

"My idea on 9/11," LaRouche said, "is the same one as that morning, when I got the news by watching television. It is something done by somebody inside the United States, at a high level; something which required maybe one and a half to two years planning.

"Since that day, the government has never produced any evidence of the real involvement of any Arab country in that attack ... my impression is that it was an operation entirely organized inside the United States, by persons who were seeking a pretext to start a war.

"The fact that the New York buildings had already been hit by terrorists is just a way to turn suspicions on Osama bin Laden as author and organizer of the attacks. It is not an opinion that I have developed now; it is something I said that very same day of the attacks: 'I hope that nobody tries to raise his finger against bin Laden for what is occurring.' "

Today's Economy a Throwback to the Roman Empire

In his *RAIUNO* interview, LaRouche explained that the current world economic crisis goes back to the turn away "from a producer society, a society based on agriculture and industry, to a consumer society," which started in 1964, with the Indochina war and the Harold Wilson government in the U.K.

"The change is very similar to the one which occurred in ancient Rome, after the end of the second Punic war; in that case, the shift brought slavery into Italy, and brought Rome to depend on the looting of other countries."

Similarly, "starting in 1964, the United States and Great Britain, instead of boosting production, have shifted towards a

policy of looting other countries. The result has been the collapse of world production.

"If we exclude India, China, and a few other nations, in fact, the physical product of the world has been decreasing, and therefore we are facing a collapse of the system, because the fundamental elements supporting the system do not allow a recovery. A recovery is possible only if we go back and invert that 1964 shift."

Two Possible Choices for the World Economy

Asked by the interviewer to make "one of your famous economic forecasts," LaRouche answered: "There are two possibilities, and we must choose. There is nothing pre-determined; it is a choice.

"In Asia, Eurasia, there is a quite interesting development: China, Russia, Southeast Asia, India, Korea and Japan are oriented towards a convergence, on a greater expansion represented by what China has done with the Three Gorges Dam or with the maglev connection between the Shanghai Airport and the city of Shanghai, and similar projects, the Mekong development projects, etc....

"This is the largest market in the world; Europe is now bankrupt. To escape a hopeless bankruptcy of the Euro system, countries such as France, Germany, and Italy need larger markets. In the long term, these larger markets can be found in India, China, Southeast Asia etc., which are already important markets for Europe.

"Russia will play a role, as economic partner of Western Europe, through the reorganization of the Russian debt, which can be transformed into credit for industry and joint ventures between Russia and Europe.

"Given these circumstances, the world can come out of the depression, on the condition, however, that there is the capacity to create a new monetary system, able to manage the problems, through long-term, 25- to 50-year investments, through technology-sharing operations rather than technology export.

"If we, in the United States, decide to reach an agreement with Europe and Asia, collaborating with Asia and Europe, freeing Africa from genocide, reconstructing Central and South America and similar things ... if we succeed in reaching an agreement on these questions, we will be able to come out of the impasse, and within one generation we could count on one of the most solid economies the world has ever seen.

"If we do not do that, if we try to collect debts, like the Lombard bankers did in the 14th century, then we will sink in a new dark age. That is the situation."

U.S. Economic/Financial News

U.S. Budget Deficit Headed for \$500 Billion-Plus

The U.S. Treasury Department reported last week that for the first seven months of fiscal year 2003 (ending Sept. 30), the U.S. government ran an *official* budget deficit of \$201.61 billion. The U.S. Treasury projects that the U.S. government will run an *official* budget deficit of a whopping \$304.16 billion for the full fiscal year 2003.

However, *EIR* has determined that the actual budget deficit is much larger than the *official* one that is reported. The key to understanding why the budget deficit is out of control, is to look at the collapse of the U.S. physical economy, which produced the collapse of revenues, especially of individual income taxes and corporation income taxes. Together, these two

taxes form the bulk of all U.S. government revenue.

Table 1 — Individual Income Taxes — (\$ billions)

Fiscal Year	First 7 Months	Entire Fiscal Year
2001	\$657.3	\$994.3
2002	\$536.5	\$858.3
2003	\$493.8	\$790.0 (e)

(e) = estimated source: U.S. Department of Treasury

Table 1 shows the actual amount of individual income taxes taken in for the first 7 months of fiscal years 2001, 2002, and 2003. It also shows the actual amount of individual income taxes taken in for the entire year of fiscal years 2001 and 2002. The table estimates the amount of taxes to be taken in for the entire fiscal year 2003, based on a continuation of the trends of the first seven months of that fiscal year. Were this trend to continue, then U.S. individual income taxes would fall from \$994.3 billion in FY2001 to \$790.0 billion in FY2003, a staggering decline of 20.5%.

There are two overriding reasons for the collapse in individual income taxes: 1) the plunge in household incomes triggered by lay-offs, wage cuts, etc.; and 2) the sharp drop in capital gains taxes, reflecting the popping of the stock market bubble.

Table 2 — Corporation Income Taxes — (\$ billions)

Fiscal Year	First 7 Months	Entire Fiscal Year
2001	\$105.2	\$151.1
2002	\$88.2	\$148.4
2003	\$62.8	\$105.5 (e)

(e) = estimated source: U.S. Department of Treasury

The method of constructing Table 2 is the same as that employed in Table 1. Assuming that the trend of decline in corporation income taxes of FY 2003 were to continue, then U.S. corporation income taxes would fall from \$151.1 billion in FY 2001 to \$105.5 billion in FY2003, a decline of 30.2%. Between FY 2001 and FY2003, the combined drop in individual and corporation income taxes will total \$249.6 billion.

Jobless Claims Above 400,000 for 14th Straight Week

New claims for unemployment benefits rose to 428,000 in the week ended May 17—the 14th consecutive week above 400,000. Continuing claims for unemployment insurance, hit an average 3.68 million over the past four weeks, the highest level since June 2002.

Snow Warns Congress: Treasury To Hit Debt Limit by May 28

Treasury Secretary John Snow, in a letter to House Speaker Dennis Hastert (R-Ill.), said he will continue to suspend new investments in the Civil Service Retirement Fund—and redeem previous ones—until Dec. 19, extending a previous July 11 deadline, in order to free up about \$20 billion beneath the \$6.4 trillion debt limit. The "debt issuance suspens

government enough cash to operate "until on or about May 28." The move should allow Treasury to resume short-term bill auctions this week on a delayed basis.

"The Treasury has now taken all prudent and legal steps," he warned, "to avoid reaching the statutory debt limit," adding, "An immediate permanent increase in the debt limit is crucial to preserve the confidence in the U.S. government."

Projected incoming government receipts, Snow cautioned, will not be sufficient to cover government payments coming due by the end of the month, including \$21 billion in individual and business income tax refunds, \$40 billion to Social Security recipients, and \$12 billion in payments to defense contractors.

Middle-Class Atlantans Seek Mortgage, Other Assistance

In a crisis that is repeated in many cities around the country, charities in Atlanta, Ga. are faced with dramatically rising requests for mortgage assistance—even from "typically self-sufficient families"—while contributions are shrinking, according to a recent survey of 175 local non-profit agencies by the United Way of Metropolitan Atlanta. "What's apparent and disturbing," said Betty Hanacek, vice president of United Way 211, "is that more of our calls are from middle-class families who themselves never thought they would need help from others, and more callers are desperate. The resources just aren't available to help in many cases."

In 2002, in a survey of Atlanta's non-profit service providers, 69% reported an increase in requests for assistance, compared to 2001—with nearly one-third saying demand has grown by 25% or more—while about half of the agencies reported a decline in contributions from individuals as well as from corporations, foundations, and institutions.

Requests for mortgage-payment assistance skyrocketed by 46% in 2002, as even middle-class families have been hit, not only by job layoffs (United Airlines, which has a hub in Atlanta, filed for bankruptcy), but also by other "economic difficulties": Rent requests rose by 16%; requests for help in paying gas bills jumped 52%. "Where we used to have maybe one request for mortgage assistance every month, we're having 10 or maybe 15 a month," said an assistance provider.

As need is rising sharply, 29% of non-profits said they were forced to cut back services, with one-third having to cut staff. Nearly three-quarters of the charities rely on government funding to operate their programs and/or services, even as state and local governments impose cuts.

Greenspan: Fed Lacks 'Sufficient Information' on Economy

As the U.S. economy slipped deeper into depression, Federal Reserve Chairman Alan Greenspan on May 21 babbled that the Fed lacks "sufficient information" to "make a firm judgment about the current underlying strength of the real economy." "We're not quite clear at this stage what the path of short-term economic activity is," he told the Congressional Joint Economic Committee. Still, he claimed it is "not unreasonable" to expect an economic recovery to appear—as if by magic—but cautioned that the "timing" and "extent" of growth, "continue to be uncertain."

Greenspan indicated that the Fed would continue its lunatic policy of hyperinflating the money supply. Were the federal funds rate to approach zero, he said, the Fed does have the capability of further "expanding the monetary base." "We see no credible possibility," despite whatever would happen, that the Fed will "run out of monetary ammunition to address" economic problems.

The Ayn Rand devotee opined, "an endeavor to fix exchange rates in the face of imbalances, induces financial breakdowns," and "requires a degree of flexibility in capital and labor flows (i.e., looting) which we have not yet achieved."

Weirton Steel Files for Chapter 11 Bankruptcy

Continuing the collapse in the steel industry, West Virginia-based Weirton Steel—the nation's sixth largest integrated steelmaker—announced it was filing for Chapter 11 bankruptcy protection on May 18, *Reuters* reported. The company was forced into Chapter 11 despite two major reorganizations in the past three years, which cut costs by laying off workers, reducing pay, eliminating work rules, and reducing health benefits. Weirton, which was celebrated as the largest wholly employee-owned company in the U.S.—employees bought the company when it was threatened with closing in 1984—is the second largest tin producer in the country, second only to U.S. Steel. The Debtor in Possession Management has already announced that the bankruptcy declaration will permit further reduction in "legacy" costs—pension and health benefits owed to retirees.

Industrial Real Estate Vacancies on the Rise

Vacant space in the industrial real-estate market, rose in the first quarter of 2003 to 10.06%, the highest level since Q3 1994, from 8.89% a year earlier, according to a report by Grubb & Ellis Co, reported in the *Wall Street Journal* May 21. Chicago and Seattle were hit hard, while San Jose, Calif. had the highest industrial vacancy rate at 18.5%. Average asking rents (requested by landlords) continued to fall, both for distribution warehouses as well as research and development facilities.

World Economic News

Japan Bails Out Fifth-Largest Bank; Who's Next?

Raising concerns that other major banks may require similar rescues, Japan's government said it will pump an estimated \$17 billion in public funds into Resona Holdings, the nation's fifth-largest bank, effectively putting the lender under government control, after the bank asked for help on May 17. Its capital-to-assets ratio had dwindled below 6%, the legal minimum for domestic banks. Prime Minister Junichiro Koizumi for the first time convened the Financial Crisis Council. "It was a crisis for Resona, but it's not a systemic problem," assured Chief Cabinet Secretary Yasuo Fukuda, denying reality, but even so, suggesting the government does not rule out injecting funds into other banks. "This is not what we will call a crisis," he said.

Resona had been inflating profits for years, raising fears that even larger banks, such as Mizuho Financial Group, have not been truthful in their accounting. The bank revised its losses to \$7.3 billion for fiscal 2002—nearly triple its earlier estimates.

Bank shares fell on speculation that more lenders will be effectively nationalized; Japanese bonds also dropped. "The crisis at Resona Bank has shown that Japan's financial world is in a far worse state than people generally believed," Japan's top business daily *Nihon Keizai Shimbun* editorialized on May 17.

Imperial Foreign Policy Fuels U.S. Dollar Collapse

The dollar collapse has accelerated due to the U.S. imperialist foreign policy, and a "vacuum" in economic policymaking, writes David Hale in the *Financial Times* May 19. In addition to both the growing U.S. Federal budget deficit and current-account deficit, the dollar's decline recently has accelerated, Hale warns, because the U.S. has implemented a foreign policy that would have "unknown consequences for its fiscal position," as it would have to pay for costs of maintaining its empire, without help from allies. For the first time, a nation is attempting to "play the role of global superpower with a

large external payments deficit."

Moreover, there is "a vacuum at the center of U.S. economic policymaking," he cautions, where power is concentrated at the White House, while other institutions of economic policy are weak, including the Treasury Secretary.

The U.S. may be forced to devalue the dollar, in order to reduce its current-account deficit, Hale warns, triggering deflation within the euro-zone.

Bank of Japan Governor Warns of Financial Crisis

"Without appropriate policy measures, a financial crisis could possibly happen" in Japan, Bank of Japan Governor Toshihiko Fukui warned a parliamentary committee. The core of the nation's financial system remains "weak" as banks face "deep-rooted" problems. Fukui reiterated his calls for the government to be given the power to act preemptively to inject funds into banks in trouble, rather than wait for the lenders to seek aid. "It's better to take necessary steps as soon as possible before a crisis," he cautioned parliament. "It's better to deal with lenders' problems before their capital level" drops below minimum standards set by government regulators.

'Secret Deal' To Fix Ibero-American Energy Auction Exposed

"AES colluded with Enron to rig Latin American energy auction," the *Financial Times* "revealed," in a splashy front-page article on May 21, buttressed by a second, even longer article on the inside pages, detailing the sordid doings of the "Secret Deal that Kept Brazil in the Dark." All this was suddenly uncovered, they claim, by a special *FT* investigation.

