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From the Associate Editor

In 2001, when California's "Enron" electricity crisis hit, LaRouche Youth Movement organizers pressed state legislators to reverse their foolish decision to deregulate this crucial area of economic infrastructure. "You can't put the toothpaste back in the tube!" they were repeatedly told in Sacramento. Lyndon LaRouche has since become fond of insisting that, yes indeed, *you can*. "People who can't put the toothpaste back in the tube," he said in a February 2001 webcast, "are not employable in skilled jobs in industry! So, we're going to put the toothpaste back in the tube. That's essentially our program."

And that's what Helga Zepp-LaRouche is saying, in her statement to the German voters published in this issue. "Return to the deutsche-mark? How can we do that?" people will exclaim. But it's easy: Just do it. And go on from there to use the powers of the sovereign nation-state to foster the general welfare.

In our continuing coverage of *EIR*'s June 28-29 Berlin seminar, Lyndon LaRouche develops the essential points about how we can solve our catastrophic economic-financial problems. In this segment of our series, he addresses the issues raised by Asian participants, grappling with such questions as how China's currency, the renminbi, should be pegged. Go back to Franklin Roosevelt's Bretton Woods approach, he tells them. (Or, put the toothpaste back in the tube!) Emphasize the dynamic processes of the physical economy, not "money." And when it comes down to it, the issue is not Economics 101, but leadership: Who will lead the world to a recovery? It must be the United States.

That's why the battle now raging in Washington is so crucial for all mankind. In *National*, we report new developments implicating Dick Cheney and Karl Rove in the "outing" of CIA agent Valerie Plame, as well as in the financial skullduggery in Ohio. The Republican Party is fracturing, as traditional Republicans can no longer swallow the swill that Bush-Cheney are dishing out, such as the base-closings that are crippling crucial National Guard and other capabilities, while devastating entire states economically. As never before, the smell of Watergate is in the air: not a moment too soon.



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Time for Germany To Assert Its Sovereignty, or Perish

by Helga Zepp-LaRouche

Mrs. Zepp-LaRouche is the Chancellor candidate of the Civil Rights Movement Solidarity party (BüSo) in Germany. She issued this appeal to voters on July 14, under the title "Back to the D-Mark for a Directed Growth Policy! Activate the Stability and Growth-Law of 1967 Now!" Germany is expected to have national parliamentary elections in September, although the decision has not yet been announced by President Horst Köhler.

The time has now come, when Germany must unilaterally withdraw from the Maastricht Treaty and the European Monetary Union and return to the deutschemark as its national currency, in order to be able to realize a well-defined growth policy. The Stability and Growth Law of 1967 must be activated through a state investment program for productive full employment, in order to overcome the total economic disequilibrium, which there has undoubtedly been, in view of an unemployment level that is in reality around 9 million people. In the future, the euro should be used solely as a unit for settling accounts. Such a withdrawal from the treaty is absolutely legitimate under international law. If I am elected or nominated as Germany's Chancellor, these steps would be a part of the package of measures, which I would implement immediately.

No to the New Feudalism!

I would like to tell you the reasons, why I am making these proposals at this moment. Since it has now become clear, what programs the parties represented in the Bundestag and the new "left party" intend to campaign for in the elections, it is evident that Germany does not have a chance with any of these parties, to overcome the existential crisis of our nation. Since everyone, from the CSU/CDU [Christian Social Union/Christian Democratic Union] to the so-called left

party, ignores the fact that we find ourselves in the end-phase of the systemic collapse of the system of the so-called free-market economy, and that globalization is just as bankrupt today as was the G.D.R. [communist East Germany] in 1989, they all also have no solution for this crisis. What all of these parties propose, whether they present themselves now as "left" or "right," are only variants of a policy which leads back ultimately to the level of development which had existed under feudalism, before the establishment of modern sovereign nation-states in the 15th Century.

The program advanced by [Christian Democrats] Angela Merkel and Edmund Stoiber, which lets only half of the cat out of the bag, is as incompetent as it is brutal: It leads directly to sinking real income of the employee, as well as the unemployed and the pensioner, through an increase in the value-added tax, a shift of costs to private households, and with it, a greater self-financing of social expenses. "On the back of the little people," "the poor will become yet poorer," and "cutting of real income by 5-20%" are accurate descriptions. This anti-social policy is absolutely not a solution for the global systemic crisis. Otherwise this CDU program is exactly the same as the so-called "Scandinavian model," i.e., an "internal devaluation," a politically determined reduction in real income through shifting of taxes, as was already proposed a year ago for Germany by the arch-neo-conservative Prof. Lars Calmfors of the International Economics Institute of Stockholm University.

The foreign policy priorities of Mrs. Merkel, who has indeed not yet noticed that Watergate-clouds have risen over Washington, preclude all positive solutions: She would emphasize the relationship to the neo-conservatives of the Cheney-Bush Administration and devalue the connection to France, Russia, and China. And what is it supposed to mean, when Mrs. Merkel makes the remarkable statement, on the

60th anniversary of the CDU: “For we have no legal claim to democracy and the social market economy for all eternity.” After the “C” in the name of her party, does Mrs. Merkel now also want to place in question the “D”? She should urgently read the Basic Constitutional Law, where it says clearly in Paragraph 20, that the Federal Republic of Germany is a social state, and that the citizen has the right to resistance, if anyone attempts to alter this status. Of natural law and the common good, Angie has apparently never heard anything. Human beings do indeed have a right to the common good for all eternity! And if we have no legal claim to democracy, as she asserts, would a little dictatorship then also be okay, Mrs. Merkel? Is that what she means by “to govern through”? The program of the FDP [Free Democratic Party] is even more neo-liberal, therefore even more an expression of the system which is running aground. A CDU/CSU/FDP coalition would be a guarantee, in this world situation, of hopelessness and the end for Germany.

With regard to content, the new left party [Election Alternative Social Justice, WASG] has likewise no solution for the global systemic crisis. Since Oskar Lafontaine stated explicitly that he does not consider a new financial system necessary, but rather, for example, has openly supported the monetarist proposals of Paul Volcker and of the so-called “Father of the Euro,” Robert Mundell, the question is thus, for whose benefit does this party suddenly receive media support, as was received previously only by the Republicans, the Greens before their founding, or the [neo-Nazi] NPD in Saxony during the election [in September 2004]. For all that, the WASG received only 2.2% in North Rhine-Westphalia in the Landestag elections, and the PDS [post-communist Party of Democratic Socialism] received less than 5% in the last Bundestag elections. If such a new formation receives such media support, the question is whether it is not to become only a stirrup holder for a Grand Coalition, which then, according to the intention of global financial interests, would reduce the living standard of the population even further.

This Is My Program

Since Chancellor Schröder has hitherto adhered to the Agenda 2010 and Hartz IV [austerity programs], I must now present the program, with which an exit from the crisis can be created. Besides the already mentioned unilateral withdrawal from the Maastricht Treaty and the return to national monetary sovereignty and the deutschemark, the activation of the Stability and Growth Law of 1967, the Bundesbank or the Kreditanstalt für Wiederaufbau must immediately make available a credit line of minimally DM400 billion, which must then be used exclusively for productive investment and the creation of new jobs. This credit can only be used for investment in infrastructure, basic research, and investment which increases the productivity of the German economy, and in which one would also invest, if the economy were healthy.

Since real capital goods are created in this way, such a state credit-generation is not inflationary. On the contrary,

it eliminates the high costs of unemployment, which today, according to official statements, stands at 87 billion euros in unemployment payments and uncollected social taxes, and in a current total loss of minimally 230 billion euros, which the unemployed would create in value, if they were productively employed. If the unemployed are employed, they produce real value and the tax purse is replenished, and Agenda 2010 and Hartz IV are unnecessary. The overcoming of unemployment is the most urgent and most important problem, which we must and can solve!

It’s obvious that these state investments should not flow only into neglected infrastructure (the German Institute for Urban Affairs speaks of 650 billion euros in urgently required investments in the municipal area alone, in addition to investments at the Federal level; therefore, in total, around 1,000 billion in required investments). Beyond that, it is important, to integrate these investments in an all-Eurasian transportation network, as they become necessary with the expansion of the Eurasian Land-Bridge. Finally, what is needed is a “New Deal” for Germany and Eurasia, in the tradition of the policy with which Franklin D. Roosevelt led America in the 1930s out of the Depression, which in principle was the same policy with which we rebuilt the Federal Republic of Germany after 1945 and created the German economic miracle.

If you elect me as Federal Chancellor, I will likewise initiate an international monetary conference in the tradition of Bretton Woods. In the American Senate and Congress there is already support, instigated by my husband, Lyndon LaRouche, for such a New Bretton Woods system, in the Democratic Party and among moderate Republicans. The Italian Parliament has passed a resolution, which is binding upon the government, calling for a New Bretton Woods system, and in many nations there is considerable support for it.

I, therefore, ask you to support the campaign for my candidacy for Chancellor. The BüSo is the only party which has an economic concept of how we can emerge from the crisis. We are the only party whose policy does not in the end lead to a new feudalism, but rather we stand for a new Renaissance. Just as the Italian Renaissance overcame the feudalistic Middle Ages, in that it revived the Greek Classics and above all Plato, and therefrom produced a cultural flowering, which has influenced Europe for 600 years, so we can create a Renaissance today, which overcomes the Dark Age in which we find ourselves culturally today.

We must cause the ideas of Plato, Nicholas of Cusa, Leibniz, Lessing, Mendelssohn, Schiller, von Humboldt, Bach, Mozart, Beethoven, Gauss, Riemann, and Cantor—to name only some of the Classical authors in science and art—to come alive once again, and we can very quickly become once again the Nation of Poets and Thinkers. Help me to become the Federal Chancellor, and every child and every student will receive access to a universal education.

Don’t you also think, that our nation needs something really completely different from the usual political mine-strone? Then support me!

Oskar Lafontaine: An Aging Bankers' Boy?

by Elke Fimmen

Before entering into a review of the new book by Oskar Lafontaine, *Politics for All: A Polemical Treatise for a Just Society*,¹ which is designed to serve as a manifesto for the new synthetic “left party” in Germany, I’ll make some more general remarks to set the context.

First, it is funny to remember, that Lafontaine’s book written in 1997, with his wife Christa Müller, had the title *Do Not Be Afraid of Globalization: Jobs and Wealth for All*. He really offers something for everybody, it seems. Maybe Oskar can be best considered a salesman—for those ideologies, which synarchist bankers deem useful at times to be spread among the credulous public.

It is useful to review Lafontaine’s career a bit, including his sympathy with former East German ruler Erich Honecker, his resistance against German reunification, his role in introducing ecologism into the Social Democratic Party (SPD), as was done on the Christian Democratic Union (CDU) side in the 1970s by Kurt Biedenkopf (another communitarian). Most interesting would be a renewed investigation into Lafontaine’s role as German Finance Minister in 1998, in particular after the LTCM debacle in Autumn 1998. Then, the need for a new world financial system, a New Bretton Woods System, was placed squarely on the table by Lyndon LaRouche and Helga Zepp-LaRouche. President Clinton’s speech at the Council on Foreign Relations in New York reflected the LaRouche approach, which however was killed by the decision of the Fed’s Alan Greenspan and the synarchist bankers behind him, to go instead for a wall-of-money policy, to open the doors for unlimited liquidity pumping, in order to prop up the bankrupt world financial system.

In this period, German-French government proposals, called for a reform of the international financial system, but, in contrast to the LaRouche approach, asked for a strengthened political role for the International Monetary Fund. The future role of the euro was disclosed, to supposedly guarantee “stability” of the international financial system, and “to increase Europe’s power on the international scene.”

Lafontaine in this period—during which the disastrous introduction of the euro, replacing national sovereignty, could have been prevented for another two years—strongly sup-

ported the European-wide currency. He came out, as he recalled in his 2002 book (*The Rage Grows, Politics Needs Principles*)² for a system of regulated currency blocs between the dollar, yen, and euro. This was a pet project of arch-monetarist Robert Mundell, who supported Lafontaine. Mundell views this bloc system as a steppingstone towards his utopian scheme of introducing a single world currency. He, as Lafontaine says, supported Lafontaine’s position, while Robert Rubin, Clinton’s Treasury Secretary, fought against Lafontaine’s approach. Furthermore, Lafontaine, in this period, when Greenspan and the Fed had gone on an inflationary money-pumping course (which Lyndon LaRouche warned would lead to hyperinflation), demanded the lowering of interest rates by the Bundesbank and the European Central Bank, supposedly to create more growth and employment. When this was not fulfilled, Lafontaine resigned in 1999, both from his position as Finance Minister in the Schröder-led government, and as SPD chairman. He attributed his resignation to a witchhunt by Wall Street banks, which supposedly were opposed to his proposals for “regulation.”

The Role of Robert Mundell

After George Shultz led the breakup of the regulated Bretton Woods system in 1971, Mundell created a “discussion center” in his castle in Siena, Italy, for a “new order” of the world financial system. He has educated more than a few students in recent decades, to counter LaRouche’s efforts to establish a new, just international financial system, based on the cooperation of sovereign nations and the American System of political-economy, integrally including the right of national governments to create state credit for the promotion of the common good.

Mundell is widely credited with having created the “scientific basis” for the euro, with his “theory of the optimal currency space,” as Lafontaine approvingly underlines in his new book. At a Nobel Prize winners’ meeting in Summer 2004, Mundell again praised the euro as an “optimal success, since every firm has access to a continental capital market.” Here he issued his demands for a “European economic government,” which Lafontaine claims in his book, is also “the French position.” He later gave a lengthy interview to the *Süddeutsche Zeitung* on this topic.

Mundell is the guru of the “Giovannini Group” in Italy, which played a central role with the European Commission in the introduction of the euro. Alberto Giovannini himself was—what a small world!—also a manager of LTCM, and one of the founders of the EuroMTS trading platform for European state bonds, which in August 2004 was used by Citigroup for a surprise attack on European state bonds. This was interpreted widely as a signal that European governments should stay the course of their self-destructive austerity policies, such as Germany’s Hartz IV.

1. *Politik für Alle: Streitschrift für eine gerechte Gesellschaft* (Berlin: ECON, Ullstein Buchverlage, 2005).

2. *Die Wut Wächst: Politik Braucht Prinzipien*.

Mundell's position is to use the euro in manipulation of world financial markets to the advantage of global synarchist banking interests. As of 2004, European central banks could have used their \$500 billion in U.S. currency reserves in a coordinated way "to direct currency rates," a policy, which Lafontaine says he himself promoted during 1998-99. According to Mundell, ultimately the world shall be governed by one world central bank and one world currency (although, to the credulous, the euro was sold as a means of countering U.S. hegemonism). Very importantly, Mundell demands dictatorial supranational government structures. According to Lafontaine, who endorses Mundell's position in his book, there should be "a European economic government, which should decide on important macroeconomic questions, including currency rate policy." Lafontaine reformulates this demand as "a European economic government, which determines binding principles for the member states." Lafontaine says that Mundell also demands the "competence for taxation by the European Union." Ironically, the whole chapter about Mundell and his policies bears the title, "Monetary Policies Have To Be Controlled Democratically."

To realize this synarchist supranational scheme politically, Lafontaine demands the formation of a "German-French federation" as a core of political action in Europe. It is quite instructive that he cites as his political co-thinkers for such a policy: Nicolas Sarkozy (who in 2004 was still French Economics and Finance Minister), the rising star of a coming synarchist, neo-con-dominated government replacing President Chirac; and the head of the Banque de France, Christian Noyer, who showed his true colors some days ago in demanding the replacement of the successful post-war, industrial growth-based social state systems of Germany, France, and Italy, with the "so-called Scandinavian model" of Fabian "Third Way" fascism.

These people, in the Summer of 2004, while joining the growing attacks on the restrictions on economic policy imposed by the EU Stability Pact, demanded a "change of monetary and fiscal policies" in Europe, with Sarkozy praising British Chancellor of the Exchequer Gordon Brown for his pragmatic "anti-cyclical policies" and, above all, the low-interest rate policies of the Federal Reserve. Sarkozy also demanded "transparency of ECB decisions," specifically, the publishing of minutes, as in the British and U.S. models, including the names of who votes for what decision.

Lafontaine praises the Greenspan/Fed model to the skies throughout his book, asking at one point, why "Europe lags behind growth and employment in comparison to the U.S. and other economic regions? The answer is simple: The U.S. and other countries steer the state spending, taxation, monetary, and income policies, to stimulate the economy." He goes on to praise the Greenspan era under Clinton, in which the "cleaning up of the budget succeeded, because the New Economy boom led to economic growth and increasing income, and because the monetary policy of Greenspan sup-

ported this process!!" How stupid must you think your readers are, to still present this policy as a success in February 2005?

Since in the United States, Lafontaine further argues, the Treasury Secretary is responsible for currency rate decisions, this is a "political" money and fiscal management system. And this is the path Europe also has to follow. According to him, this is "favored on the Seine, too." While lacking any economic growth program, except some vague "several year infrastructure program" for Germany, Lafontaine's demands for political control over the decisions of the ECB can only mean a streamlined financial-political imposition of monetarist policies, according to the wishes of synarchist bankers—as happened in the '20s and '30s with the imposition of "efficient" fascist regimes in Europe. To be sure, this globalist idea has nothing at all to do with the concept of "political" sovereign national credit generation for infrastructure projects for the common good of European nations. You can say the same about Lafontaine's statement that inflation is no longer the problem—and this in the beginning of 2005, when the system is about to explode all over the place!

Globalist Eco-Fascism Instead of a New Deal

To top it off, Lafontaine's so-called programmatic alternative, which he equates with the aims of the new left party, WASG-PDS, is based on an anti-industrial policy, even though he rhetorically praises the *Mittelstand*—small and medium-sized productive enterprises—and German scientists and technicians. Lafontaine endorses the aim of *halving* European energy consumption by 2010, in a recent declaration in the French paper *Le Monde*, and an ecology tax, while at the same time calling for a New Bretton Woods! Such a policy is nothing but conscious de-industrialization and, in effect, genocide! In the book, while praising ecologist guru and one-worldist Jeremy Rifkin, he makes a point of attacking the concept of real physical growth: "No economic system can sustain itself, which has as its constant precondition only growth and which destroys the living foundations of our Earth."

No wonder that Lafontaine subscribes to the same kind of political one-worldism, which is typical of the Bertrand Russell anti-science malthusians: The catalogue of demands in his book includes the creation of a United Nations international army, which would control all nuclear weapons.

Lastly, Lafontaine openly displays his dislike for what he considers too many foreigners in Europe. He claims that immigration will weaken Europe's strength as a world player. To this effect, he cites none other than notorious British imperialist and war-monger Bernard Lewis, who said in an interview in *Die Welt* in 2004, that, in addition to the United States, also China, India, and a recovered Russia will be global players in the future, but not Europe: "Europe will be a part of the Arab West, the Maghreb," Lewis said. "There is a strong immigration, for example, the Turks in Germany, Arabs in

France, and Pakistanis in England.” Since these people all marry early and have many children, in contrast to Europeans, “according to present trends, Europe will have Muslim majorities in its population by the end of the 21st Century, at the latest.”

This is one reason why Lafontaine opposes Turkey’s membership in the EU, which, of course, is a big populist issue in both Germany and France. Furthermore, in the chapter “Foreigners and Us,” he quotes Clash of Civilizations-proponent Samuel Huntington, about the danger of “parallel societies as an effect of globalization.” Demagogically, Lafontaine asks, when will German politicians start addressing foreign-born citizens in their native language (e.g., Turkish), as Bush and Kerry addressed voters in Spanish during the recent U.S. election campaign?

This man is a complete demagogue. He pushes populist themes, like the question of foreigners, or the entrance of Turkey into an enlarged EU, in the same way that he attacks the “super-rich,” the “millionaires,” and the greediness of the upper class. This is the real source of evil, not the system of globalization, he keeps reiterating. It is “the little people,” who must “rise up” to destroy the system of “neo-liberalism.” In exactly the same way as neo-con right-wing jacobins like Meinhard Miegel with his Citizens Convent, Lafontaine is whipping up the rage and fear of large parts of the population—which will grow, as the financial markets collapse. In fact, as in the French Revolution, these jacobin movements—right or left—prepare for the time of chaos, which their backers, the bankers, have brought about all along.

Paying lip-service to the German Constitution and its central theme, that Germany is a social and democratic state, Lafontaine, like the right-wing populist movements, turns the “right of resistance” against those who violate this principle, into a jacobin call for action. He declares himself to be a proponent of “direct democracy.” Cleverly, he uses as a pretext for his call for referenda, the fact, that in Germany, the population could not vote against the hated European Constitution. He wants “direct democracy” to be implemented on the level of control of management’s economic decisions—a typical corporatist demand—as well as in parties, to control (or better said, to change or destroy) the leadership.

It would be a worthwhile project for scholars, to compare Lafontaine’s language with that of Mussolini, or the National Socialists in the 1920s and ’30s.

The international backers of such movements are always financial synarchist interests, who want to prevent a solution such as that represented today by Lyndon LaRouche in the United States, Helga Zepp-LaRouche in Germany, and their international movement. Isn’t it revealing, after all, that Lafontaine in February 2005 had the nerve to declare that it didn’t really matter, whether Bush or Clinton, Bush or Kerry, occupied the position of President of the United States, since they all have to swear allegiance to Wall Street? And to say

this in a situation, in which the LaRouche factor had already sparked visible crucial resistance to the fascist policies of the Cheney-Bush Administration, and when the only chance of establishing a real New Bretton Woods, lies with a change of policies in the United States?

Lafontaine gives it all away, when he cites as his authorities in “criticizing” the “newspeak” of the neo-liberals, all the gurus of the Enlightenment and the Frankfurt School: Adorno, Horkheimer, Habermas, Heidegger, Wittgenstein, Camus, Celan, Orwell, Voltaire, and Adam Smith. It is these existentialists and heroes of the Congress for Cultural Freedom, who did their best to destroy the cognitive powers of the post-war U.S. and European populations. Helga Zepp-LaRouche, with her candidacy for Chancellor of Germany and the LaRouche Youth Movement, have declared war against these mind-killing sophists, determined instead to create a new renaissance—industrial, scientific, and cultural—which elevates and inspires the population, to be prepared to face the great tasks of today. It is this counterpole, which citizens must turn to, in order to create a true, just new world economic order, in which the creative development of every individual, as well as of every nation, can be secured.

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Left Party To Counter Zepp-LaRouche Campaign

by Rainer Apel

It happened before: During the Summer of 2004, the LaRouche Youth Movement, within a few weeks after its first Monday Rally in Leipzig on July 12, managed to mobilize citizens in more than 200 German cities to participate in a campaign to replace austerity policy by an investment and job creation program. Then, in early August, many of the leftist and ecologist groups, ranging from the ATTAC umbrella group to Trotskyists, were awakened from their Summer sleep and all of a sudden discovered that they had to act to contain the LaRouche role in these Monday rallies.

In addition, some formerly prominent—but now almost forgotten—“leftists” such as Gregor Gysi (a pre-unification figure in the East German Communist Party, later in the Party for Democratic Socialism, PDS) and Oskar Lafontaine—who recently quit the Social Democratic Party

(SPD)—were reactivated, and intervened in the rallies with a lot of establishment media support. This disoriented the rallies in some cities, but the movement was still too strong for those who wanted to contain the LaRouche impact. So the media claimed at the end of September that the rallies had grown obsolete, and the leftists who had jumped on the bandwagon, deserted them.

Despite this, numbers of cities continued to hold these rallies. For about half a year, the ferment continued on the low burner. At the same time, the financial oligarchy implemented a project to create a “new left party” in time for the national election campaign in September 2006. The new party was set up to take a considerable percentage of the vote away from the SPD of Chancellor Gerhard Schröder, in hopes of forcing him out, and installing a new government committed to more brutal austerity policies, under Angela Merkel, the neo-con chairwoman of the Christian Democrats.

However, this timetable had to be changed, because at the same time that political influence of Lyndon LaRouche was increasing dramatically in the United States during the February-April period, the German LaRouche movement, led by Helga Zepp-LaRouche and her Civil Rights Movement Solidarity (BüSo) party, made big advances in the election campaign in North Rhine-Westphalia, Germany’s most heavily populated state, using programmatic campaign slogans like “Production, Instead of Speculation.”

On April 17, Franz Müntefering, the national party chairman of the SPD, stirred up public debate by calling for establishing controls on hedge funds, similar to what the LaRouche movement had been campaigning for. The week after Müntefering’s remarks, two articles were published in the daily *Frankfurter Allgemeine Zeitung*, the leading mouthpiece of the German banking sector, which identified the “LaRouches” as the leaders of the revival of Franklin Delano Roosevelt’s ideas in the United States, and the proponents of similar ideas in the ongoing North Rhine-Westphalia campaign.

A Forced Counteroffensive

As a result, the financial oligarchy decided something had to be done to contain the LaRouche influence. When Chancellor Schröder on May 22—the day his SPD lost the election in North Rhine-Westphalia—called for early national elections, the decision was made to speed up the timetable for the formation of the new left party. Its basic components, hastily patched together, are the rainbow-coalition-like political underground of radical ecologist, socialist, and Trotskyist groups, in addition to feminists, Pôrto Allegre World Social Forum branches in Germany, disgruntled labor unionists, and the post-communist PDS, which is still strong in eastern Germany. The non-PDS components were already loosely organized in the Election Alternative Social Justice (WASG), an organization that was established on a national level in Berlin early in July 2004. The WASG also ran

candidates in the North Rhine-Westphalia election, but in spite of massive media attention, it only received 2.2% of the vote. The PDS, almost non-existent in western Germany, is, however, the strongest party in eastern Germany, in some areas being the leading party there, with about 30% of the vote.

The decision to speed up the merger of the WASG and the PDS, was accompanied by the decision to revitalize Gysi and Lafontaine. Gysi was made the leading candidate of the PDS; Lafontaine, who in June quit the SPD, was made the leading candidate of the WASG. The mass media proclaimed that the new left party would receive 10% or more votes in the early national elections, shaking up the existing four-party system in the parliament, and allegedly “pose a real alternative to the traditional parties.”