Lo and behold, AES's April 1998 purchase of the largest electric distribution company in Ibero-America, Eletropaulo, which supplies five million customers in the giant Sao Paulo market, was rigged, to steal at least 500 million dollars from the Brazilian government—a case study, in other words, of what Lyndon LaRouche calls "piratization." The *FT* details the negotiations between AES and Enron executives on the eve of the auction of Eletropaulo which led to an agreement that only AES would place a bid for the company, in return for which AES would guarantee Enron lucrative contracts to supply gas to a power plant that the two companies would build to supply electricity to Eletropaulo. The AES rep walked into the auction with two envelopes—one with a bid for \$1.78 bn for "the jewel in the crown of energy assets for sale that year," and another with \$500 million more, in case a third party joined the auction.

EIR does not know why the *FT* is breaking this story—after the five-year statute of limitations for criminal prosecutions in Brazil is up, mind you—nor why the London paper has suddenly turned "against" the "cowboy culture that allowed side deals among competitors," at this critical moment when AES is trying to stop BNDES from renationalizing its assets, because it has defaulted on a \$1.2-billion loan from BNDES. But, whatever the *FT*'s motives, the case study is merely typical.

Despite G-7 Finance Ministers' 'Confidence,' Snow Lectures Them on Need for 'Boldness'

Despite the Group of Seven Finance Ministers' declaration of "confidence" in a recovery, U.S. Treasury Secretary John Snow lectured his counterparts on the need for "bold actions," according to numerous press accounts May 18. "Growth in the major economies is simply not what it could be," Snow told reporters after the meeting. "We need to do more to ensure a robust economy." While bragging about the U.S. tax cut as an example of the kind of action required, Snow said: "I made clear that the U.S. expects others to take bold actions themselves—including fundamental structural reforms where necessary—to spur growth, create jobs, and contribute to global prosperity."

Asked about the 21% decline in the dollar over the past year, Snow described it as "fairly modest," making clear that the strong dollar is a thing of the past. The *Financial Times* said that the dollar is expected to come under renewed pressure as a result of Snow's statement.

Samuelson: Snow's 'Dollar Gamble' Could Lead to Backlash, Panic

Economist Robert Samuelson warned that the weak dollar could lead to a backlash against the U.S. economy—and a "panic." The "dollar gamble" announced by Treasury Secretary Snow at the G-7 meeting (see above)—intended to increase U.S. exports and domestic production—could backfire, Samuelson wrote in the *Washington Post* May 21, since the rest of the world has survived to date by exporting to the United States. Cut that off, and there could be a collapse in the rest of the world, "that could boomerang on the U.S. There's another danger: a big foreign withdrawal from U.S. stocks, which could hurt the market or even trigger a panic."

Dollar Collapse in Iraq; 'Saddam Dinar' Soars in Value

The Iraqi dinar—or the "Saddam dinar" as it is known, adorned with its portrait of Saddam Hussein—is soaring in value, and it is now at its highest level relative to the U.S. dollar since 1996, the *New York Times* said May 18. During the last days of the Saddam regime, the dinar fell to the level of 3,000 to the dollar, and U.S. officials (and the media) expected it to fade into oblivion. But it is now trading at 850.

U.S. occupation authorities have flooded the country with dollars, giving \$20 each to several million Iraqi workers, and planning to give \$40 to about a million pensioners. Next week, employees of government and state owned industries (80% of the workforce) will begin receiving a salary for the first time since before the war, and it will be in dollars (between \$115 and \$575; less in the Kurdish regions). With the dollars put into circulation by looters, probably more than \$100 million dollars is now in circulation, while the economy has come to a standstill. But with the supply of Saddam dinars remaining relatively stable, it is now favored over the "occupation dollar."

Russia's Central Bank Fears Asia-Style Crisis

The Russian Central Bank "fears another default," stated the leading economic news agency *RBC*, in its internet "Commentary of the Day" May 19. It said: "The situation on Russia's corporate borrowing market looks increasingly similar to the situation preceding the 1997 crisis on Asian markets. In order to prevent Russia from repeating the same mistake, the Central Bank will introduce restrictions for Russian companies that want to borrow on foreign markets" (for more, see [RUSSIA/EURASIA NEWS DIGEST](#)).

France: Exempt Defense Spending from Stability Pact

At a European Union meeting of Foreign and Defense Ministers held in Brussels May 19, French Defense Minister Michel Alliot-Marie pleaded strongly in favor of excluding expenses for defense, from those that go into calculating the budget deficit. This is the fourth time that Paris has proposed a reevaluation of the Maastricht Stability Pact. Alliot-Marie stated that "budget problems" are raised every time there is an attempt from the different European countries to develop an autonomous defense capability. "A certain number of Ministers have said that there is a block, an impediment coming from the Pact and that they wished this impediment would be lifted," she stated at a press conference. "We must create the conditions, in which military expenses can escape, at least partially, the Pact." "The protection of our populations is an obligation of the member states of the European Union. We must give ourselves the means to realize it.

What is extremely important is that, according to the daily *Liberation*, this time around, beyond France, Italy, Belgium, and

Germany also pleaded in that direction. They also got the support of the U.K.'s Defense Secretary, Geoffrey Hoon.

"At different moments, Paris has tried, in the recent period, to launch that debate. Vainly, until now." *Liberation* recalls that in September 2002, Francis Mer, the French Finance Minister, had stated that "expenses that prepare the future, have nothing to do with those that purge the past." *Liberation* concludes, wondering whether "the urgency to invest in defense will lead to a reform of the Pact? Until now, that type of discussion has never gone too far, each fearing that once the door is open, the others will jump in, claiming that this or other expenses should also merit a special treatment."

United States News Digest

Rep. Frank Demands Wolfowitz Resign

During the Congressional session of May 19, Rep. Barney Frank (D-Mass.) called on Deputy Defense Secretary Paul Wolfowitz to resign. Frank based his argument primarily on the fact that Wolfowitz, during an interview with *CNN* on Turkey, had repeatedly criticized the Turkish military "because it allowed democracy to function in Turkey," as Frank put it. Wolfowitz had been arguing that the military should have intervened to prevent the blocking of military assistance to the United States in the Iraq war.

At the conclusion of his remarks, Frank turned to Wolfowitz's broader failures, including the "shambles" which Administration policy is creating in Iraq. "Wolfowitz can take some of the responsibility for that," Frank said, for publicly rebuking Army Chief of Staff Gen. Eric Shinseki's evaluation that many more troops would be needed.

Frank concluded as follows: "The justification for Iraq is the impact it will have on governments, in Iraq and in the rest of the Middle East. How does it help to have our Deputy Secretary of Defense, one of the shapers of that policy, now say—'By the way, when we say democracy, we mean a democracy where the military intervenes strongly; not just gives its viewpoint, but intervenes strongly to make sure things come out'? Things in Iraq and our credibility are in enough trouble without Paul Wolfowitz compounding it, and he ought to resign."

Biden Blasts White House Anti-Drug Policy

The Bush Administration's anti-drug record came under fierce attack on May 20 from Sen. Joseph Biden (D-Del.), during a hearing of the Senate Judiciary Committee hearing. Biden complained that the Administration has repeatedly "proposed slashing or eliminating law enforcement programs with track records that reduce crime." He noted that the FBI has transferred hundreds of agents away from counternarcotics work to anti-terrorism, putting a much greater load on the Drug Enforcement Administration, without a proportional increase in its budget or the manpower required to do the job. "We have to be able to walk and chew gum at the same time," Biden said. "We can't separate fighting terrorism from fighting drug trafficking, given the considerable and increasing linkage between the two."

Biden did not stop there, however. He particularly blasted the Bush Administration's record in Afghanistan, where warlords who depend on opium production run most of the countryside. "The fact of the matter is," he said, "you can't stop opium production when the warlords control the regions, and when in fact we don't expand security in Kabul." Biden charged that "we are back to the same situation, again," as when the Taliban ruled Afghanistan. He also complained that even though President Bush signed the Afghan Freedom Support Act last year, which authorized \$1 billion to expand peace-keeping activities in that country, "The President has not asked for one dime of that money to be spent."

Biden said that the Bush Administration's record on Colombia was somewhat better, "but what concerns me is, with a 40% reduction in funding for law enforcement, locally, in this next year's proposed budget ... we are missing real opportunities

here."

Biden's remarks on Afghanistan were prefigured by committee chairman Sen. Orin Hatch (R-Utah), who noted at the outset that while the United States and its allies successfully removed the Taliban from power, "we have not succeeded in stabilizing" that country. He warned that Afghan President Hamid Karzai's Tajik-dominated government has succeeded in alienating the majority of the Pushtun population in the opium-growing areas, which has led to "instability in Afghanistan that has resulted in fundamentalist and al-Qaeda resistance to U.S. forces, and an increase in opium production."

Newt Renews McCarthyite Assault on State Department—But Hits Bush, Again

Newt Gingrich renewed his McCarthyite assault on the State Department—and the President—on *ABC's* "This Week with George Stephanopoulos" May 18. Stephanopoulos asked about Newt's "real blast at Colin Powell and the State Department" at the American Enterprise Institute last month, and in an article to be published in the July/August issue of *Foreign Affairs*.

Gingrich responded: "I want a stronger, more effective State Department. I'm not anti-State Department. I think we can't have a world in which the U.S., as the only superpower, has only the military as an effective instrument. And my concern is that whether you're talking about communications strategy, which has failed, whether you're talking about Hamas this morning announcing that they are opposed to the peace process in Palestine, and you're not going to get a successful peace process if Hamas is killing people in Israel, whether it is the Saudis' failure to lock down security—I think we need a more effective State Department, not a weaker State Department."

In his *Foreign Affairs* article, on the journal's website, Gingrich calls the State Department "out of sync with Bush's views and objectives." He says: "The President should demand a complete overhaul of the State Department so it is capable of executing his policy goals effectively and of redefining peace on his own terms.... The world doesn't have to love us, but it must be able to predict us." He called for "a comprehensive study of the international press coverage of the U.S. leading up to and during the war in Iraq. The study should encompass state-owned media in the Arab world to determine if those outlets are a major contributing source of anti-American hostility." Any such "government-sponsored act of hostility ... should be dealt with accordingly."

Document Destruction Charges Added to Abuse of Power in DeLay's Manhunt for Texas Dems

The manhunt by Congressman Tom DeLay (R-Texas) to find Democratic state legislators who had fled to Oklahoma, rather than vote on a stacked redistricting bill in the Texas State Legislature, has already triggered a Federal investigation as to how the Department of Homeland Security became involved in the search for the lawmakers.

Now, the Texas Department of Public Safety has been caught in a cover-up, according to the May 22 *New York Times*. E-mails from the commander have been discovered which instructed that all "notes, correspondence, photos, etc." concerning the search, "be destroyed immediately." Trying to cover its tail, the DHS stated that it only got involved because it was told that a plane carrying the Democrats was missing or had crashed. On May 14, Democrats in Washington demanded the Federal investigation, and the same day, the Texas Public Safety e-mails were deleted.

Former Marine Congressman Quashed Rumsfeld Scheme on Military Officers

According to *Stars and Stripes* May 16, freshman Congressman John Kline (R-Minn.) drew upon his 25 years experience as a U.S. Marine Corps officer (including having served as a military aide to Presidents Carter and Reagan), to block Defense Secretary Donald Rumsfeld's bid for expanded authority over flag and general officer rotations, tour lengths and

age limits.

When an amendment was first offered in a subcommittee of the House Armed Services Committee by Rep. Ellen Tauscher (D-Calif.) to take this provision out of the defense authorization bill, it failed on a straight party-line vote. However, in the full committee, Kline got two Republicans to join with him and the Democrats, to support the Tauscher Amendment.

The Armed Forces' daily *Stars and Stripes*, in reporting the story, says that Rep. John McHugh (R-N.Y.), a subcommittee chairman, argued that the proposals were backed by a study from the RAND Corp., but it turned out that no one else on the committee had even read the RAND report.

Kline said that he preferred his own poll, in which "every colonel and general I know, active and retired" all oppose the Rumsfeld plan. With the Senate Armed Services committee also having rejected the provision on military officers, it appears to be dead for this session.

Kennedy Questions Sanity of Administration Over Nuke Weapons Proposals

During debate on the floor of the Senate, Sen. Edward Kennedy (D-Mass.) said that since World War II, the prevention of nuclear war has always been a top priority of America's leaders, but now, with the passing of the World War II generation, a new generation of leaders has come to power, for whom the nuclear bombing of Hiroshima and Nagasaki "is just history."

Kennedy was discussing this in the context of the Bush Administration's desire to lift the 10-year-old ban on R&D on "mini-nukes"—nuclear weapons under 5 kilotons—and on "bunker busters"—so-called "battlefield nukes."

We have always considered nuclear weapons as a category separate from other weapons, but the Bush Administration wants to change this, Kennedy charged. To break down this firewall between conventional and nuclear weapons makes no sense, he argued.

Kennedy reviewed the Administration's Nuclear Posture Review, and its suggestions that the U.S. might use nuclear weapons against a non-nuclear nation, or engage in first use of nuclear weapons. "We reap what we sow," Kennedy said. "If we brandish our own nuclear weapons, we only encourage other nations to do all they can to develop their own."

Kennedy attacked the Administration's proposal to develop "robust nuclear earth penetrators," or "bunker busters."

"It's difficult to believe that any Administration in its right mind would propose such a weapon," Kennedy said, claiming that such a bomb would spew radioactive waste in the atmosphere.

"We do not want our descendants surveying a devastated planet, to say that in this legislation, the United States breached this firewall, and took the decisive and shameful step that led to nuclear war," he concluded.

Senate Debates What Creates Jobs

After only two days of debate, the Senate passed its version of the tax cut bill on May 15. Senate Finance Committee chairman Charles Grassley (R-Iowa) claimed the bill "will provide short-term stimulus and provide the building blocks for meaningful future economic growth." Among the provisions in the bill are an increase in the child tax credit from \$500 to \$1,000, a reduction in the so-called marriage penalty tax, expansion of the 10% tax bracket, expansion of provisions for small business expensing, and increased relief from the alternative minimum tax. As introduced, the bill also included a provision reducing the top rate on stock dividends to 28%. It also included some tax increases, mainly in the form of

provisions scaling back tax shelters and discouraging the expatriation of profits overseas. This was done to keep the cost of the bill from exceeding \$350 billion, since there are not the votes in the Senate to pass anything larger than that.

That problem did not save Grassley's language on the tax dividend, however. Senator Don Nickles (R-Okla.) offered an amendment to reduce the dividend tax by 50% in 2003 and eliminate it completely for the 2004, 2005, and 2006. He claimed it would "dramatically" help people with various types of retirement accounts. Senator Max Baucus (D-Mont.) called it "absurd and irresponsible," and noted that Nickles pays for it by modifying the rate at which the marriage penalty is reduced.

Nickles' amendment passed by a vote of 51-50, with Vice President Cheney casting the deciding vote.

Senate Minority Whip Harry Reid (D-Nev.) challenged the notion that the tax cuts would lead to any job creation. "There is no dispute," he said, "that for every \$1 billion we spend on public works," including highways, roads, bridges, dams, water systems and so forth, "we create 47,000 jobs." Instead, the GOP proposal "is an effort to devastate the ability for domestic discretionary spending and cause tremendous harm to programs such as Social Security and Medicare."

Senator Bob Bennet (R-Utah) responded to Reid, claiming that jobs are only produced when someone risks accumulated or borrowed capital in some entrepreneurial undertaking.

Clinton Gets Dems To Turn Out

Former President Bill Clinton proved that Democrats turn out for Democrats with spunk, in two speeches on Sunday, May 18, to some 9,000 people between them. Clinton's morning commencement address at Tougaloo College in Jackson, Miss., was a virtual campaign rally. The graduating class included all of 144 students, but more than 7,000 people came. Tougaloo has played a major role in the civil rights movement nationally since its heyday, when Mississippi Freedom Summer and other campaigns were organized from there. It will be the site of one of the four Congressional Black Caucus (CBC)-sponsored Democratic Presidential debates on Aug. 13.

Mississippi Governor Ronnie Musgrove and Rep. Bennie Thompson were on the dais with Clinton, as he went after Bush for not looking out for America: "We can't be forever strong abroad, if we don't keep getting better at home," he said. He tore into the Bush tax cuts, saying the President himself will get "a bigger tax cut than most people I know ever earned in a year in their whole life.... How's it gonna be paid for? By cutting education for people like you. By cutting health care for people like your families.... They want to pay for the tax cut by kicking 500,000 children out of after-school programs. It is wrong. It is wrong. There is nothing right about it."

Two LaRouche in 2004 supporters got out hundreds of flyers informing the crowd that LaRouche is number one in Democratic Presidential fundraising; and pamphlets attacking the Straussian neo-conservatives as well.

In a second speech in Trenton, N.J., at which he received "thunderous" standing ovations entering and leaving, Clinton urged that the United States strike a peace deal with North Korea; he also poked fun at the neo-conservatives' campaign against France.

Ibero-American News Digest

Imprisoned Argentine Patriot Colonel Seineldin Pardoned

Just days before leaving office, Argentine President Eduardo Duhalde signed a decree on May 20, pardoning Malvinas War hero Mohamed Ali Seineldin, along with terrorist Enrique Gorriaran Merlo, of the All for the Fatherland Movement (MTP). Seineldin, who had been transferred to house arrest for the past several months, is now a free man. Duhalde told the press the previous day, in announcing his intention to issue the pardon, that he wished, through this action, to contribute to the final pacification of the country. "I believe we have ended an era. In Argentina, the policy of weapons in hand, and confrontation, no longer exists. It is past history." Seven other military officers and 16 other terrorists linked to the MTP were included in the pardon.

Seineldin, an uncompromising patriot and friend of U.S. statesman Lyndon LaRouche, was sentenced to life in prison for his role in the Dec. 3, 1990 uprising against the Argentine Army High Command, in rebellion against its capitulation to the New World Order of globalization, which he opposes. Then-President Carlos Menem unsuccessfully sought Seineldin's summary execution, but settled (with the blessing of U.S. President George H.W. Bush, who arrived in Buenos Aires a day after the uprising), on a trial, in which Seineldin was given a life sentence, and over a dozen of his comrades in arms were given decades-long jail terms. Throughout the 1990s, he spoke out in defense of Argentine national interests and the integration and development of Ibero-America, as well as in support of LaRouche's efforts to bring about a change in the global financial and strategic situation, to the extent that his incarceration permitted.

Gorriaran Merlo, a leader of the terrorist Peoples' Revolutionary Army (ERP) in Argentina in the 1970s, later carried out terrorist operations in various Ibero-American countries, in coordination with Cuban intelligence networks. He was serving a life sentence also, in his case for his commanding role in the January 1989 armed attack on the La Tablada Army base in Buenos Aires. His release was sought on humanitarian grounds, as he suffers from cancer and isn't expected to live long.

Mrs. Marta Labeau de Seineldin had written President Duhalde on May 16, requesting he pardon her husband, on the grounds that he had already served 12 years and seven months in prison—far longer than the four years that military junta leaders served for human-rights violations and illegal repression. "I ask that you free the patriot who had no qualms about risking his life in the Malvinas, when his Fatherland required it," Mrs. Seineldin wrote.

Bush Ups Rhetoric vs. Castro Regime

The Bush team has upped the invective against the Fidel Castro regime: President George Bush met May 20—Cuban Independence Day—with 11 Cuban dissidents now living in the United States. White House spokesman Ari Fleischer ominously compared that meeting to Bush's meetings with Iraqi dissidents, announcing at the briefing that day that "the President has previously met with groups of people who have important stories to tell about the suffering that they have seen in their native country—Iraq comes to mind." Bush wished to convey "his feeling that Cuba deserves to be free, that the Cuban people have suffered long enough at the hands of a tyrant, and the Cuban people, like people all around the world, deserve liberty and freedom," Fleischer added.

Bush also taped a message for broadcast into Cuba on Radio Marti, declaring that his "hope is for the Cuban people to soon enjoy the same rights and freedoms as we do. Dictatorships have no place in the Americas. May God bless the Cuban people who are struggling for freedom."

There was no announcement, however, of any new measures to be enacted against Cuba, as a result of the Bush Administration's reported review of its policy toward the island nation, as had been mooted. Fleischer downplayed the talk of the policy review itself, saying the Administration is always reviewing what the best policy is around the world, and that would include Cuba.

Brazil Proposes Regional Trade Mechanism—Outside the Dollar

Officials of Brazil's National Economic and Social Development Bank (BNDES) are readying the launch of a mechanism for carrying out trade with Argentina, and then the rest of South America, without using the dollar. The plan, discussed between the Finance Ministers of Argentina and Brazil on May 7, is for the BNDES to reestablish a mechanism used for regional trade, known as the Reciprocal Credits Agreement (CCR), which had been used in the 1990s. The CCR functions as a clearinghouse, wherein the exporters of one country or the other pay for their imports in local currency, with differences in trading balances then settled at regular intervals between the relevant central banks.

The purpose for reestablishing the CCRs is most immediately for trade between Argentina and Brazil, which would eliminate, or greatly reduce, the need for dollars to pay for trade between the two countries.

BNDES vice president Darc Costa calls the CCR the "best instrument for economic integration we could have in South America." Costa was in Buenos Aires, Argentina the week of May 19-23, and told *O Estado de Sao Paulo* that Brazil and Argentina will soon have a "common industrial policy," initially anchored in the \$1-billion credit line BNDES is offering Argentina to finance its exports to Brazil. Another BNDES official said that CCR "reduces the use of the dollar, and exposure of this currency in the region's foreign trade, which traditionally suffered from the instability of strong currency [that is, dollar—ed.] flows."

Some central banks in the region have limited CCR's use, but BNDES plans to change that, so that CCR can become the key instrument for Brazil-Argentina trade, and then, trade between these two countries and the rest of South America. It will make funds available to banks involved in financing these operations, and itself assume the "financial-commercial risk" should there be any problems, or if a bank fails. Discussion is also occurring on how to integrate Brazilian and Argentine "productive chains," in areas such as auto production, textiles, plastics, lumber, and agricultural machinery, and studies are underway on long-term strategies for common projects in these areas.

Brazil's Lula Warned: Honeymoon Is Over; Act Now

"There are reasons to suspect that the surrender of Luiz Ignacio Lula Da Silva's government to the financial interests which dominated the Brazilian economy for more than a decade, is not just a tactical concession," *Folha de Sao Paulo* wrote in a bitter editorial on May 18. *Folha* speaks for the powerful Sao Paulo industrialists, but its warning to Brazilian President Lula da Silva reflects the broader political firestorm building against the Lula government's decision, thus far, to stick with the IMF:

"More than four months have passed since the inauguration, and the economic policy only has tightened the tourniquet on businesses and workers. Production is stagnating, per capital income is falling," *Folha* wrote, adding that during his campaign for the Presidency, Lula had promised to change economic policy. "He promised to put the country on the path of growth, of an increase in employment and of income distribution." A cautious policy, when first taking office, seemed reasonable, but, "To persist in this path is intolerable. Where is the promised alternative project, so talked about during the campaign?" asked *Folha*. This path only satisfies that minority of Brazilians who made fortunes lending money to the state.

"Which side is the Lula government on? That of the banks, or of production? Of change, or of the permanence of a model which has not responded to the demand for growth?" It remains to be seen how Lula will answer these questions.

Usurious Interest Rates Add to Policy Brawl in Brazil

Brazil's Central Bank decided, when its monetary policy committee met on May 21, to maintain the benchmark interest rate, the SELIC, at the stratospheric level of 26.5%, despite the enormous pressure from national interests to ease up. The high interest rates are killing the economy: The average rate paid by corporations in March hit 37.9%, while consumers are paying over 100% for loans. At those rates, domestic car sales were 17% less in March 2003 than the same month the year

before, while overall retail sales were down 11%.

Vice President Jose Alencar took the point for those within the government demanding that interest rates be lowered, prior to the monetary policy meeting. He called the current rates "counter-productive," and benefiting only a "speculative" market. Alencar is a textile industrialist, and is reflecting the views of a broad grouping of industrialists whose businesses are going under. And while Alencar is not from the ruling PT (Workers Party), but the right-wing Liberal Party, his objections were echoed by Aloizio Mercadante, who heads the PT faction in the Senate.

But two top IMF vultures descended on Brazil this week: vice director Anne Krueger and the head of the Western Hemisphere division, Anoop Singh. In the course of several meetings with cabinet officials, they delivered the message, that the IMF does not want to see any controls put on foreign speculative capital, nor does it want the government interfering with interest rates, which they insist should be set by financial markets.

So, the Wall Street-allied economic team told President Lula da Silva that his Vice President had crossed the limit when he questioned the "competence" of the Central Bank, and that the President had to stop the "friendly fire." According to *Folha de Sao Paulo*, that message was delivered, but Alencar told *Folha* he thinks his "criticisms contribute," and he will keep up his campaign. A 17.5% interest rate would "satisfy the market," and save the government R\$90 billion (about \$30 billion!) in interest on its debt, he told *Folha*.

Malaysia-Style Capital Controls Planned in Argentina

Argentine Finance Minister Roberto Lavagna is said to be studying possible implementation of Malaysia-style capital controls, as a way of avoiding sharp currency fluctuations caused by the continuing collapse of the U.S. dollar. Whether this would actually be implemented, and what it would mean in the context of the next government's overall policy, is unclear—especially since President-elect Nestor Kirchner's program hasn't yet been spelled out. Last year, a delegation of Malaysian officials and businessmen visited the country and met with Lavagna.

The plan would entail establishing a minimum time period, during which incoming capital would be required to stay in the country, probably between 45 and 90 days. At a Council of the Americas seminar in Washington in early May, Central Bank President Alfonso Prat-Gay said that developing-sector nations should be able to use "instruments to defend themselves from violent shocks of capital." Last week, Lavagna warned that new capital flows going into Ibero-American countries posed the risk of creating "speculative bubbles" that would be damaging to those nations' economies, including the fragile Argentine economy.

Behind NAFTA's Boxcars: Billions To Pay Debt

Nineteen of more than 100 men, women, and children from Mexico and Central America stuffed into an airless semi-tractor-trailer truck discovered in Texas on May 16, died from dehydration, hyperthermia, and suffocation; several, including one five-year-old boy, are believed to have suffocated under people who were piled on top of them. They were not the first to die in the rail and truck boxcars used by migrant smugglers, but those responsible for these gruesome deaths are the people who support NAFTA and the IMF system—the policies that have so destroyed the economies of Central America and Mexico that thousands of people risk their lives daily to make their way north to the United States. It is well known that hundreds die every year doing so—491 migrants from Mexico alone are known to have died in 2000; 371 in 2001—because they have no way to make a living in their own countries.