This is a propaganda lie: The new party poses no alternative at all, and neither do its two top candidates. Gysi, who postures as a “socialist,” is a preferred guest on primetime television talk shows. Three years ago, he ran away from his job as Minister of Economics in the administration of the city-state of Berlin when the situation got too hot for him, because of the high debt, collapse of the new economy, and the loss of jobs. Lafontaine, who keeps building a legend that he got ousted from the German government because he was for a “new financial architecture,” also ran away from his job as Minister of Finance in early 1999. Lafontaine has repeatedly called for “stable currency exchange agreements” during the past ten years, but strangely enough, he has always combined that with praise for the policies of Alan Greenspan’s Federal Reserve and the alleged “job miracle” these policies created. He also praises hardline monetarist economists such as Paul Volcker and Robert Mundell—both of them ideological enemies of LaRouche. Shortly before he was appointed Finance Minister in October 1998, Lafontaine said in an interview that he thought the best proposals at hand for a reform of the financial architecture were those made by Paul Volcker. He reiterated that in the context of an important session of the European Union’s finance ministers in Brussels, in early January 1999.

Lafontaine and Gysi and their new party are a hoax. Their party’s campaign platform does not make any mention of the ongoing world economic depression; it does not mention any state program for industrial and infrastructure investments; it proposes cuts in weekly working hours as the way to “create” more jobs; and it pushes solar energy as the solution to the problem with secure power supplies. The new party is so post-industrial that it can already be called “pre-industrial.” This fits nicely with plans of the financial oligarchy to drive the wheels of human development backwards toward a new feudalism.

The LaRouche citizens’ movement will expose these scenarios, it will continue to rally votes, and it will not stop stirring up the establishment: The election campaign in Germany is only just beginning.

Underlying Brazil's Corruption Scandal: A Drive for a Coup?

by Gretchen Small

Think, for moment, about Brazil as if you were part of the international financial oligarchy:

Your financial system, globally, is crashing, and American statesman Lyndon LaRouche, who has prepared for this crisis for decades, as the opportunity to revive your deadliest enemy, the American System of Economics, is playing a leading role within the U.S. Democratic Party, and gaining strength in the increasingly active "Eisenhower wing" of the Republican Party, too. Forces in Europe are rallying under the same banner. The Italian Parliament has adopted a resolution calling upon its government to organize for an international conference on the way out of this crisis (along the lines of LaRouche's New Bretton Woods proposal), and now LaRouche's wife, Helga Zepp-LaRouche, has launched an aggressive campaign for the Chancellorship of Germany on a New Bretton Woods program. Representatives of the Eurasian giants (Russia, India, and China) just held a closed-door strategy session in Berlin with LaRouche and representatives of other Asian and European nations.

The last thing you need now, is for a group of nations in the Americas to come together around LaRouche's New Bretton Woods, too. Argentina's President Néstor Kirchner, having just won a battle with the International Monetary Fund and the vulture funds, has sparked renewed optimism in other nations, but there is hope you can isolate and overthrow him—as long as you can keep Brazil in your camp.

Brazil has played ball, so far—but there remains that nagging memory of the extraordinary reception Lyndon and Helga LaRouche received when they visited São Paulo, Brazil in June 2002.

And, despite its unenviable position of being the largest Third World debtor, sinking under at least \$430 billion in public sector debt alone, Brazil remains the strongest nation in Ibero-America, with key national institutions as yet unbroken. It handed over \$67 billion in state assets to international financier interests between 1988 and 1998, through the "privatization" scam, but much wealth remains in national hands. The continuing state control over the oil sector (only partially privatized) and the state banking system, particularly the National Economic and Social Development Bank (BNDES), provides the Brazilian State with a capability for sovereign action, should its national elites decide, under conditions of global crisis, to break with the dominant prag-

matism which cripples it generally.

The financier party worried when President Lula da Silva was elected in 2002, with an unprecedented mandate of more than 50 million votes, on the basis of his promise that his administration would create 10 million jobs, and place financial interests second to the urgency of bringing about a recovery of Brazil's industrial and agricultural capabilities. In his two-plus years in office, Lula has done none of that, bowing instead to those advisors who insist that Brazil has no alternative but to play by the financiers' rules, thereby *increasing* the rate of looting of the domestic economy. That same Lula government, however, has carried out an aggressive foreign policy of establishing close relations with key nations in every part of the globe, including the Eurasian giants mentioned above. Brazil's desire to be a sovereign nation still lurks around the premises.

A Political Tsunami Against the Brazilian State

Only from that standpoint, can one understand the current corruption scandal which threatens to bring down Lula's ruling Workers Party (PT) and its allies, such as Vice President José Alencar's Liberal Party (PL). The scandal began with charges of kickbacks within the postal system, but quickly escalated to accusations that the Workers Party (PT) was bribing Congressmen with suitcases of money. The heads of cabinet ministers and leaders of Lula's PT party have begun to roll, and cries of "impeachment!" have been heard.

This is a war against the Brazilian State which has begun, behind the sordid charges and counter-charges which occupy the public's attention. Foreign financial interests are moving in for the kill, to finish off the coup they began in November 2004, when they succeeded in ousting Carlos Lessa and his nationalist team from the leadership of BNDES. Lessa's team had declared war on "free market" thinking, and revived long-term "strategic planning of the economy." In an April 2005 interview, Lessa told *EIR* that he was challenging "the financial dragon"—the principal enemy of Brazil, as of all nations.

Financier pressure upon the Lula government only intensified after Lessa's ouster, and last May they made their move. Economics Minister Antonio Palocci went public on May 9 with what Brazil's enemies are demanding. He announced at a forum in Rio de Janeiro that Brazil needs "at

least a decade more of fiscal effort”—after how many decades already!—to restore investors’ confidence. The former-Trotskyite turned Wall-Street lackey demanded that the Brazilian Congress pass legislation mandating automatic cuts in public expenditures by the same amount which tax revenue falls—not for one year, as is currently the case, but for ten years, so that whoever is elected to govern the country in the 2006 general elections, cannot change the rules.

Opposition to any such scheme was fierce within Lula’s PT party, for electoral reasons as much as for principled reasons: Lula does intend to run for re-election in 2006. Included in the opposition was PT heavyweight José Dirceu, then still in the powerful post of head of Lula’s cabinet.

Within days of Palocci’s announcement, the corruption scandal blew up. The press warned of a “political tsunami that could shake the foundations of the Republic,” if the charges were proven. Talk of Lula following in the footsteps of the impeached Fernando Collor de Melo began. By June 16, Dirceu was out of the cabinet (although not out of the internal party fight). Other heads quickly followed, and more have yet to roll.

If there were any doubt that the issue at stake in the scandal was never ethics but economic policy, the real issue was made starkly clear by “the markets’ ” gleeful response to Dirceu’s ouster. Two of Brazil’s leading dailies, *Folha de Sao Paulo* and *Jornal do Brasil*, rejoiced in print that with Dirceu out, Palocci has no strong rival left in the cabinet. The question now, is how far the bankers’ team can go, both papers crowed on June 17. Can the IMF’s so-called “third generation of reforms” be rammed through now, to bring about a “radical restructuring of the state?”

A Strange Alliance—Or Prelude to War?

Enter Antonio Delfim Netto, the “Man with The Plan.” Delfim is the “Chicago Boy” with friends in the right places abroad, who, as Finance, Planning, and Agriculture Minister in successive military governments from 1967 into the mid-1980s, was key to imposing the destructive monetarist and labor-recycling policies which now-President Lula spent 30 years fighting as a trade union and political activist. Serving his fifth term as a Federal Deputy, and still bowed to as one of Brazil’s leading economic magicians, Delfim proclaimed that “the Brazilian State needs to be subjected to a ‘management shock’ ”—and that Lula is prepared to implement it.

Few politicians in Ibero-America would dare call openly these days for an economic “shock” policy, given the hatred against such policies in the region after two decades of devastation under IMF “shocks.” Not so Delfim. This latest of his many shock programs proposes to reduce the federal government’s budget deficit to zero before ten years are out—he argues for doing this within four to six years, if possible—by freezing current account expenditures for the next seven to eight years at the miserable levels of 2005. For “markets” to believe Brazil will stick to this, the government must pass

an amendment eliminating the Constitution’s earmarking of specific levels of expenditures on categories such as health, education, pensions, and so on. Under Delfim’s proposal, the government would reduce the total earmarked payments—except debt payments, of course—by 5% a year.

The key is to reduce the State, and adopt a “competitive policy,” by reducing remaining tariffs and obstacles to foreign direct investment in Brazil. The sacrifices will be worth it, says Delfim, because Brazil’s resulting “credibility” with international markets will “awaken the animal spirit” of private businessmen.

The plan had been worked on secretly for months, but was kept quiet until the right “tsunami” came along to ride it ashore. Painting himself as Lula’s friend, who can save his political career at this critical moment, Delfim hit the campaign trail to organize a political consensus behind the plan. Whether he has really sold the President on the plan has yet to be seen, but Lula’s economics team is certainly pushing it. Planning Minister Paulo Bernardo assured the press in early July that the government is in the last stages of drafting a Constitutional amendment implementing Delfim’s “management shock” program. Delfim hosted a dinner in Brasilia on July 5, for 13 of Brazil’s top businessmen, 12 Congressmen, 5 Senators, and Planning Minister Bernardo and Economics Minister Palocci; the plan was discussed for four hours.

To make sure Lula understands that he has been given an ultimatum by the financiers and their Chicago Boys—play the game our way, or you’re out—PT Senator Cristovam Buarque announced on July 3 that Lula’s only remaining political option to avoid impeachment, is to announce that he would not run for re-election in 2006, but instead sponsor a Constitutional amendment to extend the Presidential term from four to five years, and prohibit re-election after 2006. Buarque just happens to be speculator George Soros’s leading financial and policy channel into the PT party.

Will Lula go for it? The brutality of the fiscal austerity these genocidalists are demanding in this country of 180 million—where more than half the people live under the poverty line—boggles the imagination. There are reports that 10,000 federal workers may be fired and 300 government programs cut or put on hold, and a proposal has been floated for the government to hire private-sector management specialists to run the “Enronization” of the Brazilian State! Everyone agrees that Social Security is to be the focus of the “saving money” attack.

And if attempted, the plan could blow up the country. Lula’s base in the PT is furious that Lula is even considering striking an alliance with their historic enemy, Delfim Netto. Two days after his ouster, Dirceu told the PT leadership that this is a “class struggle,” and he is “prepared for war”—no small threat, given the millions which can be mobilized by the PT and its related “social movements,” such as the Landless Movement (MST) with its ties to Colombia’s narcoterrorist FARC.

Foreign Hands Behind Philippine Collapse

by Mike Billington

Philippine President Gloria Macapagal Arroyo may soon be out of office, but the crisis ripping apart the economic and social fabric of Philippine society will not be solved simply by “regime change.” The crisis in the Philippines is occurring in the context of the systemic collapse of the dollar-based global monetary-financial system, and in the midst of a political showdown in Washington between the rapidly unravelling Bush/Cheney regime and an emerging bipartisan alliance, centered in the U.S. Senate, attempting to return the United States to the “American-system” policies associated with Franklin D. Roosevelt, and promoted today by Democrat Lyndon LaRouche. Unless the Philippine leadership and citizenry confront those realities—the fact that their nation has been deprived of economic sovereignty since the U.S.-directed coup against President Ferdinand Marcos in 1986, and that still today the political factions are manipulated, and in some cases entirely controlled, by Washington—then that nation will not survive the current breakdown crisis. Indeed, most leading forces in the Philippines today are openly promoting policies which will bring about the nation’s collapse.

Today, both the Arroyo Administration and a faction of “rebel” Cabinet members who have resigned and demanded Arroyo’s resignation in favor of her Vice President, Noli de Castro, are being “played” by financial and political operatives in Washington and New York. Those U.S.-based forces are not only willing, but anxious, to see the demise of the Philippines as a sovereign unified state, which they believe will serve their geopolitical designs in Asia.

The Arroyo Administration is now under the effective control of former President Gen. Fidel Ramos, an agent-of-influence of the same George Shultz, and his neo-conservative faction in Washington, which used Ramos to carry out both the 1986 coup against Marcos, and the “copy-cat” coup against President Joseph Estrada in 2001, which placed President Arroyo in power. While both of these events were portrayed as “people’s power” democratic revolutions, the fact is that both were colonial operations run by Washington, in the interest of the International Monetary Fund (IMF) and other international financial institutions, which have driven the Philippines into virtual economic slavery and destitution.

However, the supposedly opposing faction of resigned Cabinet members, led by former Finance Secretary Cesar Purisima and former Trade and Industry Secretary Juan Santos, represent no change from the current economic poli-

cies. In fact, the Purisima group members were the primary spokesmen within the Arroyo Cabinet for the IMF austerity policies which are wrecking the nation. Even worse, both sides are committed to dumping the Presidential system of government, modelled on the American system, in order to do away with the “checks and balances” which have allowed the Congress to exercise at least some restraint on the IMF policies demanded by the Executive Branch. This partially successful resistance within the Philippine Congress has proven to be most troublesome to the financial oligarchy, both in Manila and internationally.

Other opposition forces exist which have rejected this contrived conflict between President Arroyo and her former Finance Minister, and have presented at least the outlines of a defense of the general welfare against the ravages of the global financial collapse. Sen. Aquilino “Nene” Pimentel, the head of the opposition in the Philippine Senate, called upon the Congress of the Philippines to join with the Italian Chamber of Deputies, in calling for an international conference of sovereign nations, to discuss and adopt a New Bretton Woods¹ monetary system, a fixed exchange rate system to replace the decrepit IMF-based floating exchange rate system. The Italian initiative was carried out in cooperation with American statesman and *EIR* founder Lyndon LaRouche.

Senator Pimentel, in his May 26 speech, said: “As a lawmaker, I share the views of the Italian parliamentarians to protect the welfare of our respective constituencies. I therefore suggest that our Congress can do no less but support the call for the establishment of a new Bretton Woods monetary system to protect and ensure the security of the financial dealings and other economic activities of peoples worldwide. I find the proposal of the Italian lawmakers reasonable in that ‘given the internationalization of financial markets, one nation by itself, or even Europe alone, is not able to guarantee the control and application of stronger rules in a decisive manner.’ ”

Also, in a crucial demonstration of the use of the “checks and balances” of the Presidential system, Senator Pimentel, together with the minority leader of the House of Representatives, Rep. Francis Escudero, challenged a particularly regressive and destructive tax bill, the “Extended Value Added Tax,” or E-VAT, taking it to the Supreme Court, where they succeeded in stopping its implementation, at least temporarily. The E-VAT was rammed through the Congress earlier this year by President Arroyo (with the recently defected Finance Secretary Purisima leading the charge), as one of many austerity bills demanded by the IMF and its “rating agencies,” Moody’s, Fitch, and S&P. It and was intended to help meet huge foreign debt payments by extracting more funds from

1. The proposal, as introduced to the Italian Chamber of Deputies, called for a new monetary system based on the 1945 Bretton Woods agreement. The resolution that was passed called more generally for an international conference of heads of state or governments, to discuss establishing a new monetary system—ed.

an already impoverished population (the poverty and malnourishment levels in the Philippines were recently appraised by UNICEF as worse than those in North Korea). The E-VAT will lift several exceptions to the existing 10% VAT, including those on fuel, electricity, and transport fares. The *Wall Street Journal* bared its fangs in praising the Philippine E-VAT on July 5: "Given the widespread tax evasion here, the imposition of the wider VAT, though its effects fall more heavily on poorer Filipinos, represents the most effective way of increasing revenue."

In addition, the E-VAT granted to President Arroyo the right to raise the VAT to 12% next year, and to raise business taxes. This was not only an attack on the general welfare at the behest of foreign banks, but it was also directly contrary to the Constitution, which grants the power to levy taxes explicitly to the Congress. At the challenge of Pimentel and Escudero, the Supreme Court granted a temporary restraining order on the bill, on July 1, the day the law was to be implemented. This is precisely the kind of "nuisance" which the oligarchy wishes to avoid by dumping the Constitution and the Presidential system.

The Real Conflict

The crisis of the Arroyo Administration began long before she took office in January 2001. The "people's power" revolt of 1986, which replaced nationalist leader Ferdinand Marcos, also ended his ambitious scientific and industrial development programs, turning the economy over to the IMF, first under President Cory Aquino, and later under General Ramos himself, who became President in 1992. Under Aquino, the fully completed nuclear power plant built by Marcos, the only nuclear facility in Southeast Asia, was shut down (but was paid for nonetheless!), while development policies were sacrificed to IMF debt payment and austerity. When Ramos took over directly in 1992, he sold the nation to Western investors through wildly corrupted "Enron-style" contracts with foreign power producers. Long before the 1997-98 speculative assault on the Asian currencies and economies, the Philippines had become the weakling of Southeast Asia.

The 1998 election, however, overturned the Ramos legacy, electing populist Joseph Estrada. Although Estrada failed to adopt policies to free the country of the neo-colonial looting under "globalization," his relative independence of the financial oligarchy was not to be accepted, and Ramos, again serving his Washington sponsors, orchestrated yet another "people's power" scam, through a blatantly unconstitutional coup against Estrada, handing the Presidency to his Vice President, Gloria Macapagal Arroyo, to carry out IMF dictates. Her first act, in keeping up with Aquino's closure of the nuclear power plant, was to privatize the National Power Company on behalf of the "Enrons" of the world.

Even Arroyo recently acknowledged that the 2001 coup, unlike the 1986 coup against Marcos, was only barely "tolerated" by the population, or even by the "international community." When she ran for re-election in 2004, Arroyo was



OPS-NIB photo/Michael Rey Baniquet

President Gloria Macapagal-Arroyo with former President Fidel Ramos (right). Ramos is the leading Philippine agent of influence in the U.S. neo-conservative attack on the Philippines, trying to replace the American-style Presidential system with a parliamentary system.

widely expected to lose, but apparently defeated a divided opposition. However, accusations of vote fraud and political obstruction of a recount, were rife, both in the Congress and in the press.

This issue exploded in early June, when a set of tape recordings was leaked by elements of military intelligence and the National Bureau of Investigation, which contained numerous wiretapped conversations between both the President and her husband with a director of the Commission on Elections during the contested counting process of the 2004 election, in which they appeared to be engaged in a plot to fix the election results. While the President eventually admitted to the calls, and apologized to the nation for her "lapse of judgment," she denied trying to fix the vote. This excuse has found few takers; even Archbishop Gaudencio Rosales responded that "Genuine forgiveness demands more than an apology, and those who seek forgiveness should be ready to be called to accountability."

Senator Pimentel called for the resignation of both the President and her Vice President, Noli de Castro, and the holding of new elections, to clear the air of the tainted elections of 2004. Other forces associated with deposed President Estrada and with Fernando Poe, Jr., the candidate defeated in the 2004 election, have mobilized demonstrations demanding the President's resignation. A bill of impeachment has been entered in the Congress. Although an impeachment process would have to overcome a majority in the Congress that is loyal to the President, that majority is dwindling, as leading Senators and Representatives in the majority coalition have withdrawn their support from the President.

It was in this environment that Finance Secretary Purisima, who is himself primarily responsible for the government's financial subservience to the IMF, resigned, together with nine other Cabinet members. They called for the Presi-

dent to step down in favor of Vice President de Castro, and thus are *not calling for new elections*. De Castro, a popular TV personality with almost no political experience, is expected by this group to be a “team player,” meaning they expect him to do as he is told.

To understand the game being played by Purisima, it is necessary to know that he is the current representative of the political faction in the Philippines run by U.S. insurance giant AIG’s former CEO Maurice “Hank” Greenberg, through Greenberg’s ally Washington Sycip, who founded the largest accounting firm in the Philippines, SGV, and who has placed his people in key government and banking positions for the past several decades. Sycip is on the board of AIG and is Greenberg’s advisor on Asian affairs, and his SGV was also affiliated with Arthur Anderson, until that firm’s demise in the wake of the Enron scandal (SGV has now joined the network of Ernst and Young).

Sycip was involved in many of the corrupt contracts signed between President Ramos in the 1990s with the “economic hitmen” from the West, contracts which have rendered the nation bankrupt. Greenberg, whose AIG is itself a major power in the Philippines, played the leading “supporting role” to George Shultz and Henry Kissinger in the overthrow of Marcos in 1986. Purisima was SGV Chairman and Managing Partner before becoming Finance Secretary in Arroyo’s Cabinet, and appears to believe that he can play a similar role to that of former Sycip men—as a foreign comprador. Perhaps he has not noticed that patron Hank Greenberg has been stripped of his power at AIG and may soon be indicted for his financial crimes.

After Secretary Purisima’s defection, the Makati Business Club, the voice of the Philippine financial oligarchy which had coordinated every step with Ramos in the previous coups, supported Purisima’s call for Arroyo to step down, and even Cory Aquino withdrew support from her friend Gloria. The end seemed certain.

Ramos Takes Over

However, Fidel Ramos has carefully orchestrated the situation to achieve something he has been attempting to implement since his Presidency in the 1990s: a change in the Constitution to eliminate the Presidential system. It should be no surprise that an agent of the America neo-cons is carrying out an attack on the American system of government.

Ramos came to President Arroyo’s defense—with conditions. Holding a press conference in the Presidential Palace, Ramos made a “modest proposal,” that Arroyo fire her Cabinet and declare herself the head of a new government, with a “high commission” to run things until a Constitutional Convention could be held later in the year, adopting a Parliamentary system in place of the Presidential system. Arroyo did precisely that, and discussions are now under way among her remaining Cabinet members and Ramos’s cohorts, to attempt to force through this destruction of the Constitution.

Thus, the two “sides” in the contrived showdown, Ramos

and Purisima, are both assets of the global financial institutions, and are committed to the same policies—IMF austerity, and dictatorship under a Parliamentary system without interference from Congress.

The American role in this subversion is not hidden. The U.S. Chargé d’Affaires in Manila, Joseph Mussomeli, who earlier threatened Philippine sovereignty by describing Mindanao, the southern province of the Philippines, as the “next Afghanistan,” went on national Philippine television to assert U.S. intentions in the crisis situation. Asked if he supported President Arroyo, he would say only that “we support the rule of law.” Since it is well known that the United States had sponsored the two previous coups against the Philippine Constitution, while labelling them as being within the “rule of law,” his statement was not ambiguous. When asked if he agreed with those who called the ten Cabinet members, who had resigned, traitors, Mussomeli defended Purisima and his associates as “patriots.” LaRouche, briefed on Mussomeli’s intervention, described it as “far out of line,” and as “John Bolton-style diplomacy.” He added, however, that he was not surprised, given that Mussomeli “worked for an Administration headed by a psychopath and a sociopath.”

Defending the Presidential System

President Arroyo and her Svengali, Fidel Ramos, make no effort to hide their intentions in regard to their call for ending the Presidential system. Last year, Arroyo explained her reasoning: “The problem of the Presidential form is that the legislative and the executive are separate, so they are conflicting by nature. In the parliamentary form of government, they are one. The decision of the executive presumes already that the legislative is part of the decision-making, therefore the laws will move faster.” Which is to say that eliminating the separation of powers, provides the majority party a virtual dictatorship.

This is particularly disturbing when considered in light of developments in Washington. Vice President Cheney’s attempted coup earlier this year, against the Constitutional concept of “separation of powers” and “checks and balances,” was averted only when a united Democratic minority in the U.S. Senate was joined by a crucial group of Republican Senators on May 23, rejecting Cheney’s effort to eliminate the filibuster—the crucial element providing the minority in the Senate the right to block measures deemed tyrannical, either from the Executive or from a majority of Senators. This historic bipartisan defeat of Cheney’s intended dictatorship should be seen worldwide as the crucial proof of the superiority of the American Presidential system. As several Senators stated during that debate, it was precisely the lack of this special “right of the minority” in the Parliamentary system in Europe which had allowed the emergence of dictatorships under the fascists in Italy and the Nazis in Germany, despite fierce opposition from a minority which recognized the danger.

In addition to the question of “checks and balances,” there

LaRouche: Philippines Was Robbed of Development

On June 10, Lyndon LaRouche was interviewed by Butch Valdes, the head of the Philippines LaRouche Society and the Katipunan ng Demokratikong Pilipino (League of Filipino Democrats), on Manila radio station DZRL. Valdes asked LaRouche about the lack of Filipino leadership since the fall of President Ferdinand Marcos in 1986. This was LaRouche's reply:

Well, this was deliberate. It was a deliberate chopping down. You had people who came out of the wartime and the post-war period, shall we say, the MacArthur experience, where there was a certain promise implicitly by Gen. Douglas MacArthur, about freedom for the Philippines—an experience, which of course, reflected also his own father's role in the Philippines.

So, the idea that—here's a people, which had a certain potential, a certain historical development, which should be treated in a sense, as a protected nation—not ruled by the United States, but protected by it, so it could get on its own feet, and rule itself. And up through the early 1980s, of course, we had significant progress, which became more and more difficult during the 1970s.

And then you had the U.S.-dictated overthrow of the government [in 1986], and things of that sort. And chaos set in. And we had a situation, such as dealing with the so-called minorities question in the Philippines, where, as you may recall, Butch, we were—and you can explain to others there better than I could, exactly what kind of discussions we had with people in Mindanao and so forth, of trying to solve some of the conflicts which outsiders were trying to stir up, within the Philippines.

So, these things were absolutely done to destroy the Philippines.

And why? Well, first of all, what the Philippines represented was, in a sense, a European culture in Asia, which was European in most leading respects. It had its own character as well, from the people who had been there before the Spanish came in. So, this was considered a nuisance to those who had a *globalization* intention. For example, the Philippines, with the U.S. bases, which were not always the nicest thing for the Philippines to have—morally or otherwise—but the air base and the naval base, especially the naval base, represented a certain kind of *machine-tool capability*, a potentiality, in the Philippines, which was essential for building a modern nation. With large-scale infrastructure development of the type which Marcos was associated with, this could have happened. It would have been a longer process, maybe a generation or two, but there was a genuine prospect at that time, of an actual development of the Philippines, a continuing development, as a nation, which would play an important part in its relationship to the nations of Asia, and something which the United States would be proud to have as a friend.

That changed. And Marcos was dumped out, as we know; dumped out on orders from Washington, by certain interests. That, in a sense, broke the already fragile capability of progress in the Philippines at that time.

I think it's important that people know that in the Philippines, and emphasize that; younger people in particular, because it's important not to be ashamed of your country. You may be ashamed of some of the things that go on. But don't be ashamed of the country as such. The country is not a failure. *The country's chance of development was curtailed and taken away from it.*

And therefore, you have to look at the country, as one which *still has*, a people that *has* that potential. And that to me, is the main concern. The Philippines still does have a potential role in Asia, that being its special character, which is a different character than other countries in Asia, but it's a contribution to the cultural development of Asia as a whole. That's what I think we would want to concentrate on.

is another crucial target of the financial oligarchy in demanding a Constitutional Convention in the Philippines. The current Constitution imposes limitations on foreign ownership of certain Philippine industries. Although these restrictions have been watered down, and virtually ignored in some cases, they provide a basis for the defense of the national patrimony and sovereignty. The international spokesmen for “globalization,” the currently popular term for colonialism, insist that these Philippine Constitutional restrictions are old-fashioned relics of protectionism that have no place in the era of globalization. President Arroyo alluded to her agreement with this colonial demand in a July 7 address to the nation, when she

called for “modernizing the economic provisions of our Constitution.”

With the onrushing explosions of the global hedge fund and real estate bubbles, both developed and developing nations are being confronted with issues of survival, because of their dependence on the international financial institutions. But they are also presented with the opportunity to assert their voices in the effort to return sanity to the brotherhood of nations. Those in the Philippines who recognize that reality must lift the vision of the troubled citizenry from the parochial and localized problems to that broader goal. Solutions to the current crisis depend on that effort.

Central Asia Battle Lines Being Drawn

by Ramtanu Maitra

Buried in the news of the July 7 London bombings, and a tepid G-8 Summit in Gleneagles, Scotland, was another summit that took place in Astana, Kazakstan, on July 5-6. Heads of state representing six nations—Russia, China, Kazakstan, Kyrgyzstan, Tajikistan, and Uzbekistan—and the Shanghai Cooperation Organization (SCO), drew the battle lines in Central Asia urging the United States to announce a timeframe to fold up its military bases in Central Asia.

The U.S. bases in Uzbekistan and Kyrgyzstan were set up in the Winter of 2001 as support bases to invade Afghanistan and oust the Taliban. SCO members pointed out in the two-day summit, that since the United States is reporting a decline in fighting in Afghanistan, the United States must now set a timeframe to remove its forces from the bases in member states Kyrgyzstan and Uzbekistan.

In order not to sound too harsh, Russian President Vladimir Putin's spokesman, Sergei Prikhodko, pointed out that the appeal is not meant to pressure the United States to pull its troops out immediately. But the statement is a sign of growing uneasiness with the U.S. ongoing presence in Central Asia, the backyard of both Russia and China.

It was apparent that the SCO member states have asserted their opposition to outside interference in internal affairs, especially regarding the recent political unrest in Uzbekistan and Kyrgyzstan. According to the wording of the SCO appeal, global peace and security will not be found, if one nation is allowed to dominate international affairs.

A Strong Statement

The statement issued by the SCO was forthright and forceful. Vyacheslav Nikonov, president of the Moscow-based think-tank known as "Politika," pointed out to the Voice of America on July 12 that the moves show the organization's intent to strengthen its role in world affairs.

The Bush Administration, not quite on its toes on these developments, took time to respond. But when it came, the response was in the form of a confused denial. U.S. Secretary of State Condoleezza Rice, whose hands are full with the forthcoming six-nation talks on North Korean nuclear weapons, issued a statement from Beijing on July 10, rejecting calls for a deadline for U.S. forces to pull out of bases in Central Asia and Afghanistan.

Although the SCO did not urge the United States to withdraw its bases from Afghanistan—at least, as of now—on the last day of her visit to China Secretary Rice said: "The one country that said that the United States should stay in Afghanistan was Afghanistan."

Response also came from the U.S. Ambassador to Russia, Alexander Vershbow. At a press conference in Moscow on July 12, he said that the United States plans to hold bilateral negotiations with Central Asian governments to discuss the presence of U.S. bases in that region.

In a clever move ignoring the growing authority of the SCO in the region, Ambassador Vershbow held on to the importance of bilateral agreements during the press conference saying, "The government of each country where bases are stationed should express their concerns individually."

Ignoring the SCO

Ambassador Vershbow, a career diplomat, had served as the U.S. Ambassador to the North Atlantic Treaty Organization (NATO) from January 1998 until July 2001. As U.S. Representative on the North Atlantic Council, Vershbow was centrally involved in transforming NATO to meet the challenges of the post-cold war era, including the admission of new members and the development of relations with Russia through the NATO-Russia Permanent Joint Council. Earlier, in 1991, he was posted to NATO as U.S. Deputy Permanent Representative and Chargé d'Affaires of the U.S. Mission. It is evident that he played a major role in getting these bases set up in Central Asia, in the process of expansion of the NATO outside of Europe.

It is evident that Ambassador Vershbow is not willing to indulge in swordplay with the SCO, which contains powerful nations such as Russia and China. He would prefer to exert pressure on small and weaker nations such as Kyrgyzstan and Uzbekistan, citing bilateral arrangements. Unfortunately for Vershbow, that, too, may run into a dead end.

In Kyrgyzstan, where the U.S. government-funded National Endowment for Democracy (NED) played a stellar role in bringing down President Askar Akayev through a "street uprising against nepotism and corruption," the beneficiary of the uprising, Kurmanbek Bakiev, who won a landslide victory in the Presidential election on July 11, also called for the United States to start reducing its military presence in the country, saying that the situation in Afghanistan had stabilized.

What is more disturbing for the United States is the souring of its relations with Uzbekistan, where the United States has another military base. Uzbek President Islam Karimov, who had been lured by Washington's alleged financial strength and generosity, was moving away from Russia to forge a strong partnership with the Bush Administration. But his relationship with Washington came under strain when the United States called for an international probe into a military crackdown in May in the town of Andijan, in which many

people were killed.

After the U.S. criticism, Uzbek President Islam Karimov quickly reinforced his authority and placed limits on flights in and out of the U.S. airbase at Karshi-Khanabad in southern Uzbekistan.

At the SCO summit, Karimov pointedly thanked Russia and China for their support in the aftermath of the Andijan upheaval, and complained that outside forces were threatening to “hijack stability and impose their model of development” on Central Asia. According to one observer—and Ambassador Vershbow should note—Karimov had essentially called on his SCO partners to make a choice between siding with the United States “or with our neighbors in Russia and China.”

Is the Cold War Back?

The growing uneasiness in Central Asia about the United States’ missionary zeal of establishing democracy and human rights, coupled with use of its military might to keep domination over the world, which resulted in the SCO declaration, has been noticed by the old cold warriors and the American geo-politicians.

Dr. Michael Weinstein, writing for the *Power and Interest News Report*, said the overall strategic aim of the alliance for Beijing and Moscow is curbing Washington’s influence in Central Asia in order to establish a joint sphere of influence there. For Beijing, the most important goal is to get a lock on the considerable energy resources of the region, but it also seeks markets for its goods, outlets for investment, and collaboration against Islamist movements. Moscow has leagued with Beijing in order to restore some of its influence over its “near abroad,” Weinstein said.

On July 12, the *Washington Post* carried a front-page article, “Cold War Rivalry Reviving in Central Asia,” which made clear that the United States will lean heavily on Uzbek President Islam Karimov, to keep its presence in Central Asia. The article said the stakes are high, since the United States has relied on the Uzbek base at Karshi-Khanabad, known as K-2, for military and humanitarian missions in Afghanistan. Uzbekistan, which was one of the first republics to ask Russian troops to leave after the Soviet Union collapsed, reflects new U.S. influence in Central Asia.

What also bothers the Bush Administration hawks is that the SCO declaration for the closure of U.S. military bases in Uzbekistan and Kyrgyzstan, that now support Washington’s operations in Afghanistan, will also put a monkey-wrench in the Pentagon’s strategy of creating a permanent arc of bases spanning East Africa and East Asia.

With so much to lose, the *Washington Post* article indicated, the Bush Administration is now completing plans for an overture to President Islam Karimov, possibly beginning with a Cabinet-level emissary going to Tashkent to be followed by a telephone call from Bush—if Karimov is open to an international inquiry into the May 13 unrest in Andijan.

The article, quoting Martha Brill Olcott of the Carnegie Endowment for International Peace, noted that at the SCO summit, Russian President Vladimir Putin called for increased regional security cooperation. “Russia is trying to take advantage of the situation that the Bush Administration’s democracy policy has opened for them—to increase the reliance of Central Asian states on Russia,” Olcott said.

It has also been reported in the *Washington Post* that Beijing has called on Washington to honor the request for U.S. troops to withdraw from Central Asia. “It’s China going on record and using Russia’s shared frustration in Central Asia to say that the U.S. global agenda is one that China is not willing to sign onto,” Olcott added.

What the American geopoliticians have assiduously avoided so far is the Indian interest in what the SCO has announced. India, along with Pakistan and Iran, sought and was granted observer status in the SCO at the summit. Indian External Affairs Minister K. Natwar Singh was quite busy meeting heads of state in Astana. The presence of India in Astana is an acknowledgment of the organization’s growing geo-strategic importance.

Uzbek President Islam Karimov undertook a three-day trip to New Delhi, April 4-6, to conduct negotiations with the Indian government and to sign 12 agreements with India. These accords ranged over such diverse fields as defense, education, trade, industry, tourism, and the struggle against terrorism. But undoubtedly the defense, anti-terrorism, and economic agreements were the most important results of this trip. Interestingly, this was Karimov’s third visit to India, and the latest trip was Karimov’s recognition of India’s growing interest in, and capabilities toward, Central Asia.

The Indian Factor

India has made no bones of its interest in Central Asia and is keen to expand its influence and presence there. It perceives the region as a major source of its energy needs, not to mention other raw materials. Therefore, since 2000, India’s governments have steadily expanded contacts with Central Asian regimes and vigorously pursued New Delhi’s interests in access to trade, energy, and even military bases, as in Tajikistan’s case. India has won Karimov’s assent to participate in the exploration of oil and gas reserves in Uzbekistan. Both sides also agreed on the importance of quickly realizing an international transport corridor through Afghanistan so that goods could move more quickly between their states.

A senior Indian diplomat, K. Gajendra Singh, former Indian Ambassador to Turkey, pointed out recently that the SCO, originally established to counter Islamic terrorism, is composed of militarily powerful states like Russia, China, and India. He observed that “the galloping Chinese and Indian economies, the energy-based economic recovery in Russia with its immense reserves, and in other SCO members

and observers, could develop into an economic challenge to a U.S. economy addicted to reckless deficits at home and in external trade, and a stagnant and confused European Union.”

However, it would be naive to believe that the Bush Administration, which has a proclivity to be reckless and overtly confrontational, will let the SCO have its way. Besides using the lure of financial grants and cheap credit, Washington will use a number of weapons it has in its arsenal.

U.S. Retaliation

On July 14, U.S. Rep. Christopher Smith (R-N.J.), said that the Central Asia Democracy and Human Rights Act (CADHRA) of 2005 would link the provision of any non-humanitarian aid to a certification from the U.S. President that a country was making “substantial, sustained, and demonstrable progress toward democratization and full respect for human rights.”

“After almost 15 years of independence, the five countries of Central Asia are still struggling in their transition to democracy,” Smith said.

For every year that certification was not granted, aid would be reduced by one-third, he said. In the third year, aid would be completely cut off unless the President made an exception and restored one-third on national security grounds. Under the proposed bill, a country would be able to requalify for assistance once it received certification, while withheld aid would be reallocated to nongovernmental organizations and other entities that support democracy.

The United States, in association with Britain, also has an immense capability to destabilize the Central Asian region using “Islamic terrorism.” Afghanistan is expected to produce billions of dollars worth of opium in the coming years, providing a substantial war chest to the rebels. In addition, it is no secret that non-Arab Islamic militants are thriving in Afghanistan. As long they do not go after the American troops, they will remain protected.

Ambassador Gajendra Singh pointed out that both China and Russia, although suspicious, went along with the United States in their own fight with Muslim radical movements for independence in Chechnya and a similar movement by the ethnic Turkic Uyghur-populated Xinjiang province of China. It is widely known among the intelligence circles that al-Qaeda and other militant organizations in Afghanistan and Pakistan were training Islamic groups from Central Asian countries. A majority of these Islamic radicals were trained in Afghanistan and are now lodged in the difficult terrains of the Pakistan-Afghanistan border.

In addition, Britain protects the largest Islamic radical group in Central Asia, the Hizb ut-Tahrir. During the May 13 uprising in Andijan, Uzbek authorities alleged that Hizb ut-Tahrir (HT) cadres were in touch with their leaders in Afghanistan and Kyrgyzstan. Of course HT spokesmen in London routinely denied the charges.

The U.S. Removes The Nuclear Brakes

by Reuven Pedatzur

Dr. Pedatzur is a lecturer at the Department of Political Science at Tel Aviv University, and a defense analyst for the Israeli daily Ha'aretz. He offered this article as a contribution to EIR's June 28-29 Berlin seminar. It was first published in the June 26 issue of Ha'aretz.

Under the cloak of secrecy imparted by use of military code names, the American administration has been taking a big—and dangerous—step that will lead to the transformation of the nuclear bomb into a legitimate weapon for waging war.

Ever since the terror attack of Sept. 11, 2001, the Bush Administration has gradually done away with all the nuclear brakes that characterized American policy during the Cold War. No longer are nuclear bombs considered “the weapon of last resort.” No longer is the nuclear bomb the ultimate means of deterrence against nuclear powers, which the United States would never be the first to employ.

In the era of a single, ruthless superpower, whose leadership intends to shape the world according to its own forceful world view, nuclear weapons have become a attractive instrument for waging wars, even against enemies that do not possess nuclear arms.

Remember the code name “CONPLAN 8022.” Last week, the *Washington Post* reported that this unintelligible nickname masks a military program whose implementation could drag the world into nuclear war.

CONPLAN 8022 is a series of operational plans prepared by Startcom, the U.S. Army's Strategic Command, which calls for pre-emptive nuclear strikes against Iran and North Korea. One of the plan's major components is the use of nuclear weapons to destroy the underground facilities where North Korea and Iran are developing their nuclear weapons. The standard ordnance deployed by the Americans is not capable of destroying these facilities.

After the war in Afghanistan, it became clear that despite the widespread use of huge conventional bombs, “bunker-busters,” some of the bunkers dug by al-Qaeda remained untouched. This discovery soon led to a decision to develop nuclear weapons that would be able to penetrate and destroy the underground shelters in which the two member states of the “axis of evil” are developing weapons of mass destruction.

The explanation given by administration experts calls these “small” bombs, which would have a moderate effect on the environment. The effect of the bomb would not be



Defense Threat Reduction Agency

For the Bush/Cheney Administration, “which intends to shape the world according to its own forceful world view, nuclear weapons have become an attractive instrument for waging wars, even against enemies that do not possess nuclear arms.” This picture sequence shows a non-nuclear precision-guided munition test being performed against an underground facility.

discernible above ground, the radioactive fallout would be negligible, and the “collateral damage” caused to civilians would be minimal.

Accordingly, America’s deterrent credibility against the “rogue states” would grow, because it is clear that the U.S.

would allow itself to make use of these “small bombs”—as they would destroy the weapon sites but not cause the death of many civilians.

The war in Iraq, whose purpose was the destruction of Saddam Hussein’s development facilities and stockpiles of weapons of mass destruction, but which led to America’s miring in the Iraqi swamp, has increased the attraction of nuclear weapons. After all, it would have been much simpler and more logical to destroy Saddam’s facilities with a few “small bombs,” which would not have caused any real damage to the civilian population, than to become entangled in a ground war that has resulted in 150,000 American soldiers treading water in the Iraqi swamp.

The problem with this argument is that it is hopeless. To understand this, one may analyze the effect of a nuclear attack of the sort posited by American military strategists in CONPLAN 8022. Obviously, the U.S. would not use less than five to ten “small bombs” were it to attack Iran or North Korea, since, considering the number of relevant targets in the two countries, anything less would fail to achieve the goal of deterrence and prevention. According to the plan, each bomb would have a 10-kiloton yield—about two-thirds of that of the bombs dropped on Hiroshima and Nagasaki.

Each detonation of a bomb a few meters underground would destroy most of the buildings on the surface to a range of two kilometers. After the explosion, there would be a need to quickly evacuate civilians from an area of 100 square kilometers, to avoid the deadly effects of the radioactive fallout; buildings, agricultural crops and livestock would be affected in an area of thousands of square kilometers, and depending on wind direction and velocity, there could be a need to evacuate more people from thousands of additional square kilometers.

None of this takes into account the political and psychological repercussions of using nuclear weapons for the first time in more than 60 years. The Bush Administration regards all this as “limited collateral damage.”

The nuclear policy that the Bush Administration continues to formulate, including plans for a pre-emptive nuclear strike against states that do not possess such weapons and the development of new nuclear weapons—is a recipe for disaster. It is a policy that blurs the line between conventional and nuclear war. This blurring could undermine the relative strategic stability that has set in since the Cold War.

In addition, the Bush Administration’s approach contains a message that is liable to encourage Iran and North Korea to reassess the contribution such a weapon would make to their own nuclear policies, possibly providing the incentive that would accelerate such development.

Herein lies an inherent contradiction in the American approach that on the one hand acts with commendable determination to prevent the proliferation of nuclear arms, but on the other hand, contributes toward it by adopting an irresponsible nuclear policy.

LaRouche Lays Out Parameters For Probe of London Bombings

by Jeffrey Steinberg

On Jan. 11, 2000, the editors of *EIR* delivered a memorandum to then-Secretary of State Madeleine Albright, with copies delivered to other Clinton Administration Cabinet officials and leading members of the U.S. House of Representatives and U.S. Senate. The memorandum posed the question: Should Great Britain be placed on the list of states sponsoring terrorism?

The document was prepared in the immediate aftermath of a rash of formal diplomatic protests to the British government, over the role of London-based terrorist organizations in carrying out a string of violent attacks in Chechnya, Kashmir, Israel, Turkey, Egypt, and Colombia. The evidence presented by *EIR* was based exclusively on reports by the victim governments, on the role of London-based and British government-protected terrorists, in the violent acts of irregular warfare.

Cooperating officials of the U.S. State Department had provided *EIR* with copies of the legal findings on how the U.S. government placed states on the list of sponsors of designated Foreign Terrorist Organizations, and the *EIR* memorandum, which is reprinted below, was structured to conform to the State Department criteria.

The January 2000 memorandum now is of great relevance, once again, after the July 7, 2005 bombing attacks against the mass transportation system in London, which killed over 50 people, and wounded hundreds more.

Terrorism in London

On July 9, 2005, two days after the bombings, Lyndon LaRouche penned a short document (republished here), titled "The Dirt-Bike Terror Incident," which identified a series of three strategic factors that set the context of the London attacks, and offered a frame of reference for any competent investigation. Given that the official British police probe into

the attacks is still in the preliminary stages, as of this writing, there is not much to be said about the findings to date. It is noteworthy, however, that Scotland Yard and other responsible British and international law enforcement agencies were horrified at the crass propaganda efforts by British Prime Minister Tony Blair and Foreign Secretary Jack Straw, who pronounced al-Qaeda "guilty" of the crime, before the first forensic experts had even reached the scene of the four bombings.

The LaRouche memo, in contrast, focussed on the strategic setting in which the bomb attacks occurred, including:

1. The ongoing Group of Eight heads of state summit in Scotland, which was totally disrupted by the London attacks. One theme of that summit was the effort by German Chancellor Gerhard Schröder to put the issue of the deepening global financial crisis, and particularly the issue of the unregulated derivative markets, and the skyrocketing oil prices, on the agenda for emergency action by the governments of the industrialized countries.

2. The emerging crisis in Washington over Bush political guru Karl Rove's involvement in the "outing" of CIA non-official cover officer Valerie Plame, the wife of former Ambassador Joseph Wilson IV; and

3. The massive, coordinated central bank interventions to plug up an as-yet-undisclosed gaping hole in the global financial system, perhaps caused by the bankruptcy of a large hedge fund, or a major perturbation on the British or American real estate market, which has been widely identified as a bubble about to burst. Sources in the City of London and elsewhere had confirmed that the scale of the coordinated North American, European, and Asian central bank intervention went far beyond the efforts required to calm nervous investors, after the four London bombings. Furthermore, the



DoD photo

The U.S. military barracks, Khobar Towers, in Dhahran, Saudi Arabia, was bombed on June 25, 1996. Mohammed al-Massari, head of the London-based Committee for the Defense of Legitimate Rights and an associate of Osama bin Laden, described the attack as “intellectually justified,” and said there would be more to come. The British government granted him “exceptional leave” to remain in the U.K.

global “plunge protection” efforts to prop up the financial markets were already under way when the terror attacks occurred.

The Sun Never Sets on the Invisible Empire

While some analysts reacted to the original *EIR* January 2000 memo, by ascribing “pragmatic” motives to the British for giving safe-haven to some of the world’s most radical insurgents, Lyndon LaRouche has emphasized, for years, that modern irregular warfare has always been an instrument of imperial control and manipulation, and that the British are the past masters at this trade.

LaRouche traced the origins of this policy to the launching of the British Empire in the middle of the 18th Century, at the close of the Seven Years’ War, when Lord Shelburne of the British East India Company emerged as the “Doge” of the reconstituted Venetian invisible empire, otherwise known as the “Anglo-Dutch Liberal System.”

The model for all subsequent irrationalist terrorist movements were the Jacobins of the French Revolution, who in many instances, were members of a Lyon-centered Martinist occult lodge. These terrorist legions were controlled, from arms-length, by the British East India Company and its emerging British imperial intelligence service of Jeremy Bentham, Adam Smith, Edward Gibbon, James Stuart Mill, et al.

Out of the French Jacobin Terror emerged the Synarchist apparatus, which installed and then unleashed Napoleon Bonaparte against continental Europe. Under the Jacobin Terror and the later Napoleonic world fascist offensive, European-based republican allies of the American Revolution, including the leading scientists of France’s *École Polytechnique*, were

targetted for the guillotine, or, as in the case of the Marquis de Lafayette, for the Hapsburg prisons.

This same irrationalist unleashing of terrorist hordes was next carried out against Britain’s purported Congress of Vienna allies, through the Giuseppe Mazzini “Young Europe” movement of Jacobin-modelled terrorists, who wrought havoc in Europe in the “Revolutions of 1848.” Under Queen Victoria’s son, Prince Edward-Albert (later King Edward VII), the art of oligarchical manipulated terror and war evolved further. The result was World War I, and the follow-on, World War II.

In all of these cases, the British imperial oligarchy, largely centered in the major financial houses, insurance companies, and shipping lines, had no qualms about unleashing terrorist violence against their own British subjects, or subjects of such colonial centers as India and sub-Saharan Africa. This is, after all, the same British East India Company apparatus that unleashed the opium wars on China, and adopted the Dope, Inc. strategy of psychologically crippling entire populations to break their resistance.

These oligarchs seek to impose a new form of medievalism on the world, to eliminate the last vestiges of the American Revolution, and that sovereign nation-state republican tradition from the face of the Earth.

This is the face of modern irregular warfare that was unleashed on the unsuspecting and brutalized people of London on July 7. Any investigation that avoids these harsh issues, and adopts the deductive method of investigation instead, is sure to fail. It is in this spirit that we re-issue here the January 2000 memo and LaRouche’s “Dirt-Bike Terror Affair” document.

Put Britain on List Of Terrorist Sponsors

The following memorandum, dated Jan. 11, 2000, was prepared for delivery to then-U.S. Secretary of State Madeleine Albright. It is a request to launch an investigation, pursuant to placing Great Britain on the list of states sponsoring terrorism.

To: Hon. Madeleine Albright, Secretary of State
From: The Editors, Executive Intelligence Review
C.C.: Hon. William Cohen, Secretary of Defense
Hon. Janet Reno, Attorney General
Hon. George Tenet, Director of Central Intelligence
Hon. Louis Freeh, Director, Federal Bureau of Investigation
Hon. Jesse Helms, Chairman, Senate Foreign Relations Committee
Hon. Joseph Biden, Ranking Democrat, Senate Foreign Relations Committee
Hon. Benjamin Gilman, Chairman, House International Relations Committee
Hon. Sam Gejdenson, Ranking Democrat, House International Relations Committee

This is a formal request for you to initiate a review of the role of the government of Great Britain in supporting international terrorism, to determine whether Britain should be added to the list of nations sanctioned by the U.S. government for lending support to international terrorist organizations.

This issue has been recently highlighted, as the result of the December 1999 Indian Airlines hijacking, and the response of the British government to the request of one of the freed Kashmiri terrorists, Ahmed Omar Sheikh, to be given safe passage to England. Mr. Sheikh, a British national, was tried and convicted in India, for his role in the kidnapping of four British nationals and an American in 1995. He was sentenced to five years in prison in November 1998. Initially, the British government announced that it would provide Mr. Sheikh with safe passage to Britain, and would not prosecute him or make any effort to extradite him back to India.

However, long before the Sheikh case, *Executive Intelligence Review* had documented a pattern of British involvement in harboring international terrorists, dating back to 1995. As of this writing, no fewer than a dozen governments—many of them leading allies of the United States—have filed

formal diplomatic protests with the British Foreign Office, over specific instances of British official support for terrorist groups, targeting those nations.

Criteria for Evaluating Whether Britain Should Be Sanctioned

U.S. Government policy on sanctions against states sponsoring terrorism has been set by a series of Congressional acts, including, but not limited to: the Export Administration Act of 1979 (EAAA), the Anti-Terrorism and Arms Export Amendments Act of 1989 (ATAEAA), the Arms Export Control Act (22 U.S.C. 2780), the Foreign Assistance Act of 1961, the Omnibus Appropriations Act of 1996, and the Antiterrorism and Effective Death Penalty Act (AEDPA) of 1996.

It is our understanding that, while the Congress has given the Secretary of State broad discretion in designating a country as a state sponsor of terrorism, the legislative history of the House Foreign Affairs Committee and the Senate Foreign Relations Committee has specified seven criteria which should guide the Secretary's action.

These criteria are:

LaRouche: The Nature of The Required Investigation

“The Dirt-Bike Terror Incident,” July 9, 2005

Certain features of the context of the London terror incidents of this past week are now clear. The following preliminary characterization of the matter to be investigated, which I have slugged as “The Dirt Bike Terror Incident,” is now evident. Beyond that characterization, much remains muddy, pending further investigation. Despite the unsettled points to be clarified by pending, newly obtained evidence, the characterization of the circumstantial strategic evidence already on hand is clear enough to define the nature of the required investigation to the following effect.

The relevant London events are all situated within the context of the following indisputable features of the situation within which the London bombings occurred.