The big money in this business doesn't go to the smugglers, but to the major financial institutions. Mexico and the Central American countries use the money sent back home by those who survive the trip, to meet their debt payments. Mexicans sent a record \$2.74 billion in remittances back home from the U.S. in the first quarter of 2003, a 26% rise from the first

quarter of 2002, Mexico's Central Bank recently reported. Annualized, that rate would total \$11 billion. Remittances are now approaching 2% of Mexico's GDP, second only to oil exports (about \$4.9 billion) and the *maquiladoras* (\$4.57 billion), as a source of foreign exchange.

Remittances to Mexico and Central America, combined, grew at 12.3% a year between 1999 and 2001. The big banks are fighting to get their hands on a larger chunk of this business, too, which until recently was largely handled by the money transfer companies, which charge exorbitant fees. A November 2002 study, produced by the Pew Hispanic Center and a division of the Inter-American Development Bank, estimated that, in 2001, Ibero-American immigrants in the U.S. (some 14.5 million) paid \$3 billion in commissions, to send remittances totalling \$23 billion back to their countries of origin. According to the *Financial Times* of May 15, the U.S. Treasury estimates that more than \$1 billion were paid in commissions by Mexicans alone in 2002.

Western European News Digest

Mayor of Berlin Calls for Berlin-to-Moscow Maglev

During a special May 15 meeting of eastern German state governors on infrastructure development, Klaus Wowereit, Mayor of the German capital of Berlin, proposed a grand maglev route from Berlin to Moscow, via Warsaw, the Polish capital.

Wowereit said that when discussing projects pointing towards Eastern Europe, one should include "visions" along the lines of a big Transrapid connection between these three capitals of Germany, Poland, and Russia.

Wowereit's office told this news service May 19 that it does not know exactly why he made that proposal right now, that he may have been reviving similar proposals made some years ago, for example, by Berlin's then-Senator for Economics, Heinrich Haase, who even wanted to go beyond Moscow, to Shanghai!

It is just as likely, however, that Wowereit recently found a leaflet from the BueSo Party, the LaRouche co-thinkers in Germany, on his desk, calling for a maglev route of this kind, in the context of the Eurasian Land-Bridge. Berlin institutions have been saturated with such leaflets, in several deployments of the LaRouche Youth Movement.

German Foreign Minister Redefining Transatlantic Relations

"Everything we do, must be done with recourse to all available peaceful means," German Foreign Minister Joschka Fischer said in an interview published May 19 in the German weekly magazine *Der Spiegel*. Fischer gave the interview following his meetings with U.S. Secretary of State Colin Powell on May 16.

Fischer stressed that changes in the transatlantic relationship should be made in cooperation with the United Nations.

He acknowledged that "We did have differences over the question of war. These still remain. But this is the past, and we are looking forward, and we have to take note of the new realities." He added that the updated U.S. draft resolution to the UN Security Council is "not sufficient, but it is a basis on which an agreement within the Security Council should be possible." (The resolution put forward at the Security Council by the U.S. and U.K. has subsequently been passed, 14-0, with Syria absent.)

The precondition for agreement includes points addressed by French Foreign Minister Dominique de Villepin, he said.

These are: "The role of the United Nations in relation to the victorious powers [in Iraq]; the question how to transform the oil-for-food program, and how to guarantee transparency for the future, until a fully sovereign, legitimate Iraqi government does exist; and lastly, the problem of the weapons of mass destruction."

Granted, the Anglo-Americans are in control of Iraq right now, but the UN should be the one to make final certification of Iraq's status, Fischer insisted, adding that "the resolution which we are discussing just now, will not be the last one on this theme."

French President Convenes 'Anti-War 3' Foreign Ministers Ahead of G-8 Meeting

French President Jacques Chirac invited the Foreign Ministers of the "Anti-War 3" (Russia, Germany, and of course his own French Foreign Minister) to a special preparatory meeting in Paris on May 21, ahead of the general G-8 Foreign Ministers' meeting, held in Paris May 22-23. (The G-8 includes the U.S., the U.K., Canada, Japan, Italy, France, Germany, and Russia.)

France Maps Plan for Expanded G-8 Participation

President Chirac last week presented his plan for an expanded G-8 summit. The summit, to be held June 1-3 in Evian, France, will include at least two dozens heads of state and government, under the approach of Chirac, who is the summit's host.

Chirac said it is high time to return to the original idea behind these summits, namely, to work out a "model of responsible market economy," as opposed to the free market excess of "letting things go," which the world has witnessed in the financial crises of the last few years.

Solidarity with, and substantial support for, states of the developing sector should be an essential aspect of future world economic summits, Chirac said.

Regulation of global financial affairs to preempt the outbreak of regional financial emergency crises is urgently needed, Chirac said, as are efficient steps to combat AIDS and other major diseases.

Chirac has invited to the G-8 meeting the Presidents of China, Brazil, Mexico, Egypt, Senegal, South Africa and Nigeria, the Prime Ministers of India and Malaysia, the King of Morocco and the Crown Prince of Saudi Arabia, as well as UN Secretary General Kofi Annan, and leading representatives of the IMF, World Bank, and the WTO.

European Defense Ministers Call for Exempting Military Budgets from Maastricht

The Defense Ministers of France, Germany, and Italy (Michele Alliot-Marie, Peter Struck, Antonio Martino) agreed at their meeting in Brussels May 19, that the project of improving military capabilities in Europe was too important to allow its being strangled by the Maastricht budgeting bans any longer. Any significant increase of military budgets would otherwise instantly "violate" the budget-balancing regulations. (For more, see [ECONOMIC NEWS DIGEST](#).)

Poll Shows Germans' Preference for France Over U.S., U.K.

An Allensbach Institute poll, released the second week of May, found that 49% of Germans view relations with France as the top priority for their country's foreign policy, whereas only 17% considered relations with the U.S. such a priority.

Those polled also showed a clear preference for French President Jacques Chirac, whose policies are supported by 45% of Germans, compared to only 17% who would prefer George W. Bush or British Prime Minister Tony Blair.

This is not surprising, of course, since Germany heartily supported France in the months before the Iraq war, in the period in which France was leading the anti-war opposition to that war.

Russia and Central Asia News Digest

Sergei Glazyev Takes Leadership in People's Patriotic Union

At a conference held May 19 under the title "From Confrontation to Social Responsibility," Russian economist and State Duma member Sergei Glazyev stepped forward with a major new political initiative. He will head a working group to develop an anti-crisis program for this year's Duma elections, while also taking charge of efforts to create a standing Unity Conference of Popular Patriotic Forces—within the next three weeks.

The conference participants issued a nine-point manifesto, which identifies the sickness of Russian society. It says, "We can and must put forward a plan to get Russia out of the crisis, based on the achievements of scientific thought and practical experience of patriotic economic managers." The manifesto calls for "mustering and revitalizing all the productive forces," while instituting principles of social justice and government responsibility for the interests of the population.

The May 19 event was convened under the aegis of the People's Patriotic Union, of whose electoral alliance Glazyev is co-chairman. The Communist Party of the Russian Federation (CPRF) has been the leading force in the PPU and various CPRF figures took part in the latest conference, but not CPRF leader Gennadi Zyuganov. Among other prominent participants in the May 19 deliberations was Gen. Leonid Ivashov.

Glazyev told *Vremya Novostei* that he wants the PPU to become a real alliance of organizations on an equal footing, not just an electoral bloc under the CPRF (Zyuganov's formula). In a May 16 interview with *Radio Resonance*, Glazyev forcefully motivated the need to break the pattern of an uninspiring, impotent opposition movement. "Unless the voters see a unified political force, expressing the interests of the entire society and seriously seeking to take power—not just to take part in the elections and surpass the 5% barrier [to be a group in the Duma], but to win and take power," he said, there will be nothing but demoralization. He said that "the enemies of our Fatherland have dragged us into a senseless war of all against all," but that he intends for this year's electoral campaign to unite all the patriots—"atheists and Orthodox, state sector people and entrepreneurs, pensioners and students."

In this interview, Glazyev identified the five threats to Russia's existence: demographic collapse, the destruction of science and education, the destruction of a technology-based economic powerhouse, the loss of national sovereignty, and the growing specter of huge industrial accidents due to the degradation of infrastructure. His elaboration of a solution, what he calls "a program of social justice and economic growth," follows from the policies that Glazyev, and his senior colleagues at the Russian Academy of Sciences, have put forward in recent years. These were the policies featured at the June 2001 State Duma hearings, where Glazyev hosted Lyndon LaRouche as keynote witness on the topic of rescuing national economies under conditions of global economic breakdown. Last summer, Glazyev polled 23% of the vote in the Krasnoyarsk gubernatorial election, using a version of this platform.

Glazyev continues to have a high profile in the media. Last month he presented on national television his idea that nations opposed to the spread of war beyond Iraq, should get together and declare a new monetary system. Yesterday, Glazyev spoke on *Radio Resonance* again, giving a detailed critique of President Vladimir Putin's May 16 State of the Federation message. He said that Putin had "declared correct and attractive goals," but offered no way to achieve them.

Russia's Entry into WTO Postponed Until 2007

At a press conference May 20, Deputy Minister of Economic Development and Trade Maxim Medvedkov, Russia's chief negotiator with the World Trade Organization, admitted that Russia's entry in WTO is postponed for four years or more. Russia has been negotiating about WTO membership for 10 years.

Russia's relations with the WTO merited one vague sentence in President Vladimir Putin's annual Message to the Federal Assembly, delivered May 16: "We have some progress in our movement towards WTO membership." Actually, according to major Russian papers, no progress has been visible for the last year and a half, as the Russian negotiators are reluctant to concede to the WTO's major demands, such as liberalization of the domestic market of fuel products (natural gas and gasoline), lifting state subsidies for agriculture, and opening the financial markets to foreign bankers and insurers.

It is noteworthy that at his press conference, Medvedkov referred to the miserable experience of those CIS countries which joined the WTO and lost most of their domestic productive facilities—Moldova, Georgia, and Kyrgyzstan. "I guess they opened the markets just for the reason that those markets were underdeveloped," he said, contradicting WTO authorities who try to describe the three unfortunate post-Soviet republics as success stories.

Russian Banks Dump Dollars

According to Central Bank statistics, in March 2003 Russian commercial banks exported \$260 million in cash—as much as in all of 1999—and imported only \$119 million. Private bankers, cited by *Vedomosti* on May 19, explained this phenomenon with the sharp decline of demand for U.S. dollars on the part of the Russian population. As a result of massive selling of the U.S. currency, the amount of cash dollars available was so excessive that "it did not make sense to import dollars, with the exception of clients who operate with new notes", said MDM Bank's investment director Vasily Zablotzky. BIN Bank's vice president Oleg Kharitonov confirmed that flight from the dollar reached a new high in March. The reserves of the U.S. currency in banks became so relatively large, that the bankers were forced to sell them to traders specializing in import and export of cash, losing 12 kopeks (0.40 cents) on each dollar. Since that time, banks have tried to protect themselves by establishing a lower rate than the official course for dollars in their exchange offices.

The collapse of the U.S. dollar, which had been regarded as the most stable currency by the majority of the population, is likely to seriously damage millions of households, especially in the remote oil-rich regions of the North. On May 14, *Vedomosti* quoted Federal Reserve spokesman Ruth Cameron as saying that the dollars circulating in Russia amount to as much as 12% of all cash dollars in circulation.

On May 16, the Central Bank was forced to buy up about half a billion U.S. dollars, in order to mitigate the effects of a new dive of the U.S. currency, *Kommersant* reported May 17. *Kommersant's* author, analyzing recent currency market developments, noted that purchases of euros are slowly declining, too. "Russia Bets on the Ruble," said the paper's front-page headline.

Russian Central Bank Said To Fear New Default

The Russian *RBC* news agency's "Commentary of the Day" on May 19 concerned fears at the Russian Central Bank about a possible major new default in the country. "The situation on Russia's corporate borrowing market looks increasingly similar to the situation preceding the 1997 crisis on Asian markets," *RBC* said. "In order to prevent Russia from repeating the same mistake, the Central Bank will introduce restrictions for Russian companies that want to borrow on foreign markets."

There have been statements in recent days by Central Bank Deputy Chairman Oleg Vyugin and Deputy Finance Minister

Sergey Kolotukhin, both warning that excessive borrowing by Russian companies on international markets is about to threaten the Russian economy. According to the Central Bank, the total borrowing of Russia's non-financial corporate sector has reached \$40 billion. Another \$14 billion has to be paid by the Russian government next year on its foreign debt services, bringing the country's short-term debt obligations to \$54 billion. Probably in response to the Central Bank warning, the state-run Transneft just cancelled a planned borrowing from several foreign banks.

RBC Daily quoted a financial expert as saying: "Of course, the government is in no way responsible for the debts of private corporations, but, if they default on their debts, this will inevitably affect the entire Russian economy. And the threat of corporate default over the next few years is getting more and more apparent."

Andrey Makogon, vice president of Derzhava Bank, draws comparisons to the 1997-98 Asian crises: "The situation in South Korea, Thailand, and partly in Indonesia and Malaysia, before the 1997 crisis, was very similar to what we have in Russia now." Russian monopolies like Gazprom and Alrosa are aggressively borrowing on Western markets, as the Korean *chaebols* [industrial conglomerates] were doing until 1997. Gazprom, the Russian gas monopoly, plans to borrow about \$4.2 billion on foreign markets this year alone. Alrosa, the diamond giant, has already issued \$500 million in Eurobonds and plans to raise another \$300 million this or next year. Makogon compares the role played by corporate debt securities in the present Russian economy to the role of the GKO government bonds in 1998. Within the next few years, "Russia will face a severe crisis. Assets of Russian companies might lose 20-40% of their value."