1. The terror incident and its most strategically relevant sequelae occurred in the setting of a.) The immediacy of the ripe threat of a general, chain-reaction collapse of the world monetary-financial system. b.) The period of that Gleneagles “summit” confab during which U.S. President George Bush reportedly inflicted injuries on a Scottish policeman, through an assault by the bicycle which the

1. Does the state provide terrorists sanctuary from extradition or prosecution?
2. Does the state provide terrorists with weapons and other means of conducting violence?
3. Does the state provide logistical support to terrorists?
4. Does the state permit terrorists to maintain safehouses and headquarters on its territory?
5. Does the state provide training and other material assistance to terrorists?
6. Does the state provide financial backing to terrorist organizations?
7. Does the state provide diplomatic services, including travel documents, that could aid in the commission of terrorist acts?

As of this writing, the State Department currently designates seven countries as state sponsors of terrorism: Iraq, Iran, Libya, Syria, Sudan, Cuba, and North Korea. In the case of Syria, which is presently engaged in peace negotiations with Israel, the primary reason the regime remains on the list is that several designated Foreign Terrorist Organizations (FTOs) are headquartered in Damascus.

In the State Department Authorization Act of October 1991, specific procedures were spelled out for the President to remove a country from the list of state sponsors of terrorism. Congress has a 45-day period to pass a joint resolution overriding such a Presidential decision to remove a state from the list, which carries with it a number of significant sanctions.

The Case of Great Britain

The following documentary time line is intended to provide an outline of the evidence that we wish the appropriate officials at the U.S. State Department to review, to make a determination whether Great Britain should be added to the list of states sponsoring terrorism, according to the criteria outlined above.

- In July 1998, a former British MI5 officer, David Shayler, revealed that, in February 1996, British security services financed and supported a London-based Islamic terrorist group, in an attempted assassination against Libyan leader Muammar Qaddafi. The action, Shayler charged, in an interview with the British *Daily Mail*, was sanctioned by then-Foreign Secretary Malcolm Rifkind. The incident described

desperate “lame duck” President was operating at that time. The terrorist incident occurred within the time-frame of the concluding portion of that “summit.” c.) The soaring focus on the matter of the indicated role of the Bush White House, Vice President Cheney’s office, and the Republican National Committee machine, respecting the criminal act of exposing CIA operative Valerie Plame.

2. The leading consequences of the terrorist incidents, included: a.) A flood of liquidity into international financial markets sufficient to postpone the chain-reaction collapse of the international monetary-financial collapse to some point beyond the conclusion of the “summit.” b.) The utterly and maliciously incompetent, “sexed-up” set of allegations by the British Prime Minister and his Jack Straw. c.) The clear denunciation of the Prime Minister’s and Straw’s propaganda hoax by relevant British law-enforcement officials. d.) An hysterically and copiously incompetent coverage of the London incident by the *Washington Post*, among others, in the following day’s edition. e.) A wild-eyed propaganda-hoax, claiming an upturn in the U.S. economy.

3. Where was the ghost of Hermann Göring during the early evening preceding the panic which struck on the following morning?

All fallacies of composition which ignore that set of correlated facts respecting the global context of this global set of events, should be disregarded.

—Lyndon H. LaRouche, Jr.



LaRouche in 2004

Beware of fallacies of composition, LaRouche says—a warning that also applied in the aftermath of the Madrid train bombing in March 2004. Here, the LaRouche 2004 Presidential campaign’s Special Report on “The Synarchist Resurgence” behind that bombing.

by Shayler did, in fact, occur. Although Qaddafi escaped without injury, the bomb, planted along a road where the Libyan leader was travelling, killed several innocent bystanders. In an Aug. 5, 1998 interview with BBC, Shayler charged, “We paid £100,000 to carry out the murder of a foreign head of state. That is apart from the fact that the money was used to kill innocent people, because the bomb exploded at the wrong time. In fact, this is hideous funding of international terrorism.” According to Shayler’s BBC interview, MI6 provided the funds to an Arab agent inside Libya, with instructions to carry out the attack.

In fact, in 1996, a previously unknown Libyan “Islamist” group appeared in London to claim responsibility for the attempted assassination of Qaddafi.

- On June 25, 1996, a bomb blew up the U.S. military barracks in Dhahran, Saudi Arabia, killing 19 American soldiers. The next day, Saudi expatriate Mohammed al-Massari, the head of the London-based Committee for the Defense of Legitimate Rights, was interviewed on BBC. He warned the United States to expect more terror attacks, which he described as “intellectually justified.” The U.S. military presence in Saudi Arabia “is obviously not welcomed by a substantial fraction of the population there,” he warned, “and they are ready to go to the execution stand for it.” He concluded, “There are so many underground parties—so many splinter groups, many of them made up of people who fought in Afghanistan. . . . I expect more of the same.”

Despite the fact that al-Massari has repeatedly called for the overthrow of the House of Saud and the creation of an Islamic revolutionary state, he has been given “exceptional leave” to remain in Britain. In April 1996, the British Home Office granted al-Massari a four-year refugee permit to remain on British soil.

Al-Massari is allied with the well-known Saudi expatriate Osama bin Laden, who, to this day, maintains a residence in the wealthy London suburb of Wembley. And London is the headquarters of bin Laden’s Advise and Reform Commission, run by the London-based Khalid al-Fawwaz.

Bin Laden has been given regular access to BBC and a variety of major British newspapers, to spread his calls for *jihād* against the United States. Thus, in July 1996, bin Laden told the London *Independent*, “What happened in Khobar [the U.S. Army barracks that was bombed on June 25] is a clear proof of the enormous rage of the Saudi population against them. Resistance against America will spread in many places through Muslim lands.”

- On Jan. 25, 1997, Tory Member of Parliament Nigel Waterson introduced legislation to ban foreign terrorists from operating on British soil. His “Conspiracy and Incitement Bill,” according to his press release, would for the first time have banned British residents from plotting and conducting terrorist operations overseas. Waterson proposed the bill in the aftermath of a scandal over Britain’s providing safe haven for Saudi terrorist Mohammed al-Massari, who claimed credit



FBI Ten Most Wanted Fugitives list

In 2000, Osama bin Laden maintained a residence in a wealthy London suburb and had access to the BBC and other British press to spread his calls for jihād against the United States.

for the bombing of U.S. military sites in Saudi Arabia in June 1996.

On Feb. 14, 1997, Labour MP George Galloway succeeded in blocking Waterson’s bill from getting out of committee. Galloway, in a speech before the committee that was printed in the House of Commons official proceedings, stated: “The Bill will change political asylum in this country in a profound and dangerous way. It will change a state of affairs that has existed since Napoleon’s time. . . . We are all in favor of controlling terrorism in Britain. Surely not a single honorable Member has any truck with terrorism here, but we are talking about terrorism in other countries. . . . The legislation is rushed in response to a specific, and, for the government, highly embarrassing refugee case—that of Professor al-Massari, who was a thorn in the side of the government of Saudi Arabia. . . . By definition, a tyranny can be removed only by extraordinary measures. Inevitably, in conditions of extreme repression, the leadership of such movements will gravitate to countries such as ours where freedom and liberty prevail. The bill will criminalize such people, even though they have not broken any law in Britain or caused any harm to the Queen’s peace in her realm. They will fall open to prosecution in this country under the Bill because they are inciting, supporting, or organizing events in distant tyrannies, which are clearly offenses under the laws of such tyrants.”

- On Nov. 17, 1997, the Gamaa al-Islamiya (Islamic Group) carried out a massacre of tourists in Luxor, Egypt, in which 62 people were killed. Since 1992, terrorist attacks by the Islamic Group have claimed at least 92 lives. Yet, the leaders of the organization have been provided with political asylum in Britain, and repeated efforts by the Egyptian government to have them extradited back to Egypt have met with stern rebuffs by Tory and Labour governments alike.

On Dec. 14, 1997, British Ambassador to Egypt David

Baltherwick was summoned by Egypt's Foreign Minister Amr Moussa and handed an official note, demanding that Britain "stop providing a safe haven to terrorists, and cooperate with Egypt to counter terrorism." In an interview with the London *Times* the same day, the Foreign Minister "called on Britain to stop the flow of money from Islamic radicals in London to terrorist groups in Egypt, and to ban preachers in British mosques calling for the assassination of foreign leaders." The *Times* added that Moussa "was outraged by reports that £2.5 million had come from exiles in Britain to the outlawed Gamaa al-Islamiya," and noted that the Egyptian government "has blamed the Luxor massacre on terrorists funded and encouraged from abroad, and identified Britain as the main center for radicals plotting assassinations."

To substantiate the charges against Britain, the Egyptian State Information Service posted a "Call to Combat Terrorism" on its official web site. The document read, in part, "Hereunder, is a list of some of the wanted masterminds of terrorism, who are currently enjoying secure and convenient asylum in some world capitals." The "wanted list" consisted of photographs and biographical data on 14 men, linked to the Luxor massacre and other earlier incidents of terrorism. The first 7 individuals listed were all, at the time, residing in London. They are:

Yasser al Sirri: "Sentenced to death in the assassination attempt on the life of former Prime Minister Dr. Atef Sidqi; founded the Media Observatory in London as mouthpiece for the New Vanguard of Conquest."

Adel Abdel Bari: "At present, heads Egyptian Human Rights Defense Office, affiliated to Media Observatory in London, the mouthpiece for the outlawed Jihad Organization."

Mustafa Hamzah: "Commander of the military branch of the outlawed 'Islamic Group.'"

Tharwat Shehata: "Sentenced to death in the assassination attempt on Dr. Atef Sidqi, former Prime Minister; associated with, and in charge of financing extremist elements abroad; involved in reactivating the outlawed 'Jihad Organization' abroad."

Osama Khalifa: "Accused no. 1 in the case involving domestic and foreign activities of the outlawed Islamic Group."

Refa Mousa.

Mohamed el Islambouli: "One of the principal leaders of the Islamic Group; sentenced to death in the case of the outlawed organization of 'Returnees from Afghanistan.'"

Groups Banned by United States Are Headquartered in London

Shortly before the Luxor massacre, on Oct. 8, 1997, the U.S. State Department, in compliance with the Anti-Terrorism Act of 1996, released a list of 30 Foreign Terrorist Organizations, banned from operating on U.S. soil.

Of the 30 groups named, six maintain headquarters in

Britain. They are: the Islamic Group (Egypt), Al-Jihad (Egypt), Hamas (Israel, Palestinian Authority), Armed Islamic Group (Algeria, France), Kurdish Workers Party (Turkey), and the Liberation Tigers of Tamil Eelam (Sri Lanka).

The Islamic Group, and its subsidiary arm, Islamic Jihad, are headquartered in London. In February 1997, the British government formally granted permission to Abel Abdel Majid and Adel Tawfiq al Sirri to establish Islamic Group fundraising and media offices in London, under the names International Bureau for the Defense of the Egyptian People and the Islamic Observatory. Abdel Majid was implicated in the October 1981 assassination of Egyptian President Anwar Sadat, and he subsequently masterminded the escape of two prisoners jailed for the assassination. In 1991, he fled to Britain and immediately was granted political asylum. He has coordinated the Islamic Group's overseas operations ever since. In fact, he was sentenced to death *in absentia* for the bombing of the Egyptian Embassy in Islamabad, Pakistan, in November 1995, in which 15 diplomats were killed.

Abdel Tawfiq al Sirri, the co-director of the movement, has also been granted political asylum in Britain, despite the fact that he was also sentenced to death *in absentia* for his part in the 1993 attempted assassination of Egyptian Prime Minister Atif Sidqi.

In September 1997, Sheikh Omar Abdel Rahman, who is in jail in the United States for his role in the Feb. 28, 1993 bombing of the World Trade Center in New York, issued an order, as the spiritual leader of the Islamic Group, calling for an immediate cease-fire. The six members of the ruling council of Islamic Group residing in Egypt endorsed the Sheikh's order, but the remaining six council member, living in London, rejected the order. Two months later, the massacre at Luxor took place.

Similarly, the Algerian Armed Islamic Group (GIA), which was responsible for the assassination of Algerian President Mohamed Boudiaf on June 29, 1992, has its international headquarters in London. Sheikh Abu Qatabda and Abu Musab communicate military orders to GIA terrorists operating in Algeria and France via the London-based party organ, *Al Ansar*. Sheikh Abu Qatabda was granted political asylum in Britain in 1992, after spending years working in Peshawar, Pakistan, with various Afghani mujahideen groups. A third London-based GIA leader, Abou Farres, oversees operations targeted against France. He was granted asylum in Britain in 1992, after he was condemned to death in Algeria for acknowledging responsibility for a bombing at Algiers airport, which killed nine people and wounded 125. Farres was believed responsible, from his base in London, for the July-September 1995 string of blind terrorist acts in France, including bombings of three Paris train and subway stations and an open-air market.

The Liberation Tigers of Tamil Eelam (LTTE), known as the "Tamil Tigers," have carried out a decade-long terror campaign against the government of Sri Lanka, in which they

have killed an estimated 130,000 people. In addition, LTTE was responsible for the suicide-bomber murder of former Indian Prime Minister Rajiv Gandhi on May 21, 1991, and the similar assassination of Sri Lankan President Ranasinghe Premadasa on May 1, 1993.

Since 1984, the LTTE International Secretariat has been located in London. The official spokesman for the Secretariat is Anton Balsingham, an Oxford University graduate and former British Foreign Office employee. The group's suicide-bomber division, the Black Tigers, which killed Rajiv Gandhi, is run by Pampan Ajith, out of LTTE London headquarters; another elite suicide-bomber cell, the Sky Tigers, which employs light aircraft, is coordinated by Dr. Maheswaran, also based in London.

Most of the marching orders for terrorist operations in the Indian subcontinent are delivered from London, via a string of LTTE publications, including *Tamil Nation* and *Hot Spring*, published in London, and *Network* and *Kalathil*, published in Surrey. The organization's chief fundraiser and banker, Lawrence Tilagar, is also based in London.

Similarly, the Islamic Resistance Movement, Hamas, maintains its publishing operations in London, including its monthly organ, *Filisteen al-Muslima*. In 1996, this publication issued a *fatwa* (religious ruling), calling for terrorist attacks against Israel. On Feb. 25 and March 3, shortly after the *fatwa* was published, Hamas suicide bombers blew up two Jerusalem buses and a Tel Aviv market, killing 55 people. Funding of these terrorists, who are part of the military wing, Izeddin al Kassam, comes from London, where Interpal is the chief money arm of the group.

In the case of the Kurdish Workers Party (PKK), the British government played an even more direct role in supporting the 17-year war against the Turkish government by the Kurdish separatists. An estimated 19,000 people have been killed in Southeast Turkey since the PKK launched its terror war in 1983. In May 1995, after the PKK was expelled from Germany for seizing control of Turkish diplomatic buildings in 18 European cities, the British government licensed MED-TV in London, through which the PKK broadcasts four hours a day into its enclaves inside Turkey, and all over Europe. In a March 1996 broadcast, PKK leader Apo Ocalan called for the execution of German Chancellor Helmut Kohl and his Foreign Minister Klaus Kinkel. And when the PKK held its founding "parliament in exile" in Belgium in 1995, three members of the British House of Lords either attended or sent personal telegrams of endorsement. The three were Lord Hylton, Lord Avebury, and Baroness Gould.

The same Lord Avebury has been an active backer of the Peru Support Group in London, which has served as a major international fundraising front for the Peruvian narco-terrorist group Shining Path (Sendero Luminoso). When Adolfo Héctor Olaechea was dispatched by Shining Path to London in July 1992, to establish the "foreign affairs bureau," he

received a letter of recognition from Buckingham Palace, which he circulated widely. The letter read in part, "The private secretary is commanded by Her Majesty Queen Elizabeth to acknowledge receipt of the letter from Mr. Olaechea, and to say that it has been passed on to the Home Office."

In addition to the 6 Foreign Terrorist Organizations which have their headquarters in Britain, an additional 16 groups on the State Department's 1997 list either receive funding from groups based in Britain, or receive military training and logistical support from groups operating freely on British soil. Those groups are: the Abu Nidal Organization (Palestinian Authority), Harkat ul-Ansar (India), Mujahideen e Khalq (Iran), Kach (Israel, Palestinian Authority), Kahane Chai (Israel, Palestinian Authority), Abu Sayyaf (Philippines), Hezbollah (Israel, Lebanon), Khmer Rouge (Cambodia), ELN (Colombia), FARC (Colombia), Shining Path (Peru), MRTA (Peru), Democratic Front for the Liberation of Palestine (Israel, Palestinian Authority), Islamic Jihad-Shaqqi (Israel, Palestinian Authority), Popular Front for the Liberation of Palestine (Israel, Palestinian Authority), PFLP-General Command (Israel, Palestinian Authority).

The 'Fatwa' Against American Targets

On Feb. 10, 1998, a group of well-known London-based "Islamists" and Islamic organizations issued a *fatwa*, calling for terrorist attacks against American targets. It was signed by Saudi terrorist supporter Mohammed Al-Massari and Omar Bakri, head of the Al-Muhajiroon, and was endorsed by 60 organizations that are based in the United Kingdom. It instructed Muslims living in the United States: "You have first to renounce the residency or acquire citizenship, then start military activities if physically capable. You are then at liberty to fight them everywhere in the world or re-enter the realm clandestinely and wreak havoc, obviously facing charges as spy, terrorist, etc."

On Feb. 23, 1998, a second *fatwa* was issued, entitled "World Islamic Front's Statement Urging Jihad Against Jews and Crusaders." It called for killing Americans because of their "occupation of the holy Arab Peninsula and Jerusalem" and their "oppressing the Muslim nations," and concluded: "in compliance with God's order, we issue the following *fatwa* to all Muslims: The ruling to kill the Americans and their allies—civilian and military—is an individual duty for every Muslim who can do it in any country in which it is possible to do it, in order to liberate the al-Aqsa Mosque and the holy Mosque [Mecca] from their grip, and in order for their armies to move out of the lands of Islam, defeated, and unable to threaten any Muslims. We—with God's help—call on every Muslim who believes in God and wishes to be rewarded to comply with God's order to kill the Americans."

The *fatwa*, which was widely reported in the London-based Arabic daily *Al Quds al Arabi*, was signed by Sheikh

Osama bin Laden, who, despite his current residence in Afghanistan, continues to maintain a lavish mansion in London; Ayman al Zawahiri, head of the Islamic Group behind the November 1997 massacre at Luxor, Egypt; Abu Yasser Rifai Ahmad Taha, another leader of the Islamic Group, residing in London; and Sheikh Mir Hamza, secretary of the Jamiat ul Ulema e, of Pakistan.

The two *fatwas* were the subject of testimony by an official of the Central Intelligence Agency on Feb. 23, 1998, before the Senate Subcommittee on Terrorism, chaired by Sen. John Kyl (R-Ariz.). At Senator Kyl's request, the CIA Counterterrorism Center provided the subcommittee with a declassified memorandum, titled "Fatwas or Religious Rulings by Militant Islamic Groups Against the United States." The memorandum stated that "a coalition of Islamic groups in London, and terrorist financier Osama bin Laden, have issued separate *fatwas*, or religious rulings, calling for attacks on U.S. persons and interests worldwide, and on those of U.S. allies. . . . Both *fatwas* call for attacks to continue until U.S. forces retreat from Saudi Arabia and Jerusalem. The *fatwa* from the groups in London also calls for attacks until sanctions on Iraq are lifted. These *fatwas* are the first from these groups that explicitly justify attacks on American civilians anywhere in the world. Both groups have hinted in the past that civilians are legitimate targets, but this is the first religious ruling sanctifying such attacks."

Two days before the Aug. 7, 1998 bombings of the U.S. embassies in Dar es Salaam, Tanzania, and Nairobi, Kenya, the Islamic Jihad issued a declaration, targetting American interests all over the world. The communiqué accused the CIA of cooperating with Egyptian officials to capture three members of the group in Albania, and extradite them to Egypt where they faced prosecution on capital offenses.

Within hours of the two bombings, a number of London-based groups issued endorsements of the bombings. Supporters of Sharia, headed by Abu Hamza Al-Misri, an Egyptian who was convicted of a capital offense in Egypt, but who enjoys political asylum in London, issued one of the most virulent "endorsements." Omar Bakri, the head of Al-Muhajiroun, as well as the Islamic Observation Center, the Islamic Jihad organization's official propaganda and fundraising organization in London, also endorsed the bombings. The Islamic Observation Center was officially licensed by the British government in 1996 to carry out activities in Britain.

Attacks on Yemen

In the third week of December 1998, a London-based terrorist group was planning to launch operations to destabilize the Republic of Yemen. Members of the Ansar Al-Sharia, directed from London by Mustafa Kamel (a.k.a. Abu Hamza Al-Masri, a British citizen and former Afghansi "mujahid," who trains groups of young people for terrorist activities at his Finsbury Mosque in north London, were arrested on Dec.

23, 1998 in Yemen, as they were planning armed terrorist operations. These terrorists were in contact with the Islamic Army of Abeen-Aden (affiliated with the London-based Egyptian Islamic Jihad), which had kidnapped 16 British and Australian tourists a few days earlier.

A rescue operation on Dec. 29 by the Yemeni security forces resulted in the kidnappers killing 3 British hostages and 1 Australian; 12 tourists were freed. British press and, later, government officials, accused the Yemeni security forces of "provoking the murders," because they refused to negotiate with the terrorists.

In response, the Yemeni authorities did not mince words. In one day, Yemen kicked out the British Scotland Yard officers who had been invited to observe the investigations, withdrew its application to join the British Commonwealth, and announced that a group of British citizens had been arrested while attempting a massive terror-bombing campaign in Aden.

On Jan. 25, Yemen President Ali Abdullah Saleh demanded from British Prime Minister Tony Blair that Abu Hamza Al-Masri be handed over for trial in Yemen on charges of carrying out terrorist acts in Yemen and several other Arab states. This was expressed in an official message Saleh sent to Blair, conveyed by the British Ambassador to Yemen, Victor Henderson. The London-based daily *Al-Hayat* reported that, according to government sources in Sanaa, Yemen's capital, the message from President Saleh stressed that the Yemeni government has the right to demand that the British government hand over Abu Hamza, and evidence and documents which prove its description of Abu Hamza as a "terrorist" and "extremist."

However, British law does not consider it a crime for individuals and groups based in Britain to plan, incite, or conduct terrorist operations outside Her Majesty's domains.

Abu Hamza's case is even more complicated, because he is not only an asylum seeker, but has British citizenship. The Yemeni request came in the context of investigations conducted by the Yemeni security authorities into the group whose members were arrested on Dec. 23, including five British citizens (one of them the son of Abu Hamza) and one French citizen, who were in possession of weapons and explosives and were said to be involved in carrying out "terrorist and destructive plans which undermine Yemen's security and stability."

The Yemeni investigations found that Abu Hamza has relations with this group, in addition to his "firm links to the Islamic Army of Aden," led by Abu Hassan al-Muhdar, who is in custody. Al-Muhdar's group carried out the kidnapping of the tourists in December 1998. The Yemeni government sources added that the message of the Yemeni President to the British Prime Minister expressed Yemen's great regret over the "terrorist activities carried out by Abu Hamza al-Masri" and others from the British territories, acts which it

said undermine Yemen's security and stability, as well as similar terrorist acts in several Arab states.

Eight days earlier, Abu Hamza called for killing Yemeni officials if the Yemeni authorities sentenced the kidnappers to death. Replying to a question from the Qatari al-Jazira satellite TV network on Jan. 14, he said: "If Zein al-Abidin al-Muhdar were to be executed, there will be revenge acts and massacres."

Abu Hamza stated in a televised debate on Jan. 18 that he had been contacted by the leader of the group that carried out the kidnapping before the rescue operation, "and asked me for advice." Abu Hamza accordingly issued a communiqué and threatened the Yemeni authorities.

The target of these operations has been the government of the Republic of Yemen itself. Abu Hamza made this clear in the televised debate, in which he said that the ultimate goal is to overthrow the secular regime in Sanaa, and that there are supporters in Yemen who are ready to fight for establishing an Islamic state. Al-Muhdar, during his trial in Yemen, confirmed that the objective of his group is to overthrow every secular government in the region.

Formal Diplomatic Protests to London

This British harboring of international terrorist groups has not gone unnoticed by the nations that have been the targets of this brutality. To date, the British Foreign Office has received formal diplomatic protests from at least ten victimized countries. These include:

Egypt: British asylum for the Islamic Group and Islamic Jihad has been a persistent reason for Egyptian complaints to the British government. In April 1996, Egyptian Interior Minister Hasan al-Alfi told the British Arabic weekly *Al-Wasat*: "All terrorists come from London. They exist in other European countries, but they start from London." On Aug. 29, the government daily *Al-Ahram* reported that the British chargé d'affaires in Cairo was summoned by the Deputy Foreign Minister, and given a letter for Foreign Minister Malcolm Rifkind, protesting Britain's "double standard policy" and "support for international terrorism." An official of the Egyptian Foreign Ministry was quoted in the paper, saying, "The asylum law in Britain has provided a safe-haven for terrorists."

Egypt has been particularly incensed that the British have allowed the Islamic Group/Islamic Jihad to use London as their home-base. Continual demands that Britain extradite Islamic Group leaders Adel Abdul Majid and Adel Tawfiq al Sirri back to Cairo, where they have been sentenced to death *in absentia* for terrorist crimes, have been rejected.

On Feb. 13, 1997, Egyptian officials told *Al-Hayat*, that the Egyptian government remains "troubled" and "astonished" by Britain's decision to allow Abdul Majid to establish officially recognized centers in London, especially after the Egyptian Supreme Court released admissions from several

members of the group, at the beginning of 1997, that they had received money and marching orders from Abdul Majid, to carry out bombings and assassinations throughout 1996.

These same officials told the paper that "this only further supports Egypt's belief that London has become the most prominent center for anti-Egypt Islamic extremist groups," and that there will continue to be talks on the highest levels "to know the reasons that made the British government allow the establishment of that [Islamic Group] office."

Following the Luxor massacre, Egyptian President Hosni Mubarak launched a personal international crusade to spotlight the role of the British government in harboring and sponsoring the terrorists who have targetted Egypt.

Israel: On March 3, 1996, after a Hamas bomb exploded in a Jerusalem market, killing a dozen people, and a second bomb exploded in Tel Aviv, Israel's ambassador to London met with Foreign Minister Rifkind to demand that Britain stop protecting the group. In an account of that confrontation, the London *Express* reported the next day: "Israeli security sources say the fanatics behind the bombings are funded and controlled through secret cells operating here. Only days before the latest terror campaign began, military chiefs in Jerusalem detailed how Islamic groups raised £7 million in donations from British organizations. The ambassador, Moshe Raviv, yesterday shared Israel's latest information about the Hamas operations. A source at the Israeli embassy said last night, 'It is not the first time we have pointed out that Islamic terrorists are in Britain.' "

The British Foreign Office officially responded to the Israeli ambassador: "We have seen no proof to support allegations that funds raised by the Hamas in the U.K. are used directly in support of terrorist acts elsewhere."

In early September 1997, Shin Bet chief Ami Ayalon travelled to Britain, according to the *Sunday Telegraph*, after investigations determined that the two Hamas suicide bombers who killed 15 people in a Jerusalem market on July 30, arrived in Israel on British passports: "Israeli officials are said to have become increasingly frustrated by what they see as British foot-dragging in curbing the activities of Palestinian hard-liners. The Israeli government has made repeated calls for action to be taken against militants, said to be operating freely in the British capital."

France: In late 1995, the GIA's London headquarters ordered a terror war against France, leading France to loudly protest to the British government, according to the Nov. 6, 1995 London *Daily Telegraph*, in an article entitled "Britain Harbours Paris Bomber." On Nov. 3, 1995, the French daily *Le Figaro* wrote, under the headline "The Providential Fog of London," of the GIA's bombing spree: "The trail of Boualem Bensaid, GIA leader in Paris, leads to Great Britain. The British capital has served as logistical and financial base for the terrorists."

The next day, *Le Parisien* reported that the author of the

The Daily Telegraph



London's open role as terrorist refuge: Ten nations made formal diplomatic protests of Britain's harboring of terrorists, and the British press acknowledged London's role. Here, an illustration from London's Daily Telegraph, Nov. 20, 1997.

GIA terror attack inside France was former Afghan mujahideen leader Abou Farres, who was given a residence visa in London, despite the fact that he was already wanted in connection with the bombing of the Algiers Airport. Farres's London-based organization, according to *Le Parisien*, recruits Islamic youth from the poor suburbs of Paris, and sends them to Afghanistan, where they are trained as terrorists.

Algeria also filed strong protests to the British Foreign Office over the harboring of the GIA in London.

Peru: The Peruvian government has made repeated requests to the British government, since 1992, demanding the extradition of Adolfo Héctor Olaechea, the London-based head of overseas operations for Shining Path, as well as the shutdown of its fundraising and support operations there. Both requests have been refused, to this day. Moreover, in 1992, during the worst of the Shining Path offensive in Peru, Channel 4, of the Independent Broadcasting Authority, a dependency of the British Home Office, coordinated with Olaechea to send two journalists to Peru, where they contacted Shining Path units, and filmed a highly favorable report. The film was broadcast throughout Britain by Channel 4 on July 10, 1992, despite an official protest from the Peruvian government.

Turkey: On Aug. 20, 1996, the Turkish government formally protested to the British government for allowing the

Kurdish Workers Party to continue its London-based MED TV broadcasts into Turkey, despite documentation that the broadcasts were being used to convey marching orders to PKK terrorists there.

Germany: The Bonn government issued a diplomatic note to London, too, following a March 1996 MED TV broadcast in which PKK leader Apo Ocalan called for the murder of German Chancellor Kohl and Foreign Minister Kinkel. According to the German press, the Interior Ministry stated concerning the London station, "We have requested our colleagues in neighboring countries in Europe to put measures into effect in order to not compromise internal security in our own country."

Libya: On Feb. 7, 1997, the Libyan Foreign Ministry submitted an official protest to the British government, over Britain's permitting of the Militant Islamic Group to operate on British soil. The letter cited the recent assassination attempt against Colonel Qaddafi by members of the London-headquartered group, and read, in part, "The decision by Britain, which is a permanent member state of the [UN] Security Council, to shelter elements of that terrorist group who are wanted to stand trial in Libya and to enable them to openly announce their destructive intentions against a UN member state, namely Libya, . . . contravenes international charges and treaties."

Nigeria: On Feb. 28, 1997, the British government issued a denial that it had refused to extradite three Nigerians suspected of a series of bombings in the major city of Lagos in January 1997. The three men were leaders of the National Democratic Coalition (Nadeco).

Yemen: In January 1999, the government of Yemen filed formal diplomatic protests with Britain for the harboring of the terrorists who carried out bombings and kidnappings.

Russia: On Nov. 14, 1999, the Russian Foreign Ministry filed a formal protest to Andrew Wood, Britain's Ambassador in Moscow, after two Russian television journalists were brutally beaten as they attempted to film a London conference, where bin Laden's International Islamic Front, Ansar as-Shariah, Al-Muhajiroon, and other Islamist groups called for a *jihād* against Russia, in retaliation for the Russian military actions in Chechnya.

One of the victims of the beating, ORT cameraman Alexandr Panov, told *Kommersant* daily that he was "very surprised at the indifference of the British government. Some of the participants at the 'charity' event were people wanted by Interpol, but Scotland Yard, although evidently aware of their residence [in Britain], does not react."

On Nov. 10, 1999, the Russian government had already filed a formal diplomatic *démarche* via the Russian Embassy in London, protesting the attacks on the Russian journalists, and also the admissions by Sheikh Omar Bakri Mohammed, the head of the "political wing" of the bin Laden organization, Al Muhajiroon, that the group was recruiting Muslims in En-

gland to go to Chechnya to fight the Russian Army. Bakri's organization operates freely from offices in the London suburb of Lee Valley, where they occupy two rooms at a local computer center, and maintain their own Internet company. Bakri has admitted that "retired" British military officers are training new recruits in Lee Valley, before they are sent off

to camps in Afghanistan or Pakistan, or are smuggled directly into Chechnya.

On Nov. 20, 1999, the *Daily Telegraph* admitted, following the release of the U.S. State Department's updated list of Foreign Terrorist Organizations, that "Britain is now an international center for Islamic militancy on a huge scale . . .

A Century of British State-Sponsored Terror

This review accompanied the January 2000 dossier as published in EIR, Jan. 21, 2000.

In 1996, *EIR*'s coverage of the genocide in Africa, orchestrated and manipulated by the British Empire with assistance from its modern-day pirates of raw materials cartels, included an excerpt from *Heart of Darkness*, the most famous work by Polish-British novelist Joseph Conrad (1857-1924) (see " 'Heart of Darkness': A Glimpse at Colonialism in Action," *EIR*, Jan. 3, 1997). Conrad's firsthand view of colonialism in Africa was based on his 1889 journey along the Congo River as master of the ship *Otago*, and is one of the most chilling indictments of colonialism that this author has ever read. It was this excerpt of *Heart of Darkness* that prompted me to look afresh at another of Conrad's books, *The Secret Agent* (New York: The Penguin Group, 1983 reprint), written in 1907 about terrorism, police agents, and imperial powers.

Conrad's powerfully written novel about political terrorism exposes the fact that *for more than 100 years*, the British have provided their territory as a haven for terrorists to plan attacks against other countries. As the accompanying dossier, delivered to U.S. Secretary of State Madeleine Albright, indicates, in the past several years, the British Crown, the Parliament, and the government have shunned requests for cooperation from 11 countries where brutal terrorist actions and mass murder have proven to have been planned in London. International pressure on Britain has led to attempts to change the laws in the British Parliament, but these efforts have been shot down in long-winded aristocratic rhetoric about Britain's tradition of providing a haven for victims of human rights violations. In Conrad's book, the central incident revolves around an international conference where the British were refusing to crack down against "political crimes." Such a conference did take place in 1898, in Milan.

The Secret Agent reminds us that terrorism is surrogate warfare, and a part of British imperial policy, which intelligence operatives call the "Great Game." Conrad focusses

his plot, however, not so much on the British use of terrorism against other imperial powers, as on the attempt by the aristocratic "First Secretary" of another country's embassy to stage a spectacular terrorist act in order to give the British a taste of their own medicine, and shake them into signing an international convention against providing a haven for "political" criminals.

The Bombing of the Royal Observatory

Conrad's story, although a work of fiction, is rooted in a real incident, the bungled bombing of the Royal Observatory in Greenwich Park, London in 1894, according to Martin Seymour-Smith, who wrote an introduction in 1984 to one Penguin edition of *The Secret Agent*. According to Seymour-Smith, the facts behind the real incident, known as the "Greenwich Bomb Outrage," were these:

"A young man called Martial Bourdin was found in Greenwich Park, on a hill near the Royal Observatory 'in a kneeling posture, terribly mutilated' on the evening of 15 February 1894. There had been an explosion; Bourdin had set it off, and in so doing had killed himself. He had blown off one of his hands, and his guts were spilling from his body; he died in hospital very soon afterwards. . . . Bourdin had a brother-in-law called H.B. Samuels, who edited an anarchist paper. Samuels was in fact, like Verloc [the main character in Conrad's book], a police agent and, again like Verloc, he accompanied his not very intelligent dupe to the park. Bourdin . . . in some way set off the explosive he was carrying, which was supplied by Samuels, acting as *agent provocateur*. . . . Anarchists were not responsible for the Greenwich Bomb incident; they were as frightened about it as they are in *The Secret Agent*."

Conrad's book captures the arrogant disdain that the oligarchy has, to this day, for the "common people." In his story, the retarded brother-in-law of the oligarchy's secret agent, Verloc, is killed in the bungled bomb incident. In grief, the victim's sister apparently dies in a suicide, after killing her police-agent husband.

Conrad wrote in 1920 that he received much criticism for writing such a "gloomy" piece, and came under suspicion as an anarchist sympathizer. No doubt, the secrets revealed in the book, even under the guise of fiction, were troublesome for the British and other countries which were facilitating terrorist acts. The tumultuous times in which

and the capital is the home to a bewildering variety of radical Islamic fundamentalist movements, many of which make no secret of their commitment to violence and terrorism to achieve their goals.”

India: In December 1999, following the conclusion of the Indian Airlines hijacking, the Indian government pro-

tested the fact that British officials publicly stated that they would allow one of the freed Kashmiri terrorists, Ahmed Omar Sheikh, to return to London, because there “were no charges filed against him in Britain.” The British government, facing growing international pressure, apparently has backed down from this decision.

the book was written included the assassinations of leaders who supported national sovereignty and republican ideas, including U.S. President William McKinley, who was gunned down by one of the British network’s anarchists in 1901.

Preparing for the 1898 Conference of Milan

In the following excerpt, at the opening, Verloc is meeting his controller, the mysterious Mr. Vladimir, who lectures him:

“You give yourself for an ‘agent provocateur.’ The proper business of an ‘agent provocateur’ is to provoke. As far as I can judge from your record kept here, you have done nothing to earn your money. . . .’

“‘Nothing!’ exclaimed Verloc, stirring not a limb. . . . ‘I have several times prevented what might have been—’

“‘. . . Don’t be absurd. The evil is already here. We don’t want prevention—we want cure. . . . Isn’t your society capable of anything else but printing this prophetic bosh. . . ? Why don’t you do something? Look here. . . . You will have to earn your money. . . . No work, no pay. . . . When you cease to be useful you shall cease to be employed. Yes. Right off. Cut short. . . . You shall be chucked. . . .’

“‘What we want is to administer a tonic to the Conference in Milan,’ he [Vladimir] said airily. ‘Its deliberations upon international action for the suppression of political crime don’t seem to get anywhere. England lags. This country is absurd with its sentimental regard for individual liberty. It’s intolerable to think that all your friends have got only to come over to—’

“‘In that way I have them all under my eye,’ Mr. Verloc interrupted, huskily.

“‘It would be much more to the point to have them all under lock and key. England must be brought into line. The imbecile bourgeoisie of this country make themselves the accomplices of the very people whose aim is to drive them out of their houses to starve in ditches. And they have the political power still, if they only had the sense to use it for their preservation. I suppose you agree that the middle classes are stupid? . . . What they want just now is a jolly good scare. This is the psychological moment to set your friends to work. I have had you called here to develop to you my idea.’



Use of terror, without regard for the innocent lives lost, was standard modus operandi for the British Empire, as Joseph Conrad documented in his 1907 novel.

“And Mr. Vladimir developed his idea from on high, with scorn and condescension, displaying at the same time an amount of ignorance . . . which filled the silent Mr. Verloc with inward consternation. . . .’

“‘A series of outrages,’ Mr. Vladimir continued, calmly, ‘executed here in this country; not only *planned* here—that would not do—they would not mind. Your friends could set half the Continent on fire without influencing the public opinion here in favour of a universal repressive legislation. They will not look outside their backyard here.’ ”

The pathetic plot to entrap British public opinion is a miserable failure. The British Home Secretary covers up the entire affair; it seems that more than one of the members of Verloc’s anarchist cell are on the payroll of the British.

Seymour-Smith reports that in the real Conference of Milan in 1898, Britain refused to give up its role as “haven for the oppressed,” continuing to serve as the planning ground for terrorism for the next 102 years.

THE LOUDOUN COUNTY REAL ESTATE BUBBLE

A Case Study in How The World Went to Hell

by L. Wolfe

Loudoun County, Virginia, was once a quiet agricultural area, dotted with family farms and expensive estates, nestled some 50 miles from Washington, D.C., and known primarily as the center of Northern Virginia's "Hunt Country." Today, most of estates and the oligarchs who inhabit them are still there, but many of the farms have given way for some of the wildest real estate speculation in the nation.

In this brief report, we shall describe this bubble, and show how the bubble and the bubble "mentality" has grabbed hold of an area, driving it insane.

The creation of this speculative bubble was deliberate, part of an effort to keep a dying and dysfunctional monetary system afloat. In the process, in this former backwater of the nation's capital, it sucked thousands of people into a speculative vortex, from which they will not emerge whole. Thus, what has happened and will happen here provides a lesson for a nation consumed by similar delusions of "easy wealth" to be made from real estate speculation.

The Shape of the Bubble

In the space of five years, since 1999, real estate valuations, as reported in official County statistics, have risen nearly threefold, from approximately \$13.3 billion to more than \$35.7 billion, and are rising by even faster rates as you read this (Figures 1-2). Most single family homes, both old and newly built, are rising, at a rate of *at least \$400 a day*, with some rising as much as \$500 or more. (These latter figures are based on "market values"—what property will fetch if sold, and figures from local realtors suggest, that these are 20% to 30% above the official County assessments. As an official in the County Assessor's office told this author, it is impossible for the County to accurately estimate the inflating values

of homes; they are rising too fast, with rates that are rising faster than any models the assessors have to work from!)

Local realtors estimate that the total market value of Loudoun properties is well above \$60 billion—an increase in five years of more than 350%. Both the County and realtors agree that the yearly rate of increase in property value is in the 25-35% for most properties.

This coheres with a staggering price inflation, especially in residential properties over this same period, 1999-2004. Since 1999, the average sale price of a home has risen from well under \$300,000, to \$379,000 in 2004. As typical of a speculative bubble, the rate of the rate of increase has accelerated in each succeeding year. By May 2005, the average sale price had risen to more than \$470,000, according to figures published by the Loudoun Board of Realtors. According to County figures, in 1999, the average price of a single-family detached home was about \$291,000; by 2004, this figure had jumped to more than \$566,000. In 1999, the price for a single-family attached home (for example, a townhouse) was \$165,000; by 2004, it was \$362,000! For a condominium unit, the average sale price in 1999 was about \$118,000; by 2004, it was \$252,000.

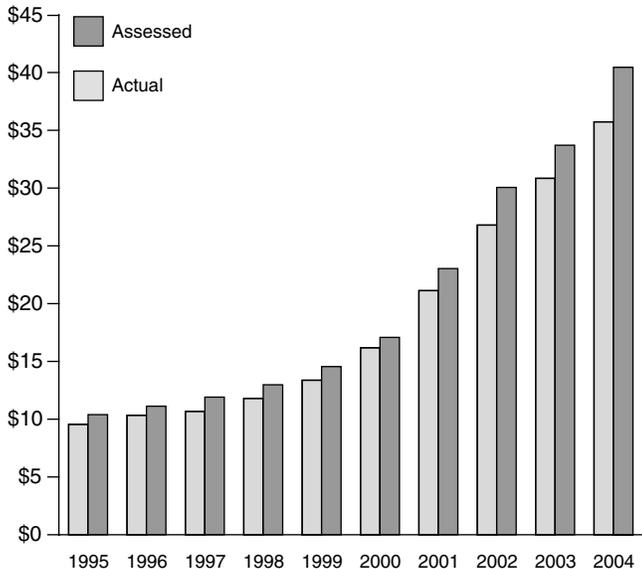
During this same period, developers have built some 23,479 units—increasing the County's housing stock from a little more than 62,000 in 2000 to more than 85,600 in 2004. While the majority of new homes are still single-family detached, the sharp rise in the prices of townhouses and condos, along with the desire of developers to maximize use and density in residential development, has led to a significant increase in the number of townhouses, relative to single-family detached.

From 2000-04, the U.S. Census Bureau estimates that

FIGURE 1

Loudoun County, Virginia, Taxable Real Estate: Assessed Value and Estimated Actual Value

(\$ Billions)



Source: Loudoun County, Virginia

approximately 70,000 people have been added to the County's population, an increase of 41%, to about 239,000. (The County's own estimates, which are based on what it considers more reliable data, are for an increase of about 60,000 people for the same period, and we have used the latter figures in our calculations.) The vast majority of this increase are new families moving here. Such figures place Loudoun as the leader in population growth rate for the nation.

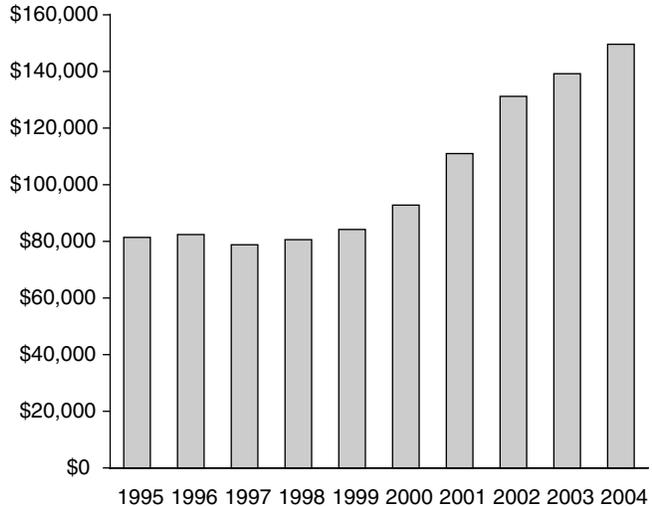
Most Loudouners now find themselves trapped inside this great real estate bubble. If you look at the County statistics, you will see that the average family (household) annual income has been rising from around \$60,000 in 1992, to more than \$80,000 in 2002, and an estimated more than \$90,000 today. But such figures are very misleading; Loudoun is home to some of the wealthiest families in the nation, whose fortunes skew such income figures. (See "The Lords of Loudoun" *EIR*, Dec. 15, 1995.) In addition, Loudoun has the highest percentage of multiple-income families (those with more than one significant wage earner) in Northern Virginia. Thus, most families make far less than the reported County average household income.

It used to be a rule of thumb that a household should spend no more than a quarter of its annual income on housing (that is, mortgage or rent, taxes, repair, utilities, and so on). Assuming the higher annual income figure, that would mean that a family should spend no more than \$20,000-22,000 on its home. According to figures from the Board of Realtors, more than three-quarters of all Loudoun properties are encumbered

FIGURE 2

Real Estate Assessed Value Per Capita, Loudoun County, Virginia

(Dollars)



Sources: U.S. Census, Loudoun County.

by mortgages of greater than 80% of their value. This means for a \$500,000 home, with a standard mortgage, at current market rates, a family would be spending between \$35,000 and \$40,000 a year on its mortgage alone! And, realtors estimate that upwards of 20% of all properties are encumbered up to 100% of their market value.

In figures prepared by *EIR*'s staff for this report, we can see that over the course of the last five years, mortgage debt per capita (as derived from County assessment figures) has been rising astronomically, from a little more than \$80,000 in 1999 to around \$150,000 in 2004, and an estimated \$170,000 in 2005. And, the rate of increase, is increasing. (Although these figures are themselves derived from estimates of mortgage debt and should not be taken literally, the trends reflected are accurate—and appalling.)

In a deregulated financial universe, there are no available figures for the total size of Loudoun's mortgage bubble. However, both local bankers and realtors say that it is conservative to estimate that for both residential and commercial property, the mortgage bubble is at least around the \$40-45 billion mark, and probably much higher.

How the Bubble Was Created

According to real estate and banking sources, the take-off point for the Loudoun real estate bubble occurred in 1999. Several factors played a role in igniting it.

1. Some time in the Fall of 1998, just after the near-blowout of the world monetary system around the collapse of the Long Term Capital Management hedge fund, a decision was made to create a national real estate bubble by dramati-

cally lowering long-term interest rates and changing the tax codes to encourage high turnover in real estate transactions. This decision was made at the “top,” by central bankers like Federal Reserve chairman Alan Greenspan, and forced down the throat of the weakened Clinton Administration.

2. The U.S. Treasury Department put through two key tax code changes: first, the limit on “gains” that were exempted from taxation in the sale of a primary or secondary residence was raised to \$500,000; second, a home could be sold as frequently as every two years (or less, under certain loopholes), without a tax impact.

3. In the case of Loudoun County, first the Clinton Administration, and then the Bush Administration funnelled contracts to IT and other firms, to create the impression of an employment boom—and to counter the effects of the collapse of the IT bubble in 2000-01.

4. Loudoun already had a large number of developable tracts in the pipeline, as result of rezonings that took place from 1996-99, in both the county at large, and in its largest town, Leesburg. When interest rates dropped, and the first new waves of buyers hit the County, these projects took off, while still more properties were opened for development. By 2001, County officials estimated that there were potentially more than 200,000 new homes in the Loudoun pipeline over the next 30 years!

5. As news spread of the great acceleration in home prices, Loudoun property began to be marketed by realtors and others as “golden”—that is, at whatever price you bought, it would experience phenomenal price appreciation. This brought in, from the region and the nation, buyers and investors, who gobbled up property almost as soon as it was put on the market.

The Home As a ‘Cash Machine’

Given the significant numbers of government workers who lived in Loudoun, the County always had a relatively high turnover rate, with people moving in and out on average every 7 to 10 years, and many moving more frequently. However, with the changes in the tax code, the turnover rate has accelerated; the average homeowner now stays in his home around two or fewer years. This change is not, in general caused by changes in employment or other economic circumstances (although this has taken place with layoffs at three of the County’s largest employers, America Online, Worldcom/MCI, and United Airlines). Instead, it is caused by the greedy desire of homeowners to “cash in” on their equity appreciation.

While a home was once properly viewed as a long-term investment, it has now become a speculative “cash machine”—the equivalent of an ATM, which through sale, owners “withdraw” huge sums.

Most homes are now purchased as short-term speculative investments, not by investors, but by the homeowners. They attempt to fully encumber the property, putting in as little cash as possible, and with little concern for equity positions.

As the home value appreciates, they add an equity line of credit, and then cash the whole thing out in two years, and move up to a larger home, where they intend to repeat the operation. It is not unusual for a homeowner, despite lack of equity, to make as much as \$200,000 above his or her original purchase price in two years or so.

Thus, the County has two swarms of greedy locusts—ones that are internally migrating, and others that coming into the “promised” land to stake their “claims.” No wonder that some realtors have taken to calling this Loudoun bubble “The Great Gold Rush.”

The majority of Loudoun mortgages are still the conventional type—fixed-rate, 30-year. But with homeowners less and less interested in the long haul and in securing equity positions, there has been a huge increase in adjustable rate mortgages (ARMs) and in the new “interest only” loans, where no equity is secured. Many realtors, bankers, and mortgage brokers see this trend as dangerous and increasing. Should interest rates spike, or should there be a sharp break in the economy, then such homeowners with their ARMs and interest-only loans could find themselves in great difficulty.

It’s All Coming Down

Lyndon LaRouche, who lives in the County, once estimated that if a crash occurs, real estate values would fall by more than 50%—and rapidly. He has pointed out that, in real terms, most of the housing is the equivalent of tarpaper shacks, held together with shrink-wrap, with a few gold-plated faucets. In other words, this housing has little intrinsic or real value, outside the insanity of the bubble. And as our figures cited above show, there is no real floor under it.

While people in the so-called real estate industry once scoffed at such arguments, now they are rightfully scared that this analysis is on the mark. All bubbles eventually collapse, and even the optimists in this crowd say that all that it would take to bring things crashing to earth would be a spike in interest rates, to around 8%, or some major economic disaster. However, they, like the homeowners in the vortex of the bubble, prefer not to dwell on such “negatives.”

How does this market implode? Well, if something stops the flood of entry-level buyers, and the pace of new sales slows down, the existing homeowners would suddenly find it difficult to sell at prices that liquidate their debt. As market values drop, they would find themselves sinking deeper into negative equity, and then panic *selling* would set in. Once that happens, the market would collapse onto itself, and soon, with people bailing out and buyers looking only for real bargain-basement prices, the whole thing would go “poof.”

Because Loudoun’s bubble is interlinked, through various mortgage and credit derivatives, to the national and international financial bubbles, a collapse in this relatively small county, with its hefty mortgage base, could have the effect of a detonating trigger on a larger, thermonuclear explosion of the whole shebang. No wonder that LaRouche has dubbed Loudoun “Ground Zero” for the entire real estate bubble!

U.S. Economy Borrows \$4.45 To Buy a Dollar

by John Hoefle

Imagine a business which buys dollar bills; it's quite successful, buying lots of dollars, more every year. The management is so proud of its success that it issues press releases touting its record revenues. The only problem, is that the business is paying more than a dollar for every dollar it buys. At last count, it was paying \$4.45 for each one. The old joke aside—about losing money on every transaction and making it up in volume—this business is going bankrupt, fast.

In this era of three-monkey accounting (hear no loss, see no loss, speak no loss), we could mean any number of corporations and banks, but we don't. We're talking about the U.S. economy as a whole. **Figure 1** shows how, despite all the hype about economic recovery, the economy has been operating further and further below breakeven. During the 1960s, the U.S. economy grew by \$491 billion, as measured by GDP. However, credit market debt, the broadest measurement of debt published by the Federal Reserve, grew by \$755 billion, yielding an increase in debt of \$1.54 for every \$1.00 increase in GDP. The economy deteriorated during the 1970s, taking

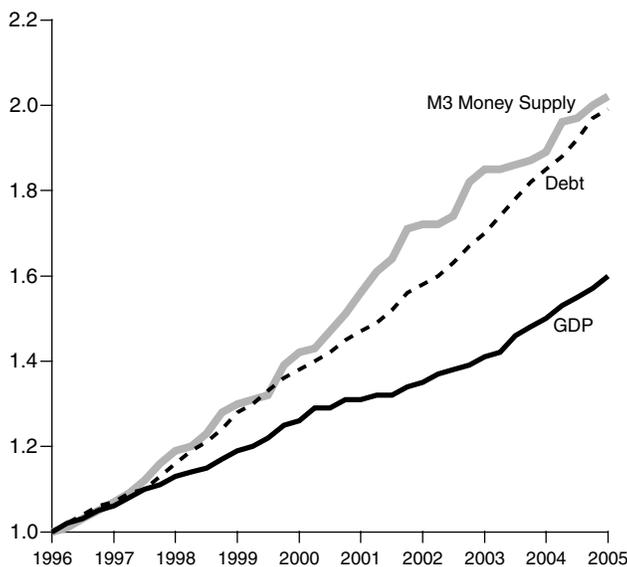
on \$1.69 in debt for every dollar of so-called economic growth, and that decline accelerated during the 1980s and 1990s. During the first five years of this decade, credit market debt grew by \$11 trillion, while GDP grew by \$2.5 trillion. That's an increase of \$4.45 in debt for every new dollar in GDP.