Russians Stress 'Return to Legality' in UN Security Council Vote

Speaking after the UN Security Council voted unanimously to lift sanctions on Iraq on May 23, Russian Foreign Minister Igor Ivanov said, "It should be stressed first of all that with regard to the Iraq issue, it is important to return into the legal sphere." Even though concessions were involved in the vote on a resolution put forward by the U.S. and the U.K., Defense Minister Sergei Ivanov said, "It has led us to the restoration of unity of the United Nations Security Council."

Foreign Minister Ivanov said international weapons inspectors should be sent back to Iraq. Regarding the UN envoy contemplated in the new resolution, he said his role "has an independent character," and that he will deal with not only humanitarian and economic issues, but also political questions, such as the formation of a government, which "must be approved by the international community."

The Foreign Minister told journalists that Iraq's debt "must be solved in the framework of international law on the basis of mechanisms of the Paris Club." He stressed the importance of an Iraqi government worth the name, saying Russia had "decided to support Resolution 1483" (the U.S.-U.K. resolution) because it proceeds "from the view that its implementation will open the way for an early formation of a lawful internationally recognized government of Iraq."

Sergei Ivanov Becomes First Russian Defense Minister To Visit Malaysia

Russian Defense Minister Sergei Ivanov's mid-May three-day visit to Malaysia was a followup to Prime Minister Dr. Mahathir bin Mohamad's trip to Russia earlier this year, during which Malaysia negotiated the purchase of 18 Sukhoi Su-30MK jet fighters in a deal estimated to be worth \$900 million, Malaysian Defense Minister Najib Razak announced at a joint press conference with Ivanov; he added that the original Su-30MK fighters would be "modified in terms of technical applications to meet Malaysia's own requirements," hence, renamed Su-30MKM. The modifications included adding "suitable weaponry," he said, without elaborating.

Ivanov also spoke to the press May 19, saying, "I believe what matters is not the value of the contract, but that it shows that Malaysia and Russia are for military cooperation in the long term. With the upcoming closure of the deal, this shows that Russia is ready for serious cooperation with Malaysia and will supply Malaysia with military technology and know-how."

Najib said the purchase is part of Malaysia's military upgrading process. "We recognize the need to have multi-role combat aircraft and we have decided that the Sukhoi is a suitable aircraft to fulfill our requirements," he added.

Gazprom May Take Part in Qatar Natural Gas Projects

Izvestia reported May 15 that in talks with Energy Minister Igor Yusufov in Moscow, OPEC president Abdallah al Atyyah (Qatar's Energy Minister) addressed the Russian side with a proposal for large-scale cooperation in extraction and refining of Qatar's natural gas. The proposal includes a pipeline, connecting Qatar with the oilfields on the shelf of the Persian Gulf, and a gas refining plant. The cost of the combined project, named Dolphin, is estimated at \$10 billion.

Gazprom Pursues Central Asia Projects

CEO Alexei Miller of the Russian natural gas giant Gazprom met in Moscow May 14 with Kazakstan's Prime Minister Imanghali Tasmagambetov. Russian press reported that the two sides discussed plans for bilateral cooperation on modernization of the "Central Asia-Central Russia" gas pipeline network, including a new gas transport link to be started in the next year. Miller and Tasmagambetov also agreed to sign a long-term bilateral agreement on gas transit across Kazakstan, along with a long-term contract for delivery of Kazak gas (extracted from the Karachaganak gas deposit) to the Orenburg Refinery (Southern Urals).

Imanghali Tasmagambetov was attending a conference on "Russian-Kazak Cooperation in the 21st Century: Problems of Security and Protection from Terrorist Threats." In the framework of the conference, Kazakstan's President Nursultan Nazarbayev presented his book, "The Critical Decade," focussed on most significant problems of global and regional security. Nazarbayev writes that the struggle against terrorism should entail a comprehensive social, economic, and information policy. Use of military force alone can't solve the problem, as violence would always provoke violence, Nazarbayev believes. A large part of the book is focused on the Caspian Region, as a site of possible conflicts originating from various geopolitical games around the Sea's energy resources.

Chita-Khabarovsk Highway Will Be Opened in 2004

In early 2004, the Russian Transportation Ministry will open a new highway connecting Central Siberia with the Far East, *Gazeta* reported on May 21. The project for this Chita-Khabarovsk highway was approved already in the early 1960s, but construction work was resumed only in 1999. In 2002, however, it was stalled again, as the Defense Ministry, one of the co-funders of the strategic highway, decided to divert the earmarked funds into improvement of the living conditions of military officers and their families. Ultimately, the Transport Ministry had to borrow from the European Bank of Reconstruction and Development in order to implement the vitally necessary project, reports *Gazeta*.

Iran Will Build a New Tunnel in Tajikistan

According to *IRNA*, a new tunnel through Central Asia will facilitate transit through Afghanistan and Pakistan, and into Iran. The 10-km "Anzab" tunnel project, to be financed by an Iranian loan for \$25 million, was finalized by the Iranian Foreign Ministry economics representative Mohammad-Hossei Adeli, and Tajik Economics and Trade Minister Hakim Salehof.

Armenia and Iran Seek Security Ties

Ettelaat of May 22 reported on the previous day's meeting of Armenian security chief Gen. Haik Hartounian with Iran's

Ambassador to Armenia Mohammad Farhad Koleini, on the possibility of a bilateral security pact. Hartounian stressed Iran's important role in preservation of peace and security in the region and reiterated the importance of security cooperation between the two nations, *IRNA* reported. Hartounian called for cooperation with Tehran in combatting terrorism, narcotics trafficking, and organized crime. The Iranian ambassador also alluded to the importance of collaboration between Iran and the Caucasus states under UN auspices.

Koleini conferred earlier in May with the Vice Speaker of the Armenian Parliament, Tigran Torusian, who welcomed the plan proposed by Iran for reinforcing security in the region. This is the regional security plan, dubbed "3 plus 3" by Iranian Foreign Minister Kharraz. The proposal calls for Iran, Russia, and Turkey, along with three countries in the Caucasus region (Armenia, Azerbaijan, and Georgia), to collaborate to restore security in the region.

Mideast News Digest

Sharon Formally Accepts the Road Map

On May 23, Israeli Prime Minister Ariel Sharon "formally" accepted the Quartet Road Map, setting forward a path for the creation of a Palestinian state over the next three years. Sharon's formal acceptance came after his chief of staff, Dov Weisglass, travelled to Washington, to negotiate a *modus vivendi* with the Bush Administration over Israel's laundry list of objections to the document, drawn up by the Quartet—the U.S., the European Union, Russia, and United Nations Secretary-General Kofi Annan. Following intensive meetings between Weisglass and Bush Administration National Security Adviser Condoleezza Rice, punctuated by some significant actions by President Bush for the first time placing pressure on Israel, Sharon made his announcement.

Two days later, Sharon presented the Road Map to his full Cabinet, which, after a stormy session, also endorsed the Quartet document. Sharon, in his own endorsement, had noted that discussions between Weisglass and Rice had convinced him that the United States was aware of and appreciative of Sharon's objections and concerns about the details of the plan; and that the Bush Administration would shape the implementation of the peace scheme with Israel's objections in mind. At the Cabinet meeting, Sharon won the vote of support, after it was agreed that there would be a separate statement, opposing specific actions, including Palestinian right of return to Israel.

As a result of the Israeli actions, President Bush is now slated to hold a multilateral summit meeting—either at Sharm el Sheikh in Egypt or Aqaba, Jordan—with Sharon, Palestinian Prime Minister Abu Mazen, and other regional leaders during the first week of June, immediately after Bush's trip to Evian, France for the G-8 heads-of-state meeting and a 300th anniversary celebration in St. Petersburg, Russia.

Bush had let it be known to Israel, publicly and through back channels, that he did not appreciate Sharon's intransigence, and did not wish to go to the G-8 meeting weakened by a failure to get Israel to come around to a policy on which Bush had spent a great deal of political capital. According to one Washington source, Bush solicited a number of leading American Jewish leaders to phone Sharon and indicate that they supported Bush's Road Map efforts.

Following the Israeli Cabinet vote, however, Sharon made it clear that Israel has substantial objections to the whole peace process, which, he said, boiled down to a list of 14 separate objections to the details of the Road Map. Considering that the initial list of Israeli objections had more than 100 separate points, one could say that the list of 14 represented significant progress.

It is no secret that the entire prospect for the Road Map moving forward comes down to one simple question: Will President Bush put serious pressure on Sharon and the Israelis? Bush had sent some signals to Israel that he was serious

about the Road Map, when he telephoned Abu Mazen at the same time that the Weisglass-Rice meetings were taking place, and asked Abu Mazen to send a top-level emissary to Washington for more detailed talks. The very next day, Rice met with the Palestinian Authority Minister of Finance, Salam Fayyad. In the same vein, U.S. Ambassador to Israel Dan Kurtzer told Israeli public radio May 22 that "it is in Israel's interest to abide by the law," and dismantle the Jewish settlements and outposts.

At the same time, Abu Mazen met for 90 minutes with leaders of Hamas, at his office in Gaza City. According to Hamas spokesman Ismail Hanieh, the group would be willing to begin a limited truce with Israel, halting attacks on civilians—but not settlers or soldiers—in the West Bank and Gaza Strip, if Israel would end its policy of targeted assassinations. Mazen, who requested the meeting, had held talks with Hamas in the past, and hopes for ceasefires.

But ultimately, the fate of the peace process comes down to two simple words: George Bush.

UN Security Council Resolution #1483 Passed on Iraq

After nearly 90 changes to the original U.S.-U.K.-Spain resolution, the UN Security Council voted May 22 to adopt Resolution 1483, which grants interim governing authority to the U.S. as an occupying power in Iraq. The vote was 14-0 with Syria absenting itself from the vote. One Council diplomat commented on "how difficult" it would be for Syria "to endorse something which is legitimizing the foreign occupation of an Arab country."

Russia's UN Ambassador Sergei Lavrov told reporters May 22, "Russia is satisfied with the compromise reached. It was, indeed, a compromise." On May 21 in Paris, French Foreign Minister Dominique de Villepin, at joint press conference with his German and Russian counterparts, Joschka Fischer, and Igor Ivanov, also said it was a "compromise," adding, "[W]e made the choice of unity."

The resolution does the following:

*Creates an Authority comprised of the U.S. and the U.K. as a unified command, giving them authorities, responsibilities and obligations as occupying powers under international law. The Authority will coordinate setting up an Iraqi government, have control over resumption of Iraq oil sales, and will coordinate all reconstruction. (The UNSC reviews the arrangement after 12 months.)

*Lifts the 13 years of UN-imposed economic sanctions against Iraq, thereby authorizing sale of Iraqi oil on the open market;

*Sets up a Development Fund for Iraq for oil revenues to meet humanitarian, infrastructure, and economic needs of the Iraqi people, and to pay for the costs of Iraqi civilian administration and disarmament of Iraq. The funds will be disbursed at the direction of the U.S., in consultation with the Iraqi interim administration (which does not exist at the moment). (According to the *Washington Post*, the Fund's money will be deposited in the Iraq Central Bank, which will be run by a retired U.S. banker, chosen by the United States.) The Development Fund will have an International Advisory and Monitoring Board which will be made up of a (to-be-appointed) UN representative, the IMF managing director, the director-general of the Arab Fund for Social and Economic Development, and the president of the World Bank;

*Phases out the UN Oil-for-Food program after six months, in which time it is to ensure delivery of priority civilian goods already contracted for delivery;

*Calls for the UN to "play a vital role in humanitarian relief, the reconstruction of Iraq, and the restoration and

establishment of national and local institutions of representative governance." In this regard, a UN Special Adviser on Iraq will be appointed by UN Secretary-General Kofi Annan.

*Seeks to have the Paris Club and other international financial institutions work out a solution to Iraq's sovereign debt; and

*Sets up a Compensation Fund, funded with 5% of revenues from Iraqi oil sales, pursuant to a 1991 resolution.

How it will function in reality has yet to be seen. Russian Ambassador Lavrov reiterated after the vote that the resolution establishes "the principles of respect for international law," something totally violated by the U.S. and U.K. in launching the war.

Lavrov also, when asked whether the resolution could allow for the U.S. or U.K. to privatize the oil, said certain protections against this are included. *EIR* has been advised that the overall package includes many behind-the-scenes, unwritten agreements.

Is Sharon Preparing To Assassinate Arafat?

Israeli radio, quoting unnamed "senior Israeli officials' " on May 20, reports that Israel has few anti-terror options left except to assassinate Palestinian Authority President Yasser Arafat, among others. The report says that there are only three options:

*"Assassinating Yasser Arafat or expelling him from the territories, along with some of the Palestinian Authority leaders that accompanied him from exile in Tunis...."

*"Inflicting "Serious harm to Hamas movement in the Gaza Strip, targetting the political wing (Sheikh Yassin, Hamas spokesman Rantisis and others) with assassination or expulsion."

*"A massive, prolonged IDF incursion into the Gaza Strip, on the model of the 2002 operation Defensive Shield" (known as "Operation Warsaw Ghetto" to *EIR* readers).

All these options are sure to escalate the situation until it is out of control. This report is adding to the heated public debate that is now taking place in Israel.