Figure 2 shows the relative growth of GDP and debt since 1996, with the addition of an even more disturbing factor, the growth of the money supply (M3). Lyndon LaRouche has identified the process in which money supply grows faster than debt, as a marker for hyperinflation. So, not only are we below breakeven, but we are hyperinflating our money supply to fund this disastrous process. The only thing keeping the dollar from a free-fall is the instability in the rest of the world.

The numbers we present here represent just the tip of the iceberg. The Fed's credit market debt figure understates the Federal government's debt, and completely ignores the off-balance-sheet debt created in the derivatives market. Likewise, the method by which GDP is calculated is full of fluff; we estimate that only about one-third of GDP represents productive economic activity. The U.S. economy is choking on its own debt. Federal debt is at record levels; state and local governments are issuing bonds at record levels; the current account deficit is falling through the floor; and we're creating dollars like crazy to roll it all over. Meanwhile we're gutting infrastructure, and manufacturing jobs are harder to find than truthful statements from the Bush White House. And we haven't even gotten to household and mortgage debt.

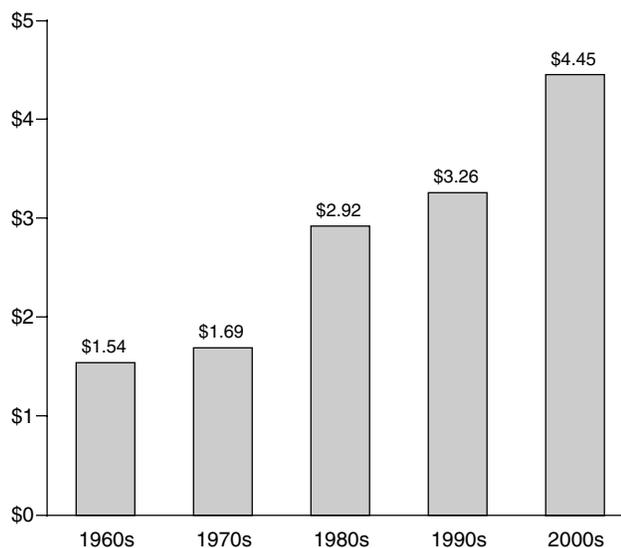
This system is finished.

FIGURE 1
Speculation and Debt Destroy U.S. Economy
(1st Quarter 1996 = 1)



Sources: Federal Reserve, Bureau of Economic Analysis.

FIGURE 2
U.S. Economy Operating Below Breakeven: Dollars of Debt for Each Dollar of GDP



Sources: Federal Reserve, *EIR*.

White House Iraq ‘Plumbers Unit’ Behind Plame Leak

by Jeffrey Steinberg

On Jan. 22, 2004, just three weeks after his appointment, independent counsel Patrick Fitzgerald issued a wide-ranging subpoena to the Bush White House, demanding telephone records from Air Force One, and all documents pertaining to the July 2003 activities of a little-known but high-powered Administration unit called the White House Iraq Group (WHIG). Fitzgerald was charged with investigating the leak by “two senior Administration officials” of the identity of CIA “non-official cover” officer Valerie Plame, the wife of former Ambassador Joseph Wilson IV. Wilson had been sent by the CIA to Niger in February 2002 on a fact-finding mission, to determine the credibility of reports that Iraq had been seeking large quantities of “yellowcake” uranium from the African state, for the purpose of building a nuclear bomb.

The “Plame Affair” now threatens to bring down the Bush-Cheney Administration, and, while recent media attention has been largely focussed on Deputy White House Chief of Staff Karl Rove, and his role in the “outing” of Valerie Plame to syndicated columnist Robert Novak in July 2003, a far more fruitful line of inquiry actually centers on the WHIG as a whole, of which Rove was a member.

The questions posed by *EIR*’s own recent expanded probe of WHIG are: Did the Bush-Cheney White House create a Nixon-style “plumbers unit” to orchestrate a campaign of disinformation to justify the invasion of Iraq? And did the unit engage in criminal leaks and other illegal and unscrupulous actions to discredit critics of the long-planned Iraq preventive war? Do those crimes reach the threshold of “high crimes and misdemeanors” spelled out in the U.S. Constitution to warrant impeachment of Vice President Dick Cheney, and even President Bush?

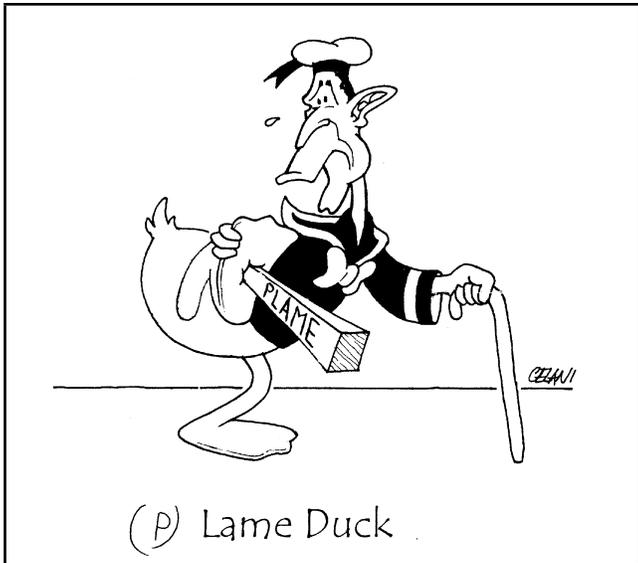
According to the original news account of WHIG, an Aug. 10, 2003 *Washington Post* exposé of faking of intelligence on the purported Iraq nuclear weapons program, the unit was established in August 2002, as a coordinating center for the

Iraq War. As *Washington Post* reporters Barton Gelman and Walter Pincus described it, “Systematic coordination began in August, when Chief of Staff Andrew H. Card, Jr. formed the White House Iraq Group, or WHIG, to set strategy for each stage of the confrontation with Baghdad. A senior official who participated in its work called it ‘an internal working group, like many formed for priority issues, to make sure each part of the White House was fulfilling its responsibilities.’ . . . The group met weekly in the Situation Room. Among the regular participants were Karl Rove, the President’s senior political advisor; communications strategists Karen Hughes, Mary Matalin, and James R. Wilkinson; legislative liaison Nicholas E. Calio; and policy advisors led by [then-National Security Advisor Condoleezza] Rice and her deputy, Stephen J. Hadley, along with I. Lewis Libby, Cheney’s chief of staff.”

According to one Capitol Hill source, WHIG was launched at a moment when the Bush Administration was hit with a series of staggering blows to its Iraq War designs. In early August 2002, Gen. Brent Scowcroft (ret.), former National Security Advisor to President George H.W. Bush, and the head of G.W.’s President’s Foreign Intelligence Advisory Board, penned an op-ed, opposing any Iraq invasion, on the grounds that it would detract from the Administration’s post-9/11 priority, the Global War on Terrorism. Scowcroft’s devastating article was followed, in rapid succession, by a similar published warning from former Bush Sr. Secretary of State James Baker III, and statements by Senate Majority Leader Trent Lott (R-Miss.) and former House Majority Leader Dick Armey (R-Tex.), opposing an Iraq war.

At that point, according to a number of Washington sources familiar with the internal White House deliberations, the decision was made that the focus of attention had to be on making the case that Saddam Hussein was on the verge of obtaining nuclear weapons.

Right on cue, on Sept. 8, 2002, *New York Times* journalists



Judith Miller and Michael Gordon published an exposé of Saddam Hussein’s purported quest to obtain aluminum tubes, to be used in a nuclear weapons program. Miller and Gordon wrote, “In the last 14 months, Iraq has sought to buy thousands of specially designed aluminum tubes, which American officials believe were intended as components of centrifuges to enrich uranium. The diameter, thickness, and other technical specifications of the aluminum tubes had persuaded American intelligence experts that they were meant for Iraq’s nuclear program.”

The Miller-Gordon article failed to take note of the fact that top experts at the Department of Energy had done an exhaustive study of the aluminum tubes the previous year, and had concluded that they were not part of a nuclear weapons program, but were components for missiles.

This was at least the second occasion, in which *Times* reporter Judith Miller had done the Administration’s bidding with an “exclusive” news story on Saddam’s quest for nuclear bombs. In late December 2001, she published an interview with Iraqi defector Adnan Ihsan Saeed al-Haideri, who purported to be a civil engineer working on Saddam’s nuclear weapons program, at the time he defected in late 2000. He claimed to have been personally involved in constructing secret military sites, where Iraq pursued nuclear, biological, and chemical weapons. Following the U.S. invasion of Iraq, it was learned that none of al-Haideri’s claims had a shred of truth.

Al-Haideri was put in contact with Miller in late December 2001 by Ahmed Chalabi, the in-exile head of the Iraqi National Congress. The interview took place in Thailand, and was part of a contractual arrangement between the INC and the Pentagon, that had been established during the early days of the Bush Administration. Under the INC’s “Information Collection Program,” Iraqi defectors were steered to the Pentagon and to a select group of journalists, like Miller, who were enthusiasts for the overthrow of Saddam Hussein.

One crucial question yet to be fully corroborated is: Was Miller’s interview with al-Haideri part of a contract between the Bush Pentagon and Benador Associates, a New York City public relations firm representing some of the leading neo-conservatives in Washington, and Miller? Several sources have confirmed that Benador did have a contract with the Pentagon, to handle public relations work for Chalabi and the INC. But so far, Pentagon public affairs spokesmen have not confirmed details of the contract, or any information corroborating that Miller’s work was part of the arrangement.

If Miller’s Sept. 8, 2002 *New York Times* article was part of the Benador “special relationship” to the Bush Administration, then there is more to the story than a mere cozy relationship between high government officials and cooperating reporters. Was Miller’s article part of the WHIG propaganda/disinformation offensive to win Congressional backing for the Iraq War? Is Miller’s refusal to appear before the Fitzgerald grand jury, even at the cost of several months in jail, related to her role with WHIG?

Wilson Accuses

Media fixation on Karl Rove has blunted another key feature of the “Plame Affair”—the role of Vice President Cheney’s chief of staff and chief national security advisor, Lewis Libby—another leading figure in the WHIG. At a press conference on Capitol Hill on July 14, Ambassador Wilson, flanked by Sen. Charles Schumer (D-N.Y.), reminded reporters that the “Get Joe Wilson and Valerie Plame” campaign was launched in March 2003, at a meeting in the Vice President’s Office, attended by Libby and other Cheney staffers. At that meeting, according to Wilson, orders went out to do “a work-up” on Wilson. “A work-up,” Wilson explained, “is an intelligence operation to find out everything that you can about Wilson and his family.”

Other sources have told *EIR* that Libby was aware of Plame’s work at the CIA, because he and the Vice President had already made a series of trips to CIA headquarters, to confront analysts on the issue of Saddam’s weapons of mass destruction quest. At the time of Libby’s visits to Langley, according to one former intelligence community official, Plame was working for WINPAC, the CIA’s weapons of mass destruction intelligence and analysis section, and Libby knew who she was.

Robert Novak freely acknowledged, in his original July 2003 column “outing” Valerie Plame, that he got her name from “two senior Administration officials.” Subsequent admissions by Rove’s attorney suggest that Rove was the second, corroborating source on Plame, suggesting strongly that the first source was either Libby or another senior figure in Cheney’s office. Under any circumstances, the fact that both Rove and Libby were active players in the WHIG task force, clearly defines the larger framework for the Fitzgerald probe, and for other now-pressing investigations into what looks more and more like a “plumbers unit,” operating out of the White House Situation Room.

Rumsfeld's Military Base Shutdowns Are Becoming a Constitutional Issue

by Carl Osgood

A political shift has been occurring from the last part of June into the early part of July, in the battle over Secretary of Defense Donald Rumsfeld's base-closing plan. That shift has moved the fight to save bases from a strategy of "begging and pleading" to save particular bases, to one of challenging the Pentagon plan on the basis of law and the U.S. Constitution.

The escalation was indicated by Sen. John Warner's (R-Va.) threat, on July 7, to file a lawsuit against the Pentagon, on the basis that the Rumsfeld plan was developed in violation of the base-closing law. Earlier, on June 28, Sen. Robert Byrd (D-W.Va.) challenged the part of the plan that shrinks the 50 states' Air National Guards, on the basis that existing statutory law forbids the Secretary of Defense from closing or changing the mission of any National Guard unit without the

concurrence of the governor of the state in which the unit resides. Byrd and Warner are two leaders of the "gang of 14," the bipartisan group of Senators who acted to sabotage Vice President Dick Cheney's "nuclear option" coup against the Senate on May 23.

Byrd cited the statutory law regarding the National Guard, in testimony to the BRAC Commission on June 28 in Charlotte, North Carolina. He also noted that the Supreme Court has ruled that the governor of a state has the power to veto certain National Guard deployments, if the mission would substantially impact that governor's ability to respond to local emergencies. He told the commission that if the Pentagon's plan to remove the eight C-130s stationed at Charleston, West Virginia were implemented, it "would have a dramatic impact

on the ability of our governor and the West Virginia National Guard to respond to local emergencies."

Byrd, emphasizing the importance of having "citizen soldiers," noted that the National Guard is not just a backup for the active duty military forces, but "it is also the militia of the United States." As such, it is needed to protect and care for the population in time of natural disasters and emergencies—this principle is in line with that which guides Lyndon LaRouche's formulation that draftees to a universal military service should learn from an Army Corps of Engineers.

Byrd said that what BRAC should be focussing on, "as directed by law," is its primary mission, which is "efficiency" in military strength and positioning. From that point of view, the West Virginia Air National Guard and its contingent of C-130s, has a "high operational readiness," and in particular, the unit is 104% manned, with a 95% retention rate, which is among the highest in the nation. Byrd also cited the "significant discrepancies" in the Penta-



DoD/Sgt. 1st Class Eric Wedeking, Air National Guard

Airmen unload relief supplies from a North Carolina Air National Guard C-130 in Wilmington, North Carolina, after Hurricane Floyd on Sept. 17, 1999. If Rumsfeld's base-closing plan goes through, the ability of many states to provide such services after a natural disaster will be severely curtailed, because it removes 80 C-130s from the Air National Guards of ten states.

FIGURE 1

Rumsfeld's Base Closings Would Take 80 C-130 Planes from 10 States



Source: Department of Defense Base Realignment and Closure Report, May, 2005

States Losing Planes And Air National Guards

Northeastern States: 44 C-130s:

- 1: **New York:** Schenectady County (4)
- 2: **New York:** Niagara Falls Air Force Reserve (8)
- 3: **Pennsylvania:** Pittsburgh Air Force Reserve (8)
- 4: **Delaware:** (8)
- 5: **Maryland:** Martin State (8)
- 6: **West Virginia:** Charleston (8)

Central States: 24 C-130s:

- 7: **Ohio:** Mansfield (8)
- 8: **Wisconsin:** Mitchell Air Reserve Station (8)
- 9: **Tennessee:** Nashville (8)

Western States: 12 C-130s:

- 10: **Idaho:** Boise (4)
- 11: **Nevada:** Reno-Tahoe (8)

gon's data regarding the facility in Charleston, which the Air Force says can handle only 8 C-130s, when the facility regularly handles 12, and has room to expand to 16. Such errors of fact are rampant throughout the BRAC analysis, as has been shown in other BRAC hearings throughout the country.

The National Guard and the Constitution

As *EIR* showed in its July 1 issue, Rumsfeld's plan attacks the tradition of the citizen-soldier—of which the National Guard is the modern expression—in favor of the development of a professional warrior caste. A standing military force, separate from the general population, is a development that the framers of the Constitution sought to avoid. Alexander Hamilton, in *Federalist No. 29*, wrote that if a “well regulated militia be the most natural defense of a free country, it ought certainly to be under the regulation and at the disposal of that body which is constituted the guardian of the national security”—in other words, the Congress. “If standing armies are dangerous to liberty,” Hamilton went on, “an efficacious power over the militia in the same body ought, as far as possible, to take away the pretext to such unfriendly institutions.”

The “militia clause” of the Constitution, in Article I, Section 8, gives Congress the authority and responsibility to provide for the organizing, arming, and disciplining of the militia. The authority to appoint officers and train the militia is reserved to the states.

Pennsylvania Gov. Ed Rendell invoked that authority on

July 11, announcing that he, a Democrat, would begin legal action, in which he is joined by Pennsylvania's two Republican Senators—Arlen Specter (R) and Rick Santorum (R)—to prevent the Pentagon from closing down the 111th Fighter Wing of the Pennsylvania Air National Guard. The 111th is based at Willow Grove Naval Air Station, just north of Philadelphia, and is also slated for closure. Rendell's suit does not challenge the BRAC law itself, but rather, according to the lawsuit, “the gist of the instant action is that the Department of Defense derogated rights granted by Congress to Governor Rendell, independent of the BRAC Act.”

Illinois Gov. Rod Blagojevich (D), though not threatening a lawsuit, did, in July 11 letters, notify both BRAC Commission chairman Anthony Principi and Secretary of Defense Rumsfeld that he was refusing to give his consent to the shutdown of the 183rd Fighter Wing, which has 15 F-16's based in Springfield. “The Department of Defense did not coordinate this recommendation with either my office or the Illinois Adjutant General,” Blagojevich wrote. “This lack of consultation compromises the integrity of the process used to develop the BRAC recommendations and disregards my role as Commander-in-Chief of the Illinois National Guard.”

So far, the only response from the Pentagon has been to say, “leave it to the courts to decide.” The Pentagon is arguing that the base-closing law supersedes other laws regarding military installations. Lt. Gen. Steven Blum told reporters on July 12, that the laws invoked by the governors,



PRNewsFoto

Pennsylvania Gov. Edward Rendell announced on July 11 that he will begin legal action, joined by his state's two Republican Senators, to prevent the Pentagon from closing down the 111th Fighter Wing of the Pennsylvania Air National Guard. Here, Rendell gives an interview at the Democratic National Convention in 2004.

and the base-closing law, are in conflict. “When you have two laws in conflict, the courts have to decide what has priority,” he reportedly said. He did admit, however, that the states were not consulted during the Pentagon’s BRAC process. “I was not involved, nor were the adjutants general involved in BRAC decisions” affecting the Air Guard, he said. Nor did he know why the Air Force excluded the states from the process.

Commission Hears From National Guard

The issue of the Air National Guard has become so hot that the commission held a separate hearing on it, in Atlanta, Georgia on June 30, just to hear from state adjutants general on the matter. All the issues of the impact on the Guard of the Air Force plan, were aired. One day later, Principi sent a letter to Rumsfeld asking, among other things, “Were the adjutants general and the governors of the states consulted in the reallocation of aircraft, personnel, facilities, and missions from their states?” Furthermore, Principi wanted to know, “What impact does the realignment of the ANG have on the homeland defense and homeland security missions?”

One recurring theme of the June 30 hearing was the dual nature of the Guard, with both a Federal and a state mission. Maj. Gen. Bruce Tuxill, the adjutant general of Maryland, told the commission that “We are a militia nation, dependent on our citizen soldiers. Americans willing to serve in the community and the nation, is our heritage, and the citizen soldier will be a critical part of our security contract.” He argued that the recommendations to close 29 flying units “increases the threat to our infrastructure by centralizing assets and negatively affecting response times to our natural and

man-made disasters.” He also noted that the Air National Guard has 100% of the air defense mission over the continental United States, and 49% of the Air Force’s airlift capacity and 45% of its air-refueling tanker support. General Tuxhill also reported the Air National Guard has flown over 30,000 sorties just since Jan. 1, 2005, in support of U.S. military operations.

According to other testimony at the June 30 hearing, the Air Force appears to regard the Air National Guard as nothing more than a support force for overseas military operations, and treated it as such in its BRAC process. Maj. Gen. Mike Haugen, the adjutant general of North Dakota, told the commission, “The Air Force focus since the Cold War has been largely offensive or expeditionary in nature, and doesn’t effectively consider state and homeland defense requirements.” One effect of this outlook was to evaluate Air National Guard bases as if active-duty bases, a process which biased the results in favor of large active-duty installations. The result was that the latter, naturally, were scored higher in military value than Air National Guard facilities, which, on average, are smaller and share runways, air traffic control, and other airport services with civilian airports.

Maj. Gen. Frank Vavala, the adjutant general of Delaware—which, like West Virginia, will lose its only flying contingent of eight C-130s—testified that the Air Force originally planned to close altogether, up to two dozen Air National Guard bases. Instead, it decided to shut down the flying missions, leaving support units in place as “enclaves,” without defining an enclave. “We believe that an enclave is nothing more than the result of a closure gone bad,” Vavala said. “BRAC data indicates that Delaware and many other enclaves were originally stamped ‘closed.’ ”



EIRNS/Stuart Lewis

Senate Armed Services Committee Chairman John Warner (R-Va.) at a regional hearing on base-closings in Arlington, Virginia, on July 7. Senator Warner threatened to file a lawsuit challenging the Pentagon’s violation of the base-closing law.

Vets Need 'Time Out' From CARES Cutbacks

by Patricia Salisbury

After surveying the wreckage of health care in his state, and around the country, Pennsylvania State Rep. Harold James (D-Philadelphia) on June 27 called for a national "time out" for all cutbacks in health-care services, and an expansion in hospitals, clinics, public health staff, and nursing homes (see *EIR*, July 8). James was addressing the tendency of public officials to fall into the trap of "adjusting" to the Bush Administration cuts in Medicaid and other health-care services, by agonizing about a nonexistent, least painful way of implementing cuts.

Around the country, although in a more limited way, veterans and others are aggressively calling the Bush Administration to account for its slashing of veterans' health care. Totally at odds with the manifest needs of veterans, the Administration is stubbornly pursuing a several years' study, CARES (Capital Asset Realignment for Enhanced Services), to develop proposals for closing or cutting back services at 18 veterans hospitals around the country.

The CARES bureaucracy is preparing to take the next step toward these cuts, with a round of hearings scheduled for September. But at Congressional hearings in late June, it was revealed that the Veterans Affairs (VA) projections of veterans' needs resulted in a \$1.5 billion budget shortfall in the current fiscal year, and this provoked unprecedented denunciations by Congressmen from both parties of Administration incompetence—or worse. Although the initial reaction of the Administration and its unfortunate representative, VA Secretary Jim Nicholson, was to deny that there is a crisis, and propose a totally inadequate supplemental budget appropriation for Fiscal 2005, by July 13, the Administration was forced to bring its budget request closer into line with what veterans' organizations, Democrats, and some Republicans have been insisting was needed.

The CARES process, which relies on the very same projections that resulted in the \$1.5 billion shortfall, now has no leg to stand on—and no reason for continuing. A prominent member of the New York City CARES Local Advisory Panel, which is charged with representing the interests of the community, reported to *EIR* that his office was deluged with e-mails from veterans immediately after the Congressional hearings. His panel has no intention, he said, of being a rubber stamp for CARES. However, it remains to be seen whether local protests against CARES will grow into a unified movement to stop it, and to raise demands for rebuilding U.S.

health-care infrastructure, with the support of willing Congressional members in both parties.

Nicholson Changes His Tune

In Waco, Texas, on July 7, VA Secretary Nicholson appeared for a tour of the VA Hospital, which is now threatened with closure, at the behest of U.S. Sen. Kay Bailey Hutchison (R) and U.S. Rep. Chet Edwards (D). Nicholson, who had been pilloried at Congressional hearings, was under enough pressure to declare that a "ramp-up" of VA health care might be required. Despite very short notice on the timing of the visit, Waco citizens came out to line the streets, organize motorcycle caravans, and demonstrate at the hospital site. They were joined by three LaRouche organizers, two of them members of the LaRouche Youth Movement, who distributed pamphlets from the LaRouche PAC, and later reported on their Waco organizing to the Internet radio "LaRouche Show" on July 9 (www.larouchepub.com).

Although the need for a ramp-up in veterans' health care may have been news to Nicholson, it was not news to veterans' leaders and service providers. The Waco hospital is the only one in the nation which has an inpatient facility for caring for veterans with Post Traumatic Stress Disorder (PTSD), and one of only ten VA hospitals with a program for rehabilitation of the blind.

Bill Mahon, one of the key organizers of the Waco demonstration, told *EIR* on July 6: "During the CARES hearing on Oct. 3, 2003, I testified, and what I told the boneheads is the information they were using for the CARES Committee was prior to Sept. 11, 2001, so that in itself invalidated any projections they had for the next 20 years. We did not know what the clown in the Presidential office for the next 20 years would do, and Bush is a prime example."

Mahon also confirmed from his personal experience that older veterans are now being driven into the VA health system by the collapse of other health-care options. "I work as a veterans' service officer," he reported, "and every day, I talk to a new World War II veteran who seeks help from the VA who hasn't asked for help for 60 years because it was a pride thing, or it was just a generation thing, the 'greatest generation' not needing help. Well, they are now coming for help. . . ."

Waco is not the only place where the CARES process is being challenged. In Los Angeles, where the West Los Angeles VA facility is under attack, the Los Angeles Board of Supervisors voted 5-0 to take legal action against the Federal government, if necessary. Supervisor Zev Yaroslavsky was quoted as saying, "What the Board has done is authorize the filing of a lawsuit, and we will be in the Federal government's face on this."

In Detroit, officials from the American Federation of Government Employees, Local 933, have protested the closing of a substance-abuse clinic at the John D. Dingell Veterans' Affairs Medical Center, a facility where those suffering from PTSD were being treated.