The director of Israeli Military Intelligence, General Aharon Ze'evi, told the Knesset defense committee that it was clear that Arafat was behind the recent terror attacks, but then added that exiling him would make the situation worse.

Knesset member Yuvel Steinitz opposed Ze'evi and called for the exile of the entire "Tunis gang"—i.e., Arafat's collaborators during the mid-1980s-1994 exile. But the most rabid was Sharon's Transportation Minister Avigdor Lieberman: "Kill Arafat ... [we need] total war against terrorism." (See INDEPTH for more details.)

Rumsfeld Hammered in Iran, and in Egyptian Government Paper

Former Iranian President Rafsanjani, in a speech reported on May 21 on the Russian website *iran.ru*, rejected accusations by U.S. Secretary of Defense Rumsfeld that al-Qaeda terrorists are in Iran. Rafsanjani said that "The Taliban and al-Qaeda were founded by Americans themselves and certain Arab countries next to the Islamic republic [Iran]."

Also, the *Jordan Times* reported May 21 that the Egyptian government daily *Al Ahrām* charged that Rumsfeld is as "brutal" and "unfair" as ousted Iraqi dictator Saddam Hussein for the way Arab prisoners are treated in Guantanamo Bay. The paper wrote: "It has become difficult to differentiate between Rumsfeld and Saddam...."

Columnist Salama Ahmed Salama went on: "Those who speak today of the atrocities committed by Saddam Hussein's regime and the absence of justice under the Baath authority will realize that what the Bush Administration is committing through Rumsfeld is not less brutal nor less unfair than what Saddam Hussein did." U.S. practices are "stirring up feelings of injustice and rage, which encourages hatred of the United States" among Arabs and Muslims, Salama insisted.

Although the issue chosen here is the mistreatment of prisoners, the importance of the article is that it attacks Rumsfeld in an unprecedented manner, perhaps reflecting the impact of *EIR's* event in Cairo on May 17. (See [INDEPTH](#) for more.)

Saudi Ambassador Warns of Terror Attack in United States

Saudi Arabia's Ambassador to the United States, Prince Bandar Bin Sultan, warned of the possibility of a major terror attack in the United States, in a May 19 statement.

Speaking in Riyadh, Saudi Arabia, Bandar told reporters that "there is chatter, a high level of chatter regionally and [in] other international spots" about possible attacks in Saudi Arabia or America. "My gut feeling tells me something big is going to happen here or in America."

Bandar revealed that Saudi officials had believed the al-Qaeda organization's leadership had been split and were not likely to hit Saudi Arabia, but "they have mended their differences and decided to come out."

He also revealed that before the recent attacks, the Saudis had seized a large quantity of explosives. "I think they were looking to do something more major than this. That would have taken out two blocks in the city if it had gone off accidentally. We're all wondering if it's the last [of the explosives] or is it the tip of the iceberg."

The FBI also warned of possible al-Qaeda attacks in the USA, putting out a bulletin saying, "The U.S. intelligence community assess that attacks against U.S. and Western targets overseas are likely; attacks in the United States cannot be ruled out." This is an apparent shift from last week, where anti-terror officials claimed that, although attacks were expected outside of the U.S. they did not expect attacks inside the United States.

Also two weeks ago, the terror alert was raised to "high" (orange) from "elevated."

Meanwhile, as the U.S., British, and Germans announced closure of their embassies after the May 12 attacks (the U.S. has since reopened its embassy in Riyadh), Saudi authorities arrested three alleged al-Qaeda members in the Red Sea port of Jeddah on May 19, adding that one of the three is cooperating with authorities. However, authorities are not claiming yet that they are linked to the Riyadh bombings. On May 17, the government said it had detained four suspects who had prior knowledge of the multiple suicide bombings.

IAEA Calls for 'Urgent Action' on Iraq Nuclear Sites

In a press release issued May 19 from Boston, IAEA Director General Dr. Mohamed El-Baradei stated: "I am deeply concerned by the almost daily reports of looting and destruction at nuclear sites and about the potential radiological safety and security implications of nuclear and radiological materials that may no longer be under control.... We have a moral responsibility to establish the facts without delay and take urgent remedial action."

Dr. El-Baradei wrote to the U.S. government April 10, urging the physical protection of the Iraqi nuclear research center at Tuwaitha, which has been under IAEA seal since 1991. After reports of looting there, Dr. El-Baradei wrote again on April 29, emphasizing the "responsibility of the Coalition forces" to maintain appropriate protection of the radioactive materials. The release states that "Dr. El-Baradei regrets that the IAEA has to date not received a response," and urged that the IAEA be allowed to send in a safety and security team to Iraq to address "a potentially serious humanitarian situation without further delay."

The same day, a grouping of former intelligence officials known as Veteran Intelligence Professionals for Sanity (VIPS) sent a letter yesterday to UN Secretary General Kofi Annan and all members of the Security Council, asking the Council to act with a "renewed sense of urgency" to take over the weapons inspections in Iraq, and not to pass a resolution lifting sanctions until that is done, because of the alarming reports of the looting of nuclear sites that the UN had secured before the war.

The signers, Ray McGovern, David McMichael, and Kathleen and Williams Christenson, all former U.S. intelligence officials, have now issued six papers on the role of intelligence in Iraq—the first being a "same-day" commentary on Secretary of State Colin Powell's performance at the UN Security Council on Feb. 5. Three of these were Memoranda for the President, but they have gotten no reply, and therefore, it is necessary for the UN to step in, they claimed, and make sure that no further U.S. bungling occurs.

American Jewish Activists Back Palestinian Statehood

Prominent Jewish Americans are making life miserable for the extremist opponents of the peace process in Israel, the U.S., and among Palestinians. On May 20, the *New York Times* reported that the Israel Policy Forum's founding director, Jewish philanthropist Jonathan Jacoby, a strong Oslo supporter, has initiated a letter, signed by more than 100 prominent American Jews (most of them donors to the Democratic Party), to the Democratic Party candidates, urging them to support President Bush on the Road Map.

Jacoby said the message of the letter—which reportedly rankled one Democratic candidate especially (no doubt Joe Lieberman)—is that "if you think you're going to stop Bush from picking off Jewish Democrats by attack him on the Road Map, you're mistaken." Jacoby also initiated a letter to the U.S. Congress on April 30, that told Senators and Congressmen *not* to sign resolutions that oppose the Road Map, because such a resolution may "appear" to help Israel, but, in reality, harms Israel's long-term interests.

This is the first time since the election of Ariel Sharon as Israeli Prime Minister, that the American Jewish community is doing anything other than cheerleading for the fascist assaults against Palestinians taken by Sharon, and planned out by the neo-conservative Likudniks in the Bush Administration. This kind of mobilization against Sharon's stonewalling against the peace process is another reason that Sharon did not want to come to Washington for his recently scheduled, then postponed, meeting with President Bush.

The Israel Policy Forum (IPF) viewpoint is reflected in the remarks of IPF's most well-known scholar, Dr. Stephen P. Cohen, who appeared in Washington, D.C. at the Middle East Policy Council on April 11. Dr. Cohen said that it is "important that the monopoly" on the political voice of American Jews be "broken" and that the American Jewish community, in collaboration with American Muslim and Arab communities, find new ways to express themselves and work together, and that "we are determined that there will be a two-state solution, and that it will happen now." He said that turning the U.S. in that direction would also activate forces in Israel "for a change." Cohen, like the majority of the other MEPC speakers at the event, openly opposed the neo-conservatives. The latest IPF letter to the Democratic "04's" has been signed by actor Richard Dreyfuss, and top Democratic Party fundraisers, Alan Solomon, Lynne Wasserman, and others.

Asia News Digest

Indonesia Declares Martial Law in Aceh, and War on Free Aceh Movement

Indonesian President Megawati Sukarnoputri issued the decree, to take effect at midnight on May 18, after the failure of last-minute talks in Japan over the weekend of May 17-18, when the Free Aceh Movement (GAM) refused government demands that it renounce the goal of independence, and negotiate within the framework of autonomy "within the unitary state of Indonesia." The government has already positioned military forces, planes, warships, and supplies in the region in preparation for war. Martial Law will initially last for six months.

Over the first week, GAM forces burned down over 200 schools, and fighting in several areas drove thousands from their homes.

The failed ceasefire, signed in December, had offered Aceh autonomy and the right to retain 70% of the revenue generated by the oil and other resources in the province.

Malaysia: Power Plants and Airbuses

Malaysia will contract either German industrial giant Siemens or Japan's Mitsubishi Corporation to build a 2.1-gigawatt power plant. The \$1.6-billion project by Malaysia's SKS Power will be a coal-fired plant in southern Johor state, to supply electricity to state utility giant Tenaga Nasional. The Tanjung Bin power station will comprise three units of 700 megawatts each, the first coming online by August 2006.

Siemens launched its regional transportation hub in Malaysia during the visit by German Chancellor Gerhard Schroeder this month, giving the country a big boost in its aim to become an industrial powerhouse.

Meanwhile, Malaysia's national airline announced that it expect to finalize the purchase of six Airbus A380-800 super-jumbo passenger jets next month, partly purchased through a bond issue by Malaysian Airline System's parent company, Penerbangan Malaysia Bhd (PMB). Analysts estimate the deal to be worth \$1.5 billion. The 555-seater planes will be the biggest in the world.

Malaysia's Dr. Mahathir Hits U.S. for 'Out-Terrorizing the Terrorists'

Malaysian Prime Minister Dr. Mahathir Mohamad warned on May 17, in commenting on the Morocco terrorist bombings, that if the United States is "trying to out-terrorize terrorists," this will only result in being made the target of attacks in many other places. He pointed out that he had repeatedly said that when a country tried to counter terrorism through killing or by invading another country, this would bring about consequences like suicide bombings. He said there was still not enough being done to stop Israeli aggression against the Palestinians, which was causing a lot of anger among Muslims.

On the U.S. travel advisory warning against visiting Malaysia, Dr. Mahathir said, "We know Malaysia is safe.... The people who are not safe are the people who attack other countries and kill other people. If one attacks other countries and other people, it does not matter where they are. They are not safe," he warned, adding that those who were not safe were the Americans, British, and Australians.

Russian Defense Minister Visited Malaysia

Sergei Ivanov became the first Russian Defense Minister to visit Malaysia last week, in a followup to Prime Minister Dr. Mahathir bin Mohamad's trip to Russia earlier this year (see [RUSSIA/EURASIA DIGEST](#) for more).

From Malaysia, Ivanov flew to Washington on May 20.

Kashmiri Leader Proposes 'Face-Saving' Solution

Pakistani Kashmiri leader Sardar Sikandar Hayat Khan has issued a proposal to end the longstanding conflict between India and Pakistan over Kashmir; he proposes the partition of the disputed region along religious lines. Khan told Britain's *Reuters* news service in a telephone interview May 20: "This proposal is the closest to the 1947 partition plan under which India and Pakistan came into being." He didn't elaborate on the horrific loss of life on both sides in the aftermath of that political separation.

Khan is a central leader of the All Jammu and Kashmir Muslim Conference, which has usually called for Pakistani rule of Kashmir. Khan said his "solution can be face-saving for India, Pakistan, and Kashmiris."

Security in Afghanistan Is Deteriorating

Aid workers in Afghanistan report a deteriorating situation in the countryside, undermining the U.S.-sponsored Karzai government and postwar reconstruction. Rafael Robillard of ACBAR, an umbrella group of 86 aid agencies in Kabul, told *AP*, "There's been a very, very big deterioration in security countrywide, especially for aid workers. Aid workers are being specifically targeted by people trying to destabilize the government, which is very dependent on aid. We're easy targets. It's a serious problem." Four U.S. soldiers have also been killed in firefights in the last two months.

The UN has responded by suspending travel on some roads and restricting UN vehicle movements to daylight hours. On May 15, they announced staff would only travel in six of the most volatile southern provinces if they were given armed escorts by the government.

Robillard added that several international aid groups had pulled out of the south altogether and many others had scaled down operations. The ICRC has suspended projects in some provinces and ordered expatriate staffers to stick to the major cities.

The Chinese Renminbi Is Becoming a Regional 'Hard' Currency

According to an article in the May 29 issue of *Far Eastern Economic Review*, China's renminbi is growing in use as a hard currency outside China, despite the fact that it is not fully convertible. "China is effectively managing a hard currency," says Michael Kurtz, chief analyst for Bear Stearns in Hong Kong.

"In Burma and Laos, the Chinese currency is a hard substitute for weak local currencies like the Burmese kyat and Laotian kip," writes *FEER*. "Cross-border trade has increased in recent years—consumer goods, machinery, and fruit come in from China; timber, minerals, and smuggled cars leave Burma, Laos, and Thailand. All these transactions, amounting to hundreds of millions of dollars in annual value, are settled in renminbi—greatly helped by lax controls over carrying currency in and out of China. Along the Thai banks of the Mekong River, Chinese traders from Yunnan do business without converting their renminbi into Thai baht. All over Thailand, an underground banking network enables traders to transfer funds in and out of the Chinese currency. A similar system works in the Pearl River Delta region connecting Hong Kong with Guangdong province.

"It's a curious situation because the renminbi is still subject to rigid capital controls," writes *FEER*. "Regional central banks will not hold the renminbi as a reserve currency, nor do they issue debt in renminbi because China keeps it to a de facto peg of nearly 8.28 to the dollar. The renminbi is not freely convertible on the capital account, and most analysts don't expect this to change for some years."

Says Marc Faber, one of Asia's leading financial analysts: "The renminbi is the strongest currency in Asia right now; the problem is there isn't enough of it in circulation." There are about 30 billion renminbi (\$3.6 billion), or about 2% of the currency, outside China.

Africa News Digest

White House Seeks To Bypass Congress on Aid to Africa

Congressmen say the Bush Administration "is trying to set up a separate foreign assistance structure," bypassing Congress and U.S. AID, and being "run directly by the White House," according to the paraphrase of allAfrica's Charles Cobb May 22. Congressman Donald Payne (D-NJ) made the charge in April in speaking in the Andrew Young Lecture Series of the Africa Society. "I have serious concern about the goals of the Millennium Challenge Account (MCA), its eligibility criteria, and the administration of the initiative," Payne said in his address, adding that MCA "will be run by a corporation made up of a CEO and a staff of 100," chaired by the Secretary of State. "Congress is left out of this process," he added.

U.S. AID Administrator Andrew Natsios—briefing journalists in the week of May 19-25—denied that his agency is being sidelined, but went on to affirm the main charge of an executive branch takeover. Natsios said that "something more streamlined and less exposed to special interests is needed," in Cobb's paraphrase. Cobb quotes Natsios: "The problem with the current aid program is that [foreign aid] is heavily earmarked by Congress and by interest groups that influence Congress and by diplomacy, and it's not based on performance."

Secretary of State Powell was challenged on the White House takeover by Congresswoman Nita Lowey (D-NY), when he testified before the House Foreign Operations Subcommittee in March. While U.S. AID is valuable, he said, "we're looking for new ways of delivering assistance." President Bush was particularly interested in focussing on nations "that have made a firm commitment to democracy, to transparency, to the rule of law, to economic freedom, to empowering men and women.... That's the purpose of the Millennium Challenge Account," he said.

Pebble Bed Nuclear Reactor Given Boost

South Africa's plan to build an inherently safe mini-nuclear reactor has been given a new lease on life, with the U.S. Congress close to approving a \$200-million package to build a test reactor in Idaho, according to the South Africa's *Business Day* May 18. Corbin McNeill, former chairman and CEO of the U.S. electricity company Exelon, said May 17 that top U.S. legislators were keenly interested in South Africa's pebble bed nuclear reactor. The proposed U.S. Energy Policy Act says the U.S. wants hydrogen to replace oil as a future energy source. Eskom's planned pebble bed reactor fits the bill, having the potential to produce hydrogen at commercial levels, according to *Business Day*.

Exelon pulled its financial support out of development of the planned reactor last year, saying that it was interested instead in buying one for operation in the United States, but did not want to be in the business of constructing the reactor. Pretoria has yet to make a final decision on the project, although Minerals and Energy Minister Phumzile MlamboNgcuka said May 17 that the research and development stage would be concluded soon.

SADC Water Project on Drawing Board

Namibian President Sam Nujoma is pushing his plan to bring water from Congo Basin to Botswana, Namibia, Zimbabwe, and South Africa. Nor is it any longer just President Nujoma's plan since, after he sold former South African President Nelson Mandela on the idea, it has been adopted by the Southern African Development Community (SADC).

The plan involves taking water from the Kasai River, a tributary of the Congo (also known as the Zaire), to the Zambezi, whence it will be diverted to the Okavango Swamp in northern Botswana. The Swamp becomes the central distribution point from which canals will be built to Namibia, Zimbabwe, and South Africa's Northern Cape Province. Some natural rivers will also be used.

In an interview Nujoma gave to *The Namibian* May 19, he emphasized, "It can be done.... In Europe they have connected all the rivers.... Other people plan and work. We Africans just like to sit down and demand,' he said, giving a derisive laugh."

Algerian Trade Union Charges Proposed Oil Law Was Made in USA—and Is Treason

The official in charge of economic affairs at the General Union of Algerian Workers (UGTA), Mohamed-Lakhdar Badreddine, May 18 accused Algerian President Abdelaziz Bouteflika of submitting the law for the liberalization of Algerian oil under U.S. pressure, according to *Le Matin* (Algiers) May 19. Badreddine promised the permanent mobilization of Algerian society to ward off this "treason." This is reportedly the first time that the UGTA has dared to officially say that "the approach adopted by the country's authorities in order to put foreign multinational companies in charge of the management of the oil and gas sector, is dictated exclusively from abroad."

"Unlike the other Arab countries," he charged, "Algeria has been pressurized into adopting a bill.... What the Americans failed to push through by force, they want to achieve through the force of the law." The trade unionists at the third session of the Executive Council of the Arab Federation of Petroleum, Chemical, and Mine Workers (FATPCM) did not hesitate to describe the attempt to sell the country's oil resources as an act of "high treason against the nation."

Badreddine recalled the "overwhelming workers' support" in a general strike on Feb. 25-26 which, according to him, forced the Algerian government officials to "freeze this bill." The U.S. is trying to get it unfrozen. "Today, we are asking for the permanent withdrawal of this bill." However, the U.S. has attempted to put pressure on the Energy Minister to proceed with it, he charged. FATPCM said that in the face of what it called the U.S. intention to take over world oil, there is a "pressing need to adopt a common trade union strategy in order to defend the interests of the Arab countries better."

China and Sudan Plan Sudan's Largest Oil Refinery

China and Sudan plan to invest \$1 billion to create Sudan's largest oil refinery. The deal, expected to be signed within the coming months, will use \$300 million to expand the Khartoum Refinery from 50,000 barrels per day to 90,000, the *China Daily* reported, citing Sudan's ambassador to China, Mirghani Mohamed Salih. The China National Petroleum Corporation (CNPC) and Sudan first established the 50-50 joint venture in 1997.

The rest of the cash investment is earmarked for a 465-mile pipeline linking block six in southern Sudan's Kordofan oilfield with the refinery and Port Sudan. CNPC has invested more in Sudan than in any other country.

Also early this month, China National Oil and Gas Exploration and Development Corp (CNODC), a unit of CPNC, secured a \$350-million oil refinery deal in Algeria.

Sudan's Foreign Minister Speaks in Washington on 'Road to Progress'

Sudanese Foreign Minister Mustafa Ismail spoke in Washington last week on the "road to progress," and optimistically suggested the potentiality of a major development in the peace process at the end of June. Speaking at the Woodrow Wilson International Center on May 20, Dr. Ismail outlined the progress made in the peace process over the last year and a half between the government of Sudan (GOS) and the Southern People's Liberation Movement/Army (SPLM/A). He stressed the significance of the success of the Nuba Mountain Cease Fire Agreement signed in January 2002, and the cessation of hostilities between the GOS and SPLM/A since October 2002.

The peace proposal is almost identical to the one proposed by the GOS in 1997-98. There would be a six-year interim period during which southern autonomy would be maintained by a "Southern government" in addition to the Federal government, and state governments. After six years, Sudanese living in the South could decide by referendum whether to remain part of the Federal government, or secede.

Responding to a question from the audience, Dr. Ismail listed four areas that still need to be resolved in order to conclude a full peace agreement between the GOS and the SPLM/A by the end of June. They are: 1) how to distribute the wealth from the oil revenues between the Federal government, state governments, and the government of the South. Foolishly they have invited the IMF and World Bank to assist them; 2) distribution of political power between the South and the Federal government; 3) the extent of the veto power that will be given to the Vice President; and 4) security arrangements between the national army and the SPLA.

The Bush Administration received praise from the speaker for its assistance in the peace process, and the audience of so-called African experts usually hostile to Sudan were complimentary of the Sudanese government.

U.S. Military Aircraft Land in Sudan, First Time in 10 Years

U.S. military aircraft landed in Sudan for the first time in 10 years, according to the U.S. anti-terror task force operating in the Horn of Africa, the UN IRIN reported May 21. The task force said the C130 Hercules plane, on a logistics support mission, landed in Khartoum on May 17. It was met by Sudanese military officers and a U.S. defense liaison officer in Khartoum, Col. Dennis Giddens. Giddens is quoted as saying: "Landing here today is symbolic because what pushed our two countries apart 10 years ago is now pulling us together, and that is the war against terrorism."

Kenya Seeks Damages from U.S. over Terror Alerts

Kenya has asked the U.S. government to compensate that country for losses suffered from recent terrorism alerts. Trade and Industry Minister Mukhisa Kituyi, while in the U.S., told Assistant Secretary of State Walter Kansteiner that since Kenya was being threatened with attacks only because of its friendship with the U.S., there should be some remuneration, Kenya's *The Nation* newspaper reported May 24. "We are not going to abandon our friendship with America. But we do need financial help to ameliorate the impact on the threat on our tourism sector."

A huge fight has been raging in Kenya over the fact that Kenya's Internal Security Minister, Christopher Murungaru, made public that a leading al-Qaeda suspect from earlier terrorist attacks, identified as Fasul Abdallah Mohamed, might be at large there. This is information he apparently was given by Western security agencies. Kenya's allies—Britain, the U.S., and Israel—then put in place travel advisories and British Airways, followed by the Israeli airline El Al, cancelled flights to Kenya.

Then on May 20, visiting American General John F., Sattler arrived in Kenya and hailed Murungaru as a hero for

acknowledging the terrorist threat; the two men were photographed together smiling. Wrote columnist Dominic Odipo in *The East African Standard*: "Among most progressive students of American government policy in Africa it is taken almost as a rule of thumb that whenever an African leader is publicly praised by top American leaders, it is time to switch on the red light." He added that by aligning itself so tightly with the U.S., Kenyans have "put ourselves in the terrorists' firing line. We have, in a word, crossed the Rubicon."

Columnist Macharia Gaitho noted in *The Nation* May 20: "The fact of the matter is that Kenya becomes a target because it is seen as a bastion of Western strategic and commercial interests," but "instead of offering us all the support required, they proceed to take actions that can only turn us into a pariah."

African Union Sends Mission to Somalia

The African Union (AU) has sent a security fact-finding mission to Somalia to prepare the ground for AU military observers. The purpose of the mission is "to collect and verify information on the general security situation, aimed at planning the demobilization of militias and weapons collection," according to UN IRIN, citing the mission's leader, Maj.-Gen. Joseph Musomba of Kenya. The 21-member mission, which arrived May 22, is cosponsored by the AU and the Inter-Governmental Authority on Development (IGAD), and includes observers from the European Union, the Arab League, and Somali delegates. The Bush Administration has made much of the presence (or alleged presence) of al-Qaeda terrorists in Somalia.

U.S. 'War on Terror' Puts 3,500 Somalia Orphans on Streets

The U.S. insists Saudi-supported orphanages in Somalia are linked to terrorism, so now 3,500 children are homeless, according to reports. The Saudi Arabia-based Al-Haramayn aid agency first came to Somalia in 1992, at the height of the famine. The agency that closed its doors in Somalia May 17 ran a total of eight orphanages—five of them in Mogadishu—housing about 3,500 children throughout the country. The other orphanages were in Merka in southern Somalia, and Burao and Hargaysa in the now self-declared republic of Somaliland.

A Somali employee of Al-Haramayn, Nur Alasow, told UN IRIN May 21 that closing down the orphanages was "even worse than the closure of Al-Barakaat," the money transfer company closed in 2001, after it was accused of links with terror organizations. Alasow asked: "Will those responsible for the closure of Al-Haramayn take care of these children, or is it that the lives of 3,000 Somalian children are of no consequence?"

An official of the U.S. embassy in Nairobi told IRIN: "This is a fairly new situation and we are looking into it."

Pahad Sent Back to the Middle East

Mbeki's pointman for the mideast Aziz Pahad left for May 24 to visit Lebanon, Syria, Egypt, Saudi Arabia and Kuwait City, South African news service SAPA reported May 24. Ronnie Mamoepa, a spokesman for the deputy minister of foreign affairs said Pahad will address issues such as the consequences of a post-Saddam Iraq for the region, the "Road-Map" for peace in the Middle East and South Africa's bilateral relations with each of those countries. He is expected to discuss the recent outbreaks of suicide bombings and the dire consequences for security of the region. Pahad will then go to Cuba for meetings June 3 and 4. According to spokesman Mamoepa, "The revitalization of the Non-Aligned Movement will also feature high on the agenda, as South Africa and Cuba are, together with the current chair Malaysia, members of the NAM troika."

UN AIDS Envoy to Public Health Students: Tell the Truth, Stop the Genocide

Stephen Lewis, UN Special Envoy for HIV/AIDS in Africa, challenged public health students to "use the incredible privilege" of carrying the "imprimatur of public health" to develop a public voice to stop genocide. Lewis issued this challenge in his comments upon receiving the Dean's Distinguished Service Award from the Mailman School of Public Health, Columbia University, on May 21. While his remarks were not reported in the U.S. press, the entire text was posted by *allAfrica.com* May 21.

Discussing AIDS in Africa, Lewis was blunt: "To put it succinctly, the Western powers have betrayed Africa for 20 years, the entire life of the pandemic. And they're doing it again," he said, referring to the fact that they are allowing the Global Aids Fund, which pays for retrovirals, to go bankrupt.

He made clear President Bush's hypocrisy in his \$15 billion AIDS initiative over the next five years (\$10 billion of which is new money). He noted that for the money to be given, other G-8 nations have to make an equivalent gesture, and that there is no guarantee the Global Aids Fund will get much if any of it. "At the moment, only 10% of the new money—\$200 million—is annually guaranteed. Anything above this requires matching. If I may be so bold, this seems to me an odd concept. Surely a country contributes the funds because they are desperately needed. Conditionality doesn't sit comfortably when matters of survival are at stake."