GOP Can't Escape Bush's Social Security Quagmire

by Paul Gallagher

House of Representatives Republican “whip” Roy Blunt of Missouri and Ways and Means Committee Chairman Bill Thomas (R-Calif.) admitted publicly on July 13, that they won't be able to try to move George W. Bush's Social Security privatization schemes in the House until at least September. The postponement doesn't mean the threat of privatization is killed, but is another step in that necessary direction. Democrats in Congress agree, that the GOP leadership's predicament is part of the widening gap opening up, across most important issues of policy, between the Congress and the lame-duck Bush White House. Indeed, it was Bush's obsessive drive to privatize and loot Social Security, on the “Chile model,” that first propelled him toward lame-duck status.

The President began his high-profile charge to grab Social Security taxes for Wall Street, with a meeting with Congressmen and a press conference on Dec. 6, 2004. Seven months later, House and Senate Republican leaders had to write off Bush's “Enron II” scheme as discredited and dead; Bush stopped holding scripted events around the country pushing it; and Republicans have been trying to find an “exit strategy” from Dubya's Social Security quagmire.

Since the “first shot”—Lyndon LaRouche's first circulation last December, of a nationwide LaRouche PAC pamphlet counterattacking Bush's privatization, seven months of nationwide debate have included nearly 1,000 town meetings on Social Security policy held by Democratic and Republican Congressmen and political groups. The American citizenry's rejection of the President's “Chile model” privatization scheme could not be more thorough. In the most recent nationwide poll, conducted by CNN on June 26-27, nearly 70% opposed Bush's privatization push. In the same week, an Oklahoma statewide poll by the *Tulsa World* gave the flavor of opposition in a recently “red,” Republican-voting state: 60% said “leave Social Security as it is,” and only 30% supported Bush's idea.

Now, according to Congressional sources, House GOP leaders Tom DeLay, Dennis Hastert, Blunt, and Senate leader Bill Frist, are looking to get out of the quagmire by a “bait-and-switch” deal in a House-Senate conference committee. Their scheme is to pass in each chamber of Congress, some bill dealing with Social Security—whatever its content—and then, in a conference committee completely dominated by the Republican leadership, “reconcile” the bills into one legislating privatization of Social Security payroll taxes. Among

many public reports “leaking” this strategy, was one in *Congress Daily* on July 8: “One source close to the White House said the limited [private] accounts create a ‘path to a House-Senate conference’ where the accounts could be expanded. ‘How many bills have been written in conference committee?’ the source said—inferring, many have been.”

Tricks Unlikely To Work

That GOP leadership strategy defies the rejection of Bush's privatization scheme by the American people, and the judgment of Congress as well. Bush, Dick Cheney, and Karl Rove are all still “totally committed” to Social Security privatization; but they are only a negative factor now. In the House and Senate GOP, there are two *competing* legislative “exit strategies” from Bush's quagmire—thus the inability to act on either one.

The fraudulent “mini-privatization” bills unveiled in late June in both Houses—which claim that they would just take the next 10 years' annual surpluses of Social Security payroll tax revenues and divide them up into little “private accounts” for 110 million or so workers, are not offering a way out. These pathetic bills are really a trick to give the 100 or so most conservative, most pro-privatization House Republicans their preferred exit strategy for the 2006 elections. The bills claim to stop the spending of Social Security surpluses on other government expenses, by putting them into private retirement accounts; but in fact, the surpluses would keep being spent on wars and other tax cuts, and Congress would “borrow the same money twice,” in the words of bill sponsor Rep. Clay Shaw (R-Fla.), to create the private accounts. The results: an additional trillion dollars of Federal debt; increasing cuts in Social Security benefits; early insolvency of the 70-year, successful program. Eight House Republicans have openly opposed this sham; Delaware Republican Mike Castle, head of a group of 61 House and Senate moderates, said on July 13, “Clearly there are not the 218 votes there now.”

In the Senate, this “privatize the surplus” fraud, known as the “GROW Act of 2005,” has even less chance. The leading Republican committee chairman on Social Security, Sen. Chuck Grassley (R-Iowa), had come close to giving up and admitting defeat on July 12. He told a Radio Iowa interviewer: “It's stalled. We're kind of in a situation where, considering the fact it's impossible to get anything through the Senate that's not bipartisan, we could be at a standstill on the issue of Social Security.”

The opposing Republican “way out”—pass a bill that appears not to privatize Social Security, or to bury privatization under measures to reduce benefits to make Social Security “solvent”—is not working either. The right-wing privatizers now won't go on record for a “solvency” bill, because of the complete failure of Bush's months-long campaign about having to cut benefits to save “bankrupt” Social Security.

So only a public Presidential agreement to drop privatization altogether, can really produce any bipartisan action—and Bush does not appear capable of understanding that.

Ohio Funding Scandal Points to Cheney-Rove

by Richard Freeman

In an escalation of the Ohio state investment fund scandal, linked to potentially illegal financing of the theft of the 2004 Presidential election, the Ohio Bureau of Workers' Compensation (OBWC) announced yet another major loss on July 7: Allegiant Asset Management (until last month, known as National City Investment Management Company), a division of the National City Bank of Columbus, had recorded a loss of \$71 million of the \$250 million of OBWC funds that it had been entrusted with managing in 2001. This brings to more than \$300 million the amount of Bureau funds that have been lost or are "unaccounted for."

These losses are part of the Ohio "pay to play" scandal, under which, starting in 1997, OBWC funds were contracted out to financial management firms. Of the fees they earned for managing, the firms skimmed off a portion into Republican Party slush funds. Under the direction of the George Shultz-Dick Cheney-Karl Rove apparatus, it appears that some of these funds financed the massive illegal voter suppression operation in Ohio during the 2004 election, through which the Bush-Cheney ticket stole the national election. E-mails that were made available the week of July 11 indicate the depth to which Cheney and Rove may be involved in this.

Bureau officials claim that \$60 million of Allegiant Asset Management's \$71 million in losses were due to "management decisions" by Allegiant. That may prove to be true, but Allegiant, which only got its contract in 2001, recorded most of its losses between 2001 and 2003. Bureau officials withdrew \$75 million from the Bureau's investment with Allegiant in April 2004, and another \$50 million in May 2005, when the scandal was heating up. This left only \$53.4 million in the Bureau's account with Allegiant.

After Allegiant demonstrated that it was incompetent in managing Bureau funds, why didn't the Bureau do the prudent thing and cancel its contract with Allegiant? In fact, it appears that the Bureau only cancelled its contract during the first week of July of this year. The answer appears to confirm how the Ohio "pay to play" operation works. Allegiant and its parent company, National City Bank, are major players. Since 1997, they have made \$938,521 in political contributions; it is estimated that more than 80% of this bank's contributions went to the Republican Party. Apparently, the fact of a poor management record was not enough to get Allegiant disqualified as a manager of Bureau funds.

New e-mails released by the Ohio Governor's office bring into stark relief another aspect of this scandal. The e-mails indicate that acting on behalf of the synarchist Shultz-Cheney faction, White House political guru Karl Rove may have begun deploying Ohio rare coin dealer and top Republican fundraiser Tom Noe as early as February 2003. This involves a critical Feb. 24, 2003 "Ohio planning meeting" at the White House to map out how to win the state for the 2004 Bush-Cheney team. Ohio's electoral votes were decisive in making Bush President.

Noe is the subject of multiple Federal and state investigations both for his inability to account for \$12 million of \$50 million of OBWC funds that he was entrusted to manage, *and* for illegally conduiting funds to Republicans so that they could contribute them to the 2004 Bush-Cheney campaign.

The Rove-Noe Apparatus

In response to requests from newspapers and from Ohio Inspector General Tom Charles, on July 6, Ohio Gov. Robert Taft (R) released 5,000 pages of e-mails to and from the office of Taft's former chief of staff, Brian Hicks, and Hicks's assistant Cherie Carroll. The e-mails document activity of Tom Noe, who was wheeling and dealing on a number of fronts. In early 2003, after Noe had learned that President Bush would host a White House photo opportunity on Feb. 24, for the national champion Ohio State University football team, Noe asked, through Governor Taft's chief of staff's office, to be allowed to attend a reception for the event. The White House agreed. At the same time, Carroll requested a tour of the White House for herself, Tom Noe, and a third person.

E-mails document that according to Noe's itinerary, on the same day as the White House football photo opportunity, Noe was scheduled to attend an "Ohio political strategy session" from 3-4:00 p.m. Included at that session were Ken Mehlman, later named the Bush-Cheney campaign manager (and now head of the Republican National Committee), and Collister "Coddy" Johnson, later named the campaign's finance director. Further, according to a Feb. 21 e-mail (from David Rachelson, then the White House's associate political director for Ohio), "likely Karl Rove will be in attendance" at the Ohio strategy session. The *Toledo Blade* and other press are striving to confirm that Rove did attend.

Within months of the Feb. 24 meeting, Noe's profile in the Bush-Cheney 2004 campaign increased. According to reports of an ongoing Federal investigation into Noe's alleged violation of Federal election law, Noe hatched a scheme to illegally conduit as much as several tens of thousands of dollars into the Bush-Cheney campaign through an Oct. 30, 2003 fundraiser in Columbus, which netted Bush \$1.4 million. Did Noe additionally deploy some of his funds in illegal off-the-books voter suppression operations? And did Rove, who was focussing a lot of energy on Ohio, and is a renowned expert in dirty tricks, deploy Noe's activity?

View From Berlin: The Coming Crash of the World System

At *EIR*'s Berlin seminar on June 28-29, Lyndon LaRouche gave a sober strategic briefing to distinguished representatives of 15 nations, on the need for revolutionary change to prevent the disintegration of the world economy. "The most immediate danger to world peace and stability," he warned, "would be the admittedly existing potentiality, that the government of the United States would refuse to take certain sudden and sweeping emergency measures, which are now in fact, absolutely necessary actions of the immediate future, if we are to prevent the entire planet from being plunged into a chain-reaction form of monetary-financial and economic breakdown crisis, by a sudden collapse in the value of the dollar-denominated assets worldwide. Largely as a result of more than three decades of a combination of a floating-exchange-rate monetary-system, the past 15 years' spread of the use of financial derivatives, and the recent WTO-led plunge into a lemming-like lunacy of globalization, the world as a whole is now more ripe for a threatened chain-reaction breakdown crisis of the world's economic, as well as monetary-financial, systems."

Throughout the two-day proceedings, LaRouche stressed the indispensable role that the United States must play—a role which was made possible by the May 23 action by a group of 14 U.S. Senators to prevent the "nuclear option" coup d'état by Vice President Dick Cheney. "Under these present conditions," LaRouche warned, "unprecedented in all modern history, unless the U.S. itself is prepared to force a return to a fixed-exchange-rate dollar-system, like that of the 1945-1963 interval, there is no possibility that any part of this planet as a whole could escape the effects of a global breakdown crisis of the present world system. The actions which the United States must take: The United States must unilaterally, but with consultation with its friends abroad, act to prevent a collapse of the U.S. dollar, a sudden collapse in the magnitude of 10-30%, which is now imminent."

LaRouche's keynote speech was published in *EIR* on July 8. On July 15, we published the speeches by Helga Zepp-LaRouche, Italian parliamentarian Mario Lettieri, Russian parliamentarian Sergei Glazyev, and Lyndon LaRouche's comments on some of the issues raised by those speakers.

This week, we continue our coverage with the contributions of three Asian participants: China's Dr. Ding Dou from the School of International Studies at Beijing University; India's Maj. Gen. Afsir Karim (ret.), currently editor of the strategic magazine *Aakrosh*; and China's Dr. Song Hong, senior research fellow at the Chinese Academy of Social Sciences, Institute of World Economics and Politics.

Their presentations gave a vivid sense of both the problems and opportunities facing their countries, as well as the Central Asian Republics. During the discussion periods that followed, LaRouche underlined sharply the fact that the current systemic economic-financial crisis cannot be analyzed by the metric of "Brand X" standard economics. In fact, he said, it is such wrong-headed economic thinking—which places the emphasis on "money" rather than on dynamic physical-economic processes—that has gotten us into the crisis in the first place. The only solution is for the United States to lead the world in creating a New Bretton Woods monetary system, which will oversee agreements among sovereign nation-states, to launch high-technology industrial and infrastructural development worldwide.

This poses most sharply, LaRouche said, the issue of leadership. "Not who is going to agree. Who is going to take the risk of leadership? I would propose that the country that is able to take leadership now, and *will* take leadership, I think—right now; I wouldn't have said it six months ago—but now: the United States. If we have the courage to dump George Bush and Cheney, the process of dumping, you will see a suddenly changed United States."

Political Economy of Renminbi Revaluation

Dr. Ding Dou is from the School of International Studies at Beijing University. He presented this paper to EIR's Berlin seminar on June 28.

A. Economic Pressure for the Renminbi's Revaluation

Since August 1994, China has maintained a steady nominal peg of its renminbi (RMB) currency against the U.S. dollar, although it claims officially that its currency exchange rate is a managed and floating one on the supply and demand of currency market. The de facto fixed exchange rate of the RMB have given a great boost to the stunningly rapid growth of the Chinese economy and Chinese trade with the U.S.A. and other developed countries.

The coercion over the RMB's revaluation comes from inside and outside China.

The dramatic growth of Chinese exports has created a great trade surplus with the U.S.A. and some other developed countries. Its trade surplus in the balance of payments is translated into the increase of China's foreign currency reserves, which as a result surge quickly. In 2001, the reserve was \$212.2 billion. At the end of 2003, it had reached \$403.3 billion. "China's has the world's second-largest foreign currency reserves after Japan, with the equivalent of nearly US\$610 billion (euro 470 billion) at the end of 2004. That rose by US\$209.9 billion (euro 161.5 billion) last year, driven in part by a surging trade surplus."¹

We should notice that, in the year 2004, the Chinese trade surplus only touched US\$20 billion, and the net capital inflow reached US\$112 billion, but foreign currency reserves increased US\$209 billion. It is an important showcase that the majority of foreign currency reserves come from capital inflow. Some part of the capital inflow is the so-called "hot money," which was kept in extremely close watch by China, and complicated the issue of RMB revaluation for the decision of Chinese government.

Under the de facto pegged exchange rate, the huge foreign currency reserves increase the base money supply, and therefore may create an inflationary tendency in the long run, and overheated bank lending in the short run. As a result, in some degree, now the Chinese government has to stand up to the macroeconomic distortion caused in large part by the exces-

sive money and bank loan growth.

China insists that its trade surplus is not the main cause of its dramatic foreign currency reserve, and makes efforts to keep its trade surplus shrinking or at a balanced level. So it looks likely that there is no excuse of trade surplus to appreciate the RMB. But some Western opinions think otherwise. That is the tit-for-tat controversy between China and some Western countries on whether RMB revaluation could be helpful to relax the trade strains between each other.

But what is the equilibrium value of the RMB exchange rate? Most scholars in the Western countries and even China itself had a tacit consensus that it is undervalued, although to varying degrees. That is why the Chinese government makes a commitment publicly that the decision mechanism of RMB exchange rate is on the track of reform.

The economic pressure for RMB revaluation also stems from the outside.

In economic growth, China is much quicker than the U.S.A., Japan, and some other developed countries. More importantly, in productivity growth, China has also outpaced them. Last year, Mckinsey & Company concluded from its research report, that China's manufacture productivity was one-fifth higher than that of some major countries in Europe, and only 8% lower than that of the U.S.A.² That is largely why China has been nicknamed "The World's Factory." The ratio of economic development between China and some Western countries has changed a lot, definitely requiring an adjustment in the ratio of their currencies. The breakdown of the fixed exchange rate of Bretton Woods system, was partly due to the catch-up of economic development in West Germany and Japan relative to the U.S.A. and Britain. In short, the aforementioned is the pressure stemming from the structural imbalance of world economic development.

Some U.S. critics complain that it is China's "manipulation of its currency" which has given Chinese firms a huge competitive advantage against American companies, and correspondingly cost thousands of American jobs. Some commentators in Japan and some other developed countries have joined the orchestra to press for RMB revaluation. The content will be explored in the following parts of this article.

B. The U.S.A.'s Politics of Pressure for Renminbi Revaluation

The RMB revaluation is now posed as a fundamental obstacle for the relationship between China and the U.S.A. Most recently in late May, senators of both parties on Capitol Hill condemned the Bush Administration's failure to ratchet up the pressure on China to reevaluate the RMB, and threatened to raise tariffs against Chinese imports within a certain time, unless the RMB gets appreciated. The protectionist anger in the U.S.A. has lasted two years. The reason is simple: Many American workers were out of jobs on the backdrop of in-

1. "China's Foreign Reserves Fall," *Forbes*, March, 11, 2005.

2. *Financial Times*, June 16, 2004.

creasing Chinese imports, which is regarded as obtaining its advantage by the valuation of the RMB. According to American statistics, the U.S.A.'s trade owed China US\$160 billion in 2004, reaching as high as 25% of the overall U.S. trade deficit of \$668.1 billion last year. China was the No. 1 source of the U.S.A.'s trade deficit. In addition, as many as 1.5 million jobs in American manufacturing industry have been replaced by Chinese imports.

There are congressional and electoral incentives in the U.S.A. to press hard for RMB revaluation. U.S. domestic manufacturers and many workers had an urge to restrain Chinese imports by on-off RMB revaluation. Some of U.S. lawmakers, who need the supporting votes of the labor unions and Chinese-imports-competitive manufacturers, would like to act with the requirement of the vested interests. The hot money, which has flowed into the Chinese capital market to bet on the fortune of RMB revaluation, also demands that U.S. politicians push for revaluing the RMB. Otherwise, their currency speculation would be defeated. When the election comes, the voice for RMB revaluation would be louder than before, because the politicians want to please their constituency. For example, in the run-up to the American presidential election last year, either Mr. George Bush or his counterpart Mr. Kerry would turn up the heat on this topic, to strive for votes. In contrast, after Mr. Bush took office once again this year, his administration eased its previous hard-line stance, and became the persuasive check on revaluing the RMB.

However, American businessmen or companies importing the cheaper Chinese goods would lose benefits from RMB revaluation. A large number of American direct investments in China have gone to the processed or assembled trade, exporting the goods processed in China to the American market. In fact, a substantial ownership of the American trade deficit to China is American itself, rather than Chinese. If the RMB appreciates, this interest group would be unhappy. Although we do not know from the media their lobbying efforts at slowing down the RMB revaluation pressure, we could not deny that they are doing something sensitive in a low-profile way.

Although American Chinese-imports-competitive firms lost benefits from the artificially lower RMB, American consumers at home were able to enjoy the benefit of cheaper imports from China. However, consumer pressure is weak and sporadic, having far fewer lobbying voices in Washington than do large Chinese-imports-competitive industries. Regardless of that, American policymakers should think twice seriously about the interests or welfare of American consumers, before they really make a substantial policy.

C. Interdependence in the Renminbi's Revaluation

On April 7, in testimony before the Capitol Hill, Treasury Secretary Snow urged the senators to let "financial diplomacy" work its course, and called the proposed amendment



EIRNS/Wolfgang Lilge

Moderator Dr. Jonathan Tennenbaum and Dr. Ding Dou at the Berlin seminar on June 28. Dr. Ding underlined that China will never accede to outside pressure to revalue its currency, but will take into account its national interests.

bill seeking to penalize China "a bad mistake"³

I think that Mr. Snow's rhetoric is right and reasonable. The issue of RMB revaluation is too complicated, involving the ramifications of interests both in China and the U.S.A.

Is the U.S.A. the real loser in U.S.A.-China trade or the trade deficit against China? On the side of China, more than \$200 billion, equivalent to about one-third of the foreign currency reserves in China, have been used to purchase U.S. treasury paper as its own official reserve currency. China ranks as the second-largest holder of U.S. debt in the world.

Now the U.S.A.'s overloaded debt burden gives its economy the nature of important reliance upon the great amount of debt purchased by foreign countries. If the RMB is forced to revalue, Chinese dollar-denominated assets would shrink greatly, causing a net benefits loss to China. However, with a stronger RMB versus the dollar, China would decrease its buying interests on U.S. bonds, and other Asian central banks would maybe follow suit. If so, the dollar would lose confidence. Less bond purchases by foreigners could cause interest rates in the U.S.A. to go higher, ultimately damaging the U.S. economy. The low interest rates and low inflation, which have supported economic prosperity in the U.S.A. for some years, would no longer exist. This issue links China and the U.S.A. tightly together, putting both countries in the position of "mutually assured destruction."

China now depends greatly upon the American market, while its exports to the U.S.A. reaches as astonishingly high as above one-tenth of the value of its GDP. In 2004, the export tax refund in China was about RMB 420 billion, constituting

3. News from International Information Programs, usinfo.state.gov/eap/archive/2005/apr/07-353487.html.

3% of its GDP, with some part of it going to subsidize the welfare of American consumers. It looks likely that the American good life also depends upon the Chinese contribution, although China is now a developing country and the life of its ordinary people lags behind the U.S.A. very much.

If the RMB is forced to appreciate and Chinese imports into the U.S.A. decline, the U.S. trade deficit would not decline correspondingly, because it is far more likely that the U.S.A. would import from other low-wage countries to replace the Chinese goods. American economic obsession comes from its structural imbalance, with 70% of its GDP deriving from the intangible service industry. So it is destined that the U.S.A. must import tangible manufactured goods from other countries. To cut off its trade deficit is naturally impossible, at least in the short term. So the mutual benefits of U.S.A.-China trade also connect the two sides together, to the degree that one cannot live well without the other.

The aforementioned interdependence between China and the U.S.A. has progressed crucially to such a sensitive and fragile level, that both sides look cautiously at RMB revaluation, because they both are afraid of the too high costs of non-cooperation or even sanctions. Financial diplomacy, mentioned by Mr. Snow, other than governmental interference in the marketplace, might be the optimal option to create a peace lobby. Gradual and peaceful negotiations could adjust and compromise the interests of both sides to the accepted level.

D. The Chinese Politics of Safeguarding the Renminbi

In the simple economic sense, by China itself, the RMB had the pressure or even requirement of revaluation. But in the broader sense of political economy or simple politics in China, RMB's peg versus the U.S. dollar should be maintained.

The political incentives in China to safeguard the de facto fixed exchange rate of the RMB, consist of social confidence, social stability, the Communist Party's sovereign image, and some others. These political elements are vital interests to the rule of the Chinese Communist Party, or even to the nation of China itself. It has been in large part impossible to separate the interests of Chinese Communist Party and those of China as a nation, although many Western analysts like to do so.

The RMB's peg against the dollar since 1994, has laid a fundamental anchor for prices and all kinds of transactions, and furthermore has stimulated rapid economic growth and prosperity. Therefore, a highly stable exchange rate of the RMB has created the accustomed environment of ordinary people's confidence in their government and Communist Party. Confidence produces clear prediction, and clear prediction produces clear signals of macro-economic and micro-economic adjustment in China. Some economists even argue that the RMB's peg makes it look like a simulation of the Bretton Woods system for China's foreign currency operations. Robert Mundell, the Nobel Laureate in Economics in

1999, clarified that "there was no reason for China to change its much-criticized currency peg to the U.S.D. China has had an anchor for over 10 years, and it is a winning strategy."⁴

Social confidence or stable predication is fundamental for the economy in transition, whose society and economic structure is on the fast track of change, causing many complaints and even social unrest. Although China has obtained admired economic growth, it is now full of many headaches, such as the enlarging gaps between the haves and have-nots, the coastal region and the hinterland, the urban city and the remote countryside. Indeed, discontents among many social groups are simmering. The economic reflection of the discontent, is the large existence of the lion's share of an underground economy in China, especially in the hinterland and the countryside.

The social psychology in China looks fragile and sensitive, lacking trust and faith among the people. The 56-year-long authority of the Communist Party is the most important element to decrease the crisis of a lack of faith, even though it sometimes is the target of social discontent. Stable prices, such as the stable foreign price of the RMB against U.S. dollar, are no doubt helpful to the stabilization of predication in China. If the RMB became volatile in a relatively large band, the predication of all kinds of transactions would be damaged. For example, the underground bank system would become highly prosperous.

The Chinese Communist Party knows the great importance of social confidence very well. During the Asian financial crisis in 1997, while speculation about the RMB's depreciation was fashionable around the world, Chinese Premier Zhu Rongji made a public commitment on the scene, of turning up his thumb to show that the Chinese RMB absolutely would not depreciate. In the objective sense, it was helpful to contain the contagion of Asian crisis, highlighting China's contribution to the world. But primarily, it serves Chinese national interests first.

Social stability is another political incentive to the insistence over the RMB peg. For the time being in China, the destructive elements for social stability are the high unemployment rate and high non-performing loans.

If the RMB appreciates now, Chinese exports would be in a catastrophe. Like some other Asian countries, the Chinese economy is export-led, and the stable exchange rate is part and parcel of this development model. The index of Chinese foreign trade dependence reached astonishingly as high as 60% versus its GDP. The RMB could go to revaluation in one night, but the long-lasting export structure could definitely not be adjusted overnight. In addition, Chinese import-competitive industry would be damaged heavily. The RMB's revaluation would stimulate greatly the imports of foreign goods, causing the decline of domestic industry which com-

4. Interview with Robert Mundell "China Should Keep Currency Peg," *China Daily*, March 6, 2005.

petes with foreign counterparts.

The downfall of both the export industry and import-competitive industry would cost numerous jobs in China. The majority of the export industry in China is labor-intensive manufacture, such the textile industry, absorbing a great number of laborers. And most of import-competitive industries in China are low-end service-oriented, offering many semi-skilled jobs.

Since the mid-1990s, the unemployment rate in China has been increasing. The registered unemployment rate in cities and towns in China is given as 3.5% or so by Chinese official bureaus. If the unemployment in the countryside is included, some economists estimate the jobless rate hits as high as 10% or so, and some of the jobless are long-term. It is not surprising that new graduates from universities cannot find work, but the scene would have been very hard to imagine only ten years ago.

Another explosive problem facing China is the high non-performing loans in banking and securities industries. Meanwhile, the savings rate in China has begun to have a tendency to decline. The Chief of the Chinese Central Bank, Dai Xianglong, confessed once that the non-performing-loan rate in Chinese state-run banks had reached 12%. Some economists estimate that it is indeed much higher. The weak banking system in China cannot afford the risk of opening up the capital accounts. If the RMB appreciates and floats in a relaxed band, the next problem immediately is the opening of the Chinese capital account, which the Chinese government is very much afraid of. The precedents of the Asian crisis, the Mexico crisis, etc., provide ammunition for keeping distance from the opening of the capital account.

The third political incentive to defend the RMB peg is the Communist Party's sovereign image among Chinese people. As long as the Chinese Communist Party maintains its sovereignty against foreign countries, it can keep its unchallenged authority among domestic people. Threatening China over its currency is nothing more than being counterproductive. Neither America's Capitol Hill nor Japanese government officials can coerce the Chinese government to do what they would like to see. Otherwise, the ordinary people in China could have the justification to sneer at their government.

On May 17 of this year, Chinese incumbent Premier Wen Jiabao told the delegation of the American Chamber of Commerce, that China will never succumb to foreign pressure on the RMB issue, and any kind of pressure or politicalization of economic problems would be ineffective in the settlement of problems.⁵

In a general sense, on any fundamental decision-making, government is inclined to risk-avoidance, rather than risk-loving or risk-neutrality. Of course, the Chinese government is no exception on this front. If the RMB maintains its peg versus the dollar, the risk for China is the potential inflation,

5. *China Daily*, May 17, 2005.

due to increasing the base money supply. However, if the RMB appreciates, the risk for China is multifold and more plagued, from the erosion of social confidence, increased unemployment rate, higher non-performing loans, to the eclipse of the Communist Party's image.

Of course, the Chinese government may choose an appropriate timing to revalue the RMB. Nobody knows when and in what forms. After all, Chinese national interests have been integrated into the world, so the Chinese government has to weigh the affection and interests of other countries. How to balance them? It needs time, patience, and more importantly, concrete steps to prepare for that.

Maj. Gen. Afsir Karim (ret.)

An Indian Perspective On Central Asia

General Karim is the editor of the Indian strategic magazine Aakrosh, and was formerly the editor of the Indian Defence Review. He was a member of India's National Security Advisory Board (1999-2001), and was awarded the AVSM award for valor by the Indian government for his military service.

The geopolitical importance of Central Asia needs no elaboration. The location of the region, forming a bridge between Europe and Southern Asia, is well known, but in various periods its importance has varied with the changing international security environments. Before oil became an important ingredient of strategic conflicts, Central Asia, as currently defined, remained by and large a peaceful region. The republics of Central Asia have yet to settle down politically and decide what their future course should be: Whether they will gravitate towards resurgent or moderate Islam, or follow the Western democratic pattern in the long run, is yet to be seen. The turmoil in Afghanistan had a major impact on this region, with ominous threats of Islamic fundamentalists still looming on the horizon.

The advent of U.S. forces in Afghanistan, withdrawal of the Soviet troops from this region, and the Chinese attempts to extend their influence in the region, started a new Great Game, in which several European and Asian powers, along with a new shadowy player, in the garb of resurgent Islam, have become actively involved. However, much depends on how we look at this game, and to which side of the geographic, political, ethno-religious divide we belong. The five countries that now constitute Central Asian Republics were, however, never given a chance to choose their future course or status

in the wake of the post-9/11 developments that brought American troops into the region. Since geography cannot be changed by world events, Russia will continue to breathe down their necks because of its permanent geopolitical interest in this area—which Russia calls “The Near Abroad.” Chinese influence will grow in the region, because of its economic thrust and geographic proximity.

Geography and ecology combine to make this region an immensely rich and attractive area to outsiders. Being hopelessly land-locked, Central Asia needs safe outlets of its gas, petroleum, and other mineral resources, and this makes it prone to coercion, not only by its two giant Asian neighbors, but also by the sole superpower, which has tremendous stakes in this oil-rich region, besides the requirement of containing Russian and Chinese influence and combatting Islamic fundamentalism. Americans would do almost everything possible to dominate this strategic region, as it is the only possible alternative to Middle East oil. Uzbekistan serves as one of the important bases for the U.S.-led coalition forces operating in Afghanistan. The United States has a large-size supply base and an important air base in Tashkent. A U.S. official in Washington is reported to have said that unrest in Uzbekistan could seriously undermine Operation Enduring Freedom, because “Tashkent is its lifeline.”



EIRNS/William Salisbury
Maj. Gen. Afsir Karim (ret.)

Obstacles to Regional Cooperation

Central Asia cannot be considered a region that is united in its political or economic goals, and all the countries of the region are unlikely to follow a common program. The sharing of dwindling water resources is a factor which may keep the area in constant turmoil, independent of the imperial designs or big power rivalry.

Central Asia can no longer be considered a geopolitical entity without including Afghanistan as a part of this region. The Central Asian region actually requires to be redefined, because of widespread ethnic, religious, and linguistic overlaps. However, neither China nor Russia would like an attempt at redefining Central Asia, which may intrude into Xinjiang or the Caucasus.

The one clear and present danger is Islamization, which recognizes no political boundaries. Regional ties may stabilize if common economic goals are defined and accepted, but the radical Muslim groups would not allow the area to stabilize only to benefit America and the Western world.

The vast energy resources of the underdeveloped countries of Central Asia will remain the main interest of outside powers, but external interference is likely to lead to regional conflicts, which may ultimately take the shape of smoulder-

ing, low-intensity conflicts. A profile of Central Asian countries shows a diverse yet integrated region, which faces various political and economic problems common to all countries of the region.

These problems have been greatly aggravated by the new Great Game being played in the region. It is necessary to focus on non-state players originating from the advent and destruction of al-Qaeda in Afghanistan, compounded by the American invasion of Iraq. The Islamic forces which have remained subdued since the American invasion of Afghanistan have now formed new terrorist groups of different varieties, without a central organization or definite goal, except the desire to hit at America and its allies. Nongovernment religious institutions, which have been increasing in Uzbekistan since the 1980s, are gradually transforming themselves into radical socio-political institutions preaching *Jihad*. The position is however not identical in all the states of the region.

Currently, most countries of the region have become a transit route for crime syndicates, weapons- and drug-traffickers who work in collaboration with several radical Islamist groups spawned by al-Qaeda.

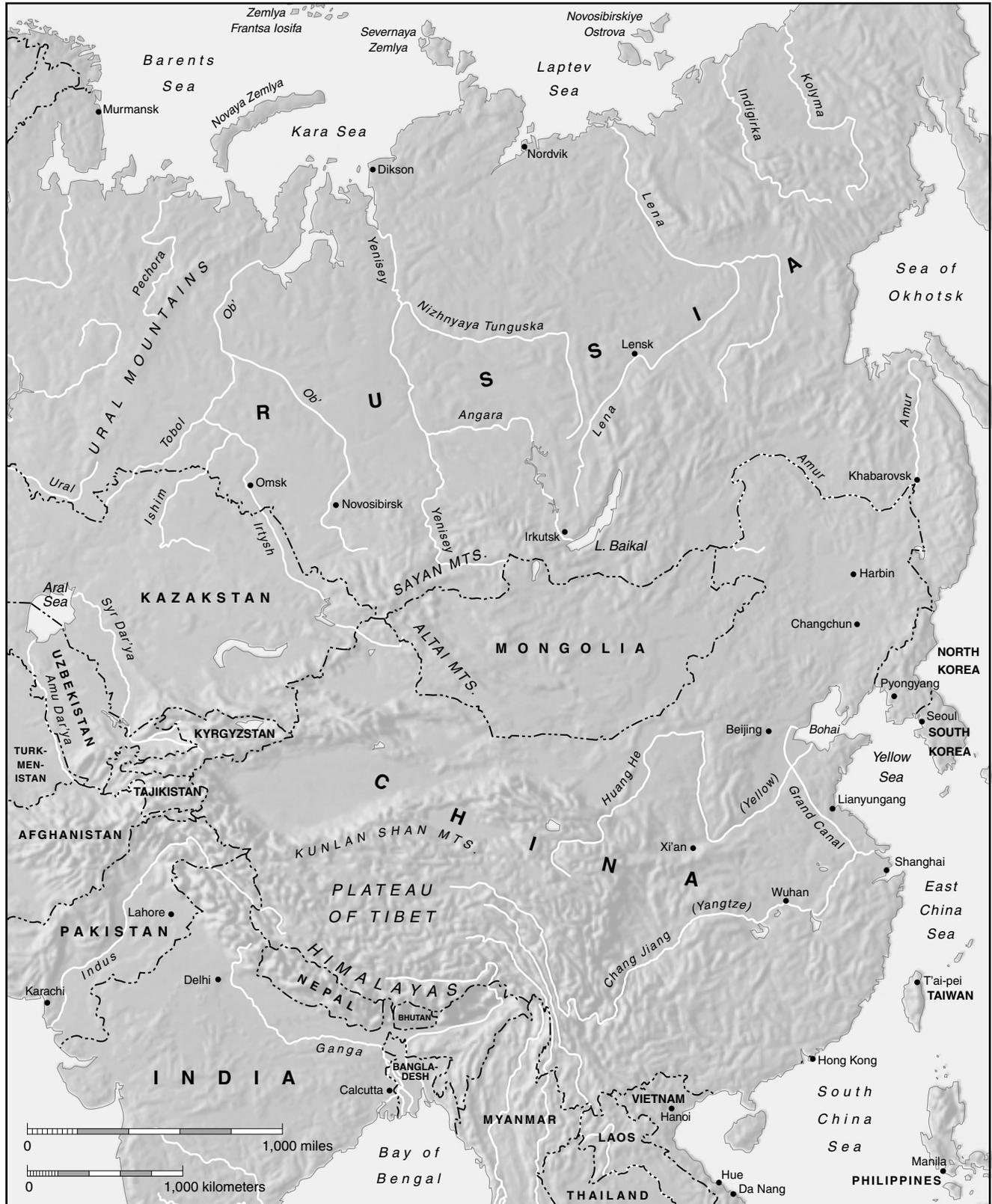
The uncertain conditions prevailing in the region, along with the lack of cohesion among various countries, has led to political and social unrest and rapid collapse of the trade and commerce systems. Lack of governance, corruption, a near-collapse of the administrative system, have added to the chaos. The civil war in Tajikistan and socioeconomic problems of Uzbekistan were the first direct manifestation of these conditions. Large poverty-stricken masses and rich elites which ruled the roost are creating irreversible stratification of the society. The legacy of unsettled territorial claims of various countries arising out of ethnic overlap and absence of well-defined boundaries, has greatly vitiated the security environment. The gradual drying up of the Aral Sea and Balkash Lake on the one hand, and flooding caused by the rising waters of the Caspian Sea on the other, have created a new set of serious ecological and socio-economic problems. These ecological problems, which are peculiar to this area, are a cause of constant friction between various Central Asian states.

Overpopulation in some countries, along with the shortage of agricultural land, have created large groups of rootless, unemployed youth who are highly prone to crime and violence. The influx of refugees from Afghanistan, who still move around across several international boundaries, provides raw material for terrorist organizations. The rise of Islamic opposition groups was perhaps the earliest sign of emergence of radical Islam in Central Asia. The current turmoil in Uzbekistan and Kyrgyzstan are signposts of a turbulent future.

The Threat of Radical Islam

The origin and activity of political movements under Islamic forces and their collusion with the opposition parties

FIGURE 1
Central and Eastern Asia



have become an integral part of the Islamists' tactics to create disorder. In Uzbekistan, geographical and political factors combine to enlarge this pattern. The demographic composition in the western and northwestern parts of Uzbekistan, which is generally heterogeneous, makes these areas prone to violence, while other regions, where the people have traditionally followed the moderate version of the Islamic ethos, still do not allow use of religion for political purposes. The higher level of education in urban centers encourages a moderate form of Islam. In Tashkent, Bukhara, and Samarkand, which have been great centers of Islamic culture and where moderate Islamic norms are strong, there is little chance of radical Islamic ideas taking root.

The troubled area of the Ferghana Valley is separated from main areas of Uzbekistan by high mountain ranges; the people of the valley have better connectivity with the Tajik and Kyrgyz people, compared to the people of Uzbekistan. This geographical divide is perhaps the main reason for poor development and lack of social and economic cohesion in this area, creating a favorable environment for growth of Islamic fundamentalism. During the Soviet regime too, people of the Ferghana Valley were considered less loyal than those of other parts of Uzbekistan.

For the last two decades, unauthorized religious schools have been proliferating in this valley. As the control by central authorities is weak, a number of these institutions have developed links with foreign radical Muslim organizations, especially with the Wahabi groups. The Wahabi influence has changed the traditional moderate Islamic mindset of the valley into a radical one. By the 1990s, educational centers were transformed into radical political institutions, and the traditional al-Hanafiya religious schools lost out to the radical Sunni al-Hanbali *mazhabi* (religious schools). The aim of various underground educational centers in the Ferghana Valley is to change the existing justice system to conform with the system that prevailed during the period of the Four (rightly guided) Khalifas of Islam. They advocated common property rights and total control of Shariat Laws over the lives of all citizens; in this commonality of views lay the reasons for their support of the Taliban regime.

In 1991, Islamic groups in some urban centers joined together to form the Adolat ("Justice" movement). Members of the Adolat roamed the streets and markets and arrested all people who disregarded the dictates of the radical religious leaders.

In December that year a huge gathering of the Adolat at Namangan demanded the declaration of Islam as the state religion, and transfer of several government buildings for the use of the Adolat movement. These demands rang alarm bells in government circles, ethnic minorities, intellectuals, and officially appointed religious leaders, who now faced aggressive competition. Adolat was banned soon by the government of Uzbekistan. One of the leading lights of Adolat was Tohir Yuldashev, who became an important leader of the "Islamic Movement of Uzbekistan."

FIGURE 2
Insurgents' Destination: The Ferghana Valley



According to the Uzbekistan Ministry of Foreign Affairs, more than 400 militants from Uzbekistan and Tajikistan had received training in special camps in Pakistan in the eighties. It was the terrorists trained in Pakistan who killed the deputy head of the local administration and several officers of the law-enforcement bodies in Namangan in 1997. According to reports, several young men from Namangan underwent military training in a school called Jurna al-Sanifia in Islamabad, and a school called Taban in the city of Mardan near Peshawar in Pakistan. We hope such activities are now no longer allowed in Pakistan. According to Islamic laws, the use of schools as arms-training centers is a sacrilege, but these laws are ignored by the radical groups.

Hizb-ul-Tahrir is a prominent radical organization; it has a pyramidal structure and is highly secretive in nature. Another radical group, called Akromid, after its leader Akrom Yuldashev, demands an equal share in land for the entire population; this a popular demand as the majority of people are poor and unemployed in the Ferghana Valley.

Concluding Observations

The current situation in Central Asia can only be stabilized by joint endeavor of America, Russia, and China, of which there is little possibility. The United States is unlikely to forgo its strategic advantages, Russia wants to continue its political and economic domination of the area, and China is making a bid to spread its influence by making a vigorous commercial thrust in this area. Pakistan and India, though rivals, have a common interest in unlocking the gas and petroleum resources for their benefit. The role of Iran has to be watched carefully, as Iran wields considerable influence on several areas of Central Asia because of linguistic and ethnic affinities.

Regional integration rather than a transnational frame-

work should be allowed to evolve in the region, as they require a common economic approach for the development of oil and gas resources. Tajikistan and Kyrgyzstan can complement each other in building a strong economic base in the region.

- The international community should help in the process, and the United States, Russia, and China should stop looking at it as an arena of strategic competition; given the present security environment and aggressive U.S. policies, cooperation between big powers is unlikely.

- Islamic resurgence is still subdued here, but backing of dictatorship for the sake of maintaining military bases can give a fillip to radical Islamic movements. The sudden outburst of violence in the Ferghana Valley and the ruthless suppressive measure taken by Uzbek authorities is one manifestation of the lurking dangers.

- If the situation in Afghanistan stabilizes and radical elements are either sidelined or defeated, one can hope for a peaceful and prosperous Central Asian region to emerge.

Lyndon H. LaRouche, Jr.

Economic Foundations of A Peace of Westphalia

Lyndon LaRouche made these remarks on June 28, during the discussion following the presentations of Dr. Sergei Glazyev of Russia [published in last week's EIR], Dr. Ding Dou of China, and Gen. Assir Karim of India.

I'd say this, that some things were overlooked in the discussion and they should be raised: First of all, we have to look at the composition of consumption and the composition of production. In those terms that you can not compare the present economies in terms of money volumes, or currency valuations at present, because they don't mean anything. And they're about to become totally meaningless.

For example, as I mentioned in my principal remarks, the case of the 70% factor¹ in composition of economy—social composition of economy, in China and India, which are the big vulnerabilities. You have comparable, or worse situations in the rest of Asia. So that, you can not price—the price of goods, the price of a commodity is not meaningful, because the present prices are based on an overvaluation of the performance of the economy, by the lack of performance in meeting

1. LaRouche stressed in his keynote speech that 70% or more of the population of these countries lives in extreme poverty. See *EIR*, July 8.

the requirements of the population of the economy as a whole. If 70% of your population is living at grossly substandard, unimprovable conditions, don't say that the economy of the remaining 30% is a good performer.

Now, we have the same thing in the United States, in a different way. We have destroyed our infrastructural composition, which should be 50%, at least, of our total national product, should be invested in basic economic infrastructure. We have not invested in basic economic infrastructure *for over 30 years!* Our infrastructure, which has a general average physical life of 25-30 years, is now at the terminal stage *of its physical life!* Power production, water-management systems, so forth—they're collapsing; our health-care systems are collapsing. The value of the dollar was premised on the total composition of the dollar, in terms of what it was spent for. Which included infrastructure, which we haven't spent for in the past 30 years. Hmm!

You find a similar situation in Europe: Look at health care in Europe; look at housing in Europe; look at net purchasing power of a standard of living in Europe. How many Germans are unemployed? And the unemployment of Germans is *a cost of production!* Which is not being paid! You've got to employ 10 million Germans, before you can bring the German economy back into balance. The euro or mark don't mean a damned thing, until you get 10 million or more Germans profitably employed.

It doesn't mean a damned thing, unless the people, the 70% whose needs are not being met in Asia—or more, in many countries—unless those needs are taken into account to bring them up to standard, then your currency is overvalued.

Now, what we're going to have to do, is this: We're going to have to think in terms of the future of what *the standards of cost must be, of maintaining a national economy with an acceptable rate of improvement and growth in the economy.* This is the problem that confronts India; which China has expressed its concern about—it's much more concerned, actively, on this thing, and therefore China has the leading position, because of its concern about the development of infrastructure for the Chinese population of the coming two generations. And the future of China, and the value of China today, depends upon what China will be two generations from now. The cost of reaching that level in two generations, in a reasonable rate in China, is the cost of production.

We have in Russia, you have a similar thing.

The Issue Is Leadership

But, look on the other side, what's the general solution for this whole business? The solution is *leadership*. Not who is going to agree. Who is going to take the risk of leadership? I would propose that the country that is able to take leadership now, and *will* take leadership, I think—right now; I wouldn't have said it six months ago—but now: the United States. If we have the courage to dump George Bush and

Cheney, the process of dumping, you will see a suddenly-changed United States.

At that point, we will adopt a standard—because this is what I’m working on, this is what the questions are that I’m getting from members of the Senate and similar sources—these kinds of questions. Under those conditions, we will think about new methods of international cooperation. We will go for the greatest expansion of infrastructure in U.S. history. We have the unemployed with which to do it. We have the *needs* for it. We will push Europe, a reluctant Europe, into doing the same thing.

We will then, at the same time, set up a network of cooperation, on science and technology, with a group of countries. We will have to work out conferences, which are not negotiating this and negotiating that: We’re going to have to negotiate in a positive way, on positive objectives of technology. We have certain technology in the United States, which we still have, which is unique. Russia has certain technology, largely concentrated among people who are over 70 years of age. Who are very valuable people, and they *do* have things, as I mentioned this Vernadsky problem: *Russia has a potential in Asia, which no other country in Eurasia has*, for understanding how to approach infrastructure. It’s essential. Russia’s identity in the future, will be associated with science, the name of Vernadsky, and what that represents. They’ll be a contribution to every part of Eurasia and the world at large.

Transform the Planet

We will take the best technology available, in terms of scientific development, in each of the countries, and make a package of these potentialities. We will then say, “This is the standard we want to reach.” In other words, not negotiate, in the usual Hobbesian way. But think about the future of humanity, go back to the Treaty of Westphalia, 1648: The principle of the advantage of the other nation, must be the commitment of each nation and each people. Only in that way, can we achieve what we must achieve. And the time has come, when warfare is what it is now, that *you must do that that! We can not afford more wars! We have to do the things that prevent them.*

Therefore, we have to have a standard of technology, where we set certain standards, jointly, by discussion of what our potentials are, for the needs and capabilities of scientific and related development of humanity as a whole. We have to set a standard, for the development of a standard of living, of the average person and their future, for the future. We have to think in terms of two generations.

I’m convinced, that, on that basis, knowing the factor of scientific progress, that with *science-driver programs*—not average production programs, science-driver programs—we can transform the planet. With water projects, with all other kinds of things. We are not even *thinking*—even in our discussions today—we are not even *thinking* of what the possibilit-



EIRNS/Wolfgang Lillge

Lyndon LaRouche with moderator Michael Liebig. LaRouche said that unless you take into account the needs of the 70% of the people in many Asian countries whose needs are not being met, to bring them up to standard, “then your currency is overvalued.”

ies are, the positive possibilities for transforming this planet. We have to think in terms of Westphalia, the principle of the common good, the general welfare: We have to think about *new dimensions of cooperation*. We have to think *scientifically* about economy. We have to say, “We can not *accept* the condition of the people of Africa. We can not the condition of the poor in Asia. This must be changed. We must set a *standard*, a world standard. And we must find out how to cooperate *as sovereign nation-states*, to put our abilities together to get that result.”

On that basis, we will *fix* the value of currencies, accordingly. We will *fix* credit accordingly. We will never pay the debts for financial debts on speculation, financial derivatives. All the debt related to financial derivatives, to speculation, must simply be cancelled as a part of general bankruptcy. Honest debt, where somebody has paid actually for something they have received directly, that’s an honest debt. All other kinds of debt, forget it! It’s a general bankruptcy, and the last debt never gets paid—and the last is going to be the person in the derivatives line.

So, we just can wipe out most of these financial problems, by saying, “We’re never going to pay them anyway. These debts are cancelled. And debts of countries that can’t afford to pay, or never could, their debts are cancelled, too.”

And then, we come up with a standard. But the standard has to be the sense of the *composition of consumption* required for a decent standard of living, assured over the coming two generations, for every part of this planet. Hmm? Then the technology of meeting this demand, by pooling scientific technologies, scientific progress, in a way that, in two gen-

erations, we can say, "We will meet that standard within two generations."

Get Rid of Bush and Cheney

The other thing—the leadership: My United States, we can hope, that we will get rid of Bush, get rid of Cheney; get rid of the neo-conservatives; get rid of the Mont Pelerin Society freaks in every part of the world, including Germany—including from the *Frankfurter Allgemeine Zeitung*, where there's a big nest of these creatures. And we will proceed. We will proceed. And we can make this world a better world.

But, we should not let the obstacles get in our way. The biggest obstacles we have, are the fact of our lack of imagination, our lack of accepting challenges, our compromising [interrupted by applause]—

So, my intent is to get the United States, to get my country, to dump the two pieces of rubbish, called the Vice President and President—I meant, the psychopath and the sociopath must go! We will get ourselves a new President by the usual process, Constitutional process now provided. Lame-brains are impeached, because *they are not competent*. We don't impeach people because they committed crimes—that's a good reason to impeach them. But the reason to impeach a high official of government, a President of a country, *is for incompetence!* And when you find they're incompetent, you get rid of them! And we've got two of the most incompetent men on the planet occupying those positions.

If we get rid of those, with what I see from my colleagues in the Senate, and some of the institutions of the United States' Executive branch now—what I see among those people, if we do this job, if we clean that White House out of its rats, we will have an affirmation—which we have now in the Democratic Party leadership. The Democratic Party has been changed during the past year, 2004, from the party which was against Franklin Roosevelt, to the party which is pro-Franklin Roosevelt. We are going back to a Franklin Roosevelt tradition in the United States. We will, therefore, provide the leadership with everything we have in terms of power and influence, to *ensure* that leading and willing nations of this planet come into agreement, and begin to cooperate, for our mutual benefit. Then, all these conferences we want, all these negotiations we want, *will happen*.

But, I'm committed to getting my country, to get kick the bums, kick the rubbish out. Get ourselves a new President. In the meantime, let the Senate take the leadership, and if we get something in that order, I think that we will be *so relieved* in the United States, at having rid ourselves of these diseases, this rubbish, this obscene sex show, that we will proceed to do something right, just to make ourselves feel better.

And our friends in China will cooperate with this, and they'll get our cooperation, on discussing this whole thing, and remembering we don't have to fight about it. We'll discuss it.

Dr. Song Hong

China's Role in The World Economy

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The Chinese economy grew 9.5% in 2004, and maintained the momentum of the previous several years. China's international trade hit a new record, reaching \$1,154.79 billion; the annual growth rate is 35.7%, and for the first time in the history, China replaced Japan as the world's No. 3 trader, only after the U.S.A. and Germany. Three years after accession to the World Trade Organization (WTO), the scale of China's international trade doubled; and in the last decade, China's international trade quadrupled. This growth rate is really impressive.

As far as the inflow of Foreign Direct Investment (FDI) is concerned, the performance of China is also outstanding. In the year 2002, the inflow of FDI in China was more than \$50 billion, that is, \$52.7 billion; in 2004, the inflow of FDI in China was \$60.63 billion.

The performance of the Chinese economy in 2004 was not exceptional in terms of growth rate. In fact, in the last few years, while the world economy has been in recession, the Chinese economy has been growing very fast. For example, from 2000 to 2003, while the growth rate of the world economy was 2.5%, 2%, 3.0%, and 3.9%, respectively, China's economic growth rate was more than 7.3%. While the growth rate of the value term of world trade was 13%, -4%, 4%, and 16%, respectively, the growth rate of China was 32%, 7.5%, 22%, and 37.1%. During the same period, after the world inflow of FDI hit its peak in 2000, amounting to \$1,388 billion, it suffered in the next three years: in 2001 it was \$817.6 billion, in 2002 it was \$678.6 billion, and in 2003 it reached \$559.6 billion. But the situation in China is totally different. The inflow of FDI in China was \$40.7 billion in 2000, \$46.8 billion in 2001, \$52.7 billion in 2002, and \$53.5 billion in 2003. Why is China's economic performance so outstanding; what is the mechanism of China's economic connection with the world economy; and what are the implications of China's economic development?



EIRNS/William Salisbury

Dr. Song Hong

TABLE 1

Composition of China's Inward Foreign Direct Investment (FDI) and International Trade

Year	Share of M&A in the World Inward FDI Inflow, %	Share of M&A in China's Inward FDI Inflow, %	Share of Processing Trade in China's Export, %	Share of FFEs in China's Export, %	Share