With respect to AIDS in Africa and who is most vulnerable, he called it a "twisted variant of Darwinian selection" that "had decided to mount a demonic assault on one sex"—women. Children are next: "I truly wonder about these kids. Their mothers, more often than not, end their days on the fetid mud floor of a ramshackle hut, largely unattended, writhing in pain, not a shred of dignity in death, and the children stand and watch them die. How does the child ever recover?"

Opposition Members in Zimbabwe Want To Dump Their Leader

Key members of the Opposition Movement for Democratic Change (MDC) in Zimbabwe want to dump their leader, Morgan Tsvangirai, and replace him with Strive Masiyiwa, who heads Econet Wireless, a mobile phone network, and is the "Bill Gates" of Southern Africa. Masiyiwa "has also been linked to several quasi-political, religious organizations, such as the Habbakuk Trust, through which he is alleged to be mobilizing support among clergymen across the country," according to the *Sunday Mirror* (Harare) May 17.

The weekly recalls that in January, Masiyiwa was getting support from Baroness Lynda Chalker and her organization, Africa Matters, to form a new party in Zimbabwe—a plan that seems to have evolved into the current idea of replacing Tsvangirai as head of the MDC. Chalker, Masiyiwa, some unidentified MDC leaders, and Ugandan President Museveni were all reportedly present at a secret meeting at an Oppenheimer Game Ranch in Botswana the week of May 5-9.

The *Sunday Mirror* claims that it "has it on credible authority that a group of MDC national executive committee members first made overtures to former finance minister Simba Makoni.... 'I can confirm that several key opposition party members tried to approach Makoni with an offer to make him president of their party, but he flatly denied them an audience,' an authoritative source told the *Sunday Mirror*. 'Apparently, they are now trying to sell the same offer to Strive Masiyiwa,' added the source."

An MDC insider told the *Sunday Mirror* that there are members of the MDC national executive "who are strongly opposed to Tsvangirai's leadership ... but the consensus in the party is that replacing him now would sound the death-knell for the MDC."

The *Sunday Mirror*, which opposes Anglo-American attempts to control Zimbabwe, is not controlled by the government of Zimbabwean President Robert Mugabe.

This Week in History

May 26-June 1, 1787

It was May 25, 1787 when the convention which resulted in that remarkable document called the U.S. Constitution, commenced its work. Over the course of the next three to four months, with barely any breaks but Sundays, 55 of the leading American Revolutionaries met behind closed doors, in order to establish the first republican nation-state.

Without a doubt, the calling of this gathering, and its successful outcome, were the result of the leadership of three individuals, all key actors in the Revolutionary War, who were delegates from their states: Alexander Hamilton from New York, George Washington from Virginia, and Benjamin Franklin from Pennsylvania.

Alexander Hamilton, the former aide-de-camp to General Washington, had been agitating from the early 1780s for the establishment of such a national arrangement. More specifically, he had written the report from the Annapolis Convention of 1786—a meeting convened by Virginia and Maryland, to work out commercial arrangements around the Potomac Canal—which had called for all the states to send representatives to Philadelphia on the second Monday of May 1787, in order to attend to the business of "revising the Articles of Confederation," thus "rendering them adequate to the exigencies of government and the preservation of the Union."

Hamilton was among the first to show up at the Constitutional Convention, but left early, only to show up to sign the Constitution on Sept. 17—the only delegate from New York to do so. The extant notes from James Madison, et al., portray Hamilton as a minor player in the discussions, yet that is highly unlikely, especially, as he ended up being the most prominent and energetic organizer of the campaign for ratification, once the Constitution was devised.

The second major player at the Convention was Gen. George Washington, who came out of retirement at the request of Hamilton, and many others, in order to give legitimacy to the proceedings. In the absence of Benjamin Franklin, who was unable to attend the first day of the meetings due to bad weather, and was considered too frail, at 81, to be able to handle the job, Washington was elected President of the Convention on May 25, when only seven states were represented. While he did little speaking, his command over the event was essential to ensuring that it came to a successful conclusion, rather than breaking up in the midst of the wild dissension that occurred.

The third leading individual present was Benjamin Franklin, acknowledged by all to be the father of the Revolution whose final chapter they were writing. Franklin had all his speeches read by fellow Pennsylvania delegate James Wilson, but his presence and interventions—including his motion for prayer every morning, and his role on the "Compromise" Committee—were crucial to the result. It was Franklin who was chosen to make the final presentation of the Constitution, once it was signed on Sept. 17.

But virtually all of the delegates to this body, who ranged in age from under 30, to Franklin's 81, had a clear sense of being responsible, not just to their fellow citizens, but to *history*. It was their job to save the Republic for which they had fought, and won, by setting up a form of government that would not only serve these United States, but be a model for the world.

"We're now to decide forever the fate of Republican Government," said James Wilson. Even more eloquent was Hamilton himself, in his opening argument in Federalist #1, where he wrote that it was up to "the people of this country to decide by their conduct and example the important question whether societies of men are really capable or not of establishing good government from reflection and choice," or whether they would forever depend "on accident and force." If they made the "wrong election" at this point, it would be "the general misfortune of mankind."

A look at the deliberations of these men, and the context in which they were fighting to permit the nation to survive, should dispel forever the currently popular idea that the Constitution was a "counter-revolution" against the Declaration of Independence. As great leaders, like President Abraham Lincoln, realized, the two documents came from the same commitment to republican values. Without the framework established by the Constitution, the fight for unalienable rights could not be realized both for the current generation, and posterity.

Today, as we fight to save this Constitution from those who live by "force," we could do no better than to study that Constitution and its principles in the depth that the Founders debated it—and renew our commitment to those principles as well.

Links to articles from *Executive Intelligence Review**.

***Requires Adobe Reader®.**

Feature: The Economic Policy That Made the Peace Of Westphalia

by Pierre Beaudry

In view of the currently collapsing world financial system, which is tearing apart the Maastricht Treaty, European governments have a last opportunity to abandon the failed Anglo-Dutch liberal system of private central banking and globalization, and organize the new Eurasian axis of peace centered on Russia, Germany, and France.

Economics:

Italy Moving On LaRouche's NBW? Candidate on National TV

by Paul Gallagher

Twenty-eight Italian Senators on May 13 moved a powerful resolution, even stronger than one the Chamber of Deputies has already passed, demanding the Italian government convene the 'NewBretton Woods' monetary conference Lyndon LaRouche has campaigned for since 1997.

Chronology of the Fight For a New Bretton Woods

see page 7

Interview: Dr. Hal B.H. Cooper, Jr.

U.S. Northwest Losing Its Aluminum Industry

In less than ten years from 1992, U.S. annual production of aluminum fell by 35% from 4.042 million metric tons (1992) down to 2.637 million (2001), and the contraction of capacity associated with this decline is continuing.

WHO Warns of Post-SARS Threats, Lack of Public Health Defenses

by Marcia Merry Baker

At the annual World Health Organization meeting in Geneva on May 19-28, besides the attention to severe acute respiratory syndrome (SARS), many officials joined in warning that new infectious disease outbreaks lie ahead, and public health defenses are not in place to cope with them.

TOPOFF 2: Public Health Gaps Are Real Disaster

by Linda Everett

The U.S. Department of Homeland Security, in conjunction with 100 Federal, state, and local agencies and the Canadian government, conducted a bioterrorism exercise over May 12-17, to simulate how the nation would respond in event of a weapons of mass-destruction attack.

Book Review:

The Wrong Book At the Wrong Time

by Nancy Spannaus:

Alexander Hamilton, A Life

by **Willard Sterne Randall**

Never in recent American history has the world, and especially the United States, been in more need of the ideas of leading American Revolutionary, and our first Secretary of the Treasury, Alexander Hamilton. From that standpoint, it is unfortunate that Randall's biography of Hamilton is not only not what's needed, but is counterproductive to the interests of the nation.

International:

Synarchism: The Fascist Roots Of the Wolfowitz Cabal

by Jeffrey Steinberg

In 1922, Count Richard Coudenhove-Kalergi launched the Pan European Union, at a founding convention in Vienna, attended by more than 6,000 delegates. Railing against the 'Bolshevist menace' in Russia, the Venetian Count called for the dissolution of all the nation-states of Western Europe and the erection of a single, European feudal state, modeled on the Roman and Napoleonic empires.

- The Mexico Case:

The Fascist Philosophy That Created Synarchism

by Dennis Small

Back in 1996, Reagan's former Defense Secretary, Sir Caspar Weinberger, co-authored a book with the Hoover Institution's Peter Schweitzer entitled The Next War, in which a set of scenarios were spun out about how an upcoming U.S. war might occur. The book's third script laid out a war with Mexico as follows...

Dr. Kirchner, Life Is Impossible With the IMF!

by Gerardo Tera'n Canal

As of May 25, Argentina's Independence Day, Dr. Néstor Kirchner will be its new President. He will be its fifth since Dec. 20, 2001, when the pots-and-pans street demonstrations against the International Monetary Fund (IMF) and bankers' theft of their clients' deposits, forced the resignation of President Fernando de la Rúa, and his hated Finance Minister Domingo Cavallo.

Iraq Chaos Confronts The Region: What To Do?

by Muriel Mirak-Weissbach

A month and a half after American tanks rolled into Baghdad and 'conquered' it, anarchy has conquered the sure-fire scenarios of Defense Secretary Rumsfeld's 'chicken-hawk intelligence agency,' which promised a quick regime change to a pro-American Iraqi government that would pressure other Arab states and flood the Organization of Petroleum Exporting Countries (OPEC) with America-Israel-earmarked oil.

- What Middle East Leaders Can Do Now

The author had the opportunity on May 17, to deliver a lecture at the Center for Asian Studies at the Cairo University, on the post-war situation and the perspectives for changing American foreign policy.

Philippines President Gives a War to Bush

by Mike Billington

Philippines President Gloria Macapagal-Arroyo was treated to a state dinner at the White House on May 19, only the third such honor bestowed by President George W. Bush so far in his Presidency. The reason for the high honor was obvious: President Macapagal-Arroyo had offered total support to the U.S. imperial war against Iraq, including pledging to send humanitarian troops and workers to support the effort.

Report From Germany:

Walking a Tightrope; Germany wants to keep its principled opposition to the Iraq War, but also avoid

[open clashes with the United States.](#)

by [Rainer Apel](#)

The talks that U.S. Secretary of State Colin Powell had in Berlin on May 16 yielded some 'conciliatory' though austere gestures: Both Powell and Chancellor Gerhard Schröder conceded at a press conference that differences over the Iraq War remain, but hoped an agreement could be found in the formulation of an updated U.S. draft resolution for the United Nations Security Council that would regulate the post-war process in Iraq.

[Some Rays of Sanity Show on Korea Policy](#)

by [Kathy Wolfe](#)

South Korean President Roh Moo-hyun completed a May 11-16 state visit to Washington, where he met with President George Bush and other top Administration officials, but failed to win an iron-clad pledge from the U.S. government, that there would be no U.S. pre-emptive military action against North Korea...Instead, Bush and Roh issued a joint statement on May 14 warning that they would take 'further steps' if North Korea escalated its nuclear program.

National:

[Nemesis Stalks Chicken-Hawks: Iraq Failure Fuels Countercoup](#)

by [Michele Steinberg](#)

President Abraham Lincoln famously pointed to a principle of republican leadership in a national crisis, with his optimistic epithet, 'You can't fool all of the people all of the time.' And all signs are that time is up for the ignoble lies of the Straussian conspirators in the United States and Israel who pushed the Iraq war, and want America involved in world imperial 'perpetual wars.'

[Reply to a New DNC Abortion: McAuliffe's Menstrual Cycle](#)

by [Lyndon H. LaRouche, Jr.](#)

*This statement was released by the Presidential candidate's political committee, LaRouche in 2004, on May 21, 2003.
(pdf version of "Latest from LaRouche")*

[Rumsfeld's 'Notverordnung:'](#)

['Transformation' Bill Hits Bumps in Congress](#)

by [Carl Osgood](#) and [Edward Spannaus](#)

Secretary of Defense Donald Rumsfeld encountered more opposition than expected, in his effort to ram through Congress his draconian 'Defense Transformation Act for the 21st Century,' which would tear up the Constitutional separation of powers, and destroy civil service protections for the Defense Department's 800,000 civilian employees, in one stroke of a pen.

[U.S. Admits Most Afghan Detainees Not Al-Qaeda](#)

by [Edward Spannaus](#)

In a highly unusual action, Secretary of State Colin Powell sent what is described as 'a strongly worded letter' to Defense Secretary Donald Rumsfeld on April 14, urging the Defense Department to move faster in determining which prisoners, seized in Afghanistan, and held at the U.S. base in Guantanamo Bay, Cuba, can be released.

[Halliburton Looter: Shouldn't Dick Cheney Be Impeached?](#)

by [Scott Thompson](#) and [Michele Steinberg](#)

"After dropping more than 28,000 bombs on Iraq, the United States has now begun the business of rebuilding the country. . . . The companies that land the biggest contracts to do the work will cash in big-time."

—CBS-News '60 Minutes,' April 27, 2003

[Army War Game Shows 'Pre-emptive' Disaster](#)

by [Carl Osgood](#)

The outcome of a war game held at the U.S. Army War College in Carlisle, Pennsylvania at the end of April is leading to the explosive conclusion

that, in future wars against capable adversaries, the present U.S. policy of pre-emptive war may make the use of nuclear weapons more likely.

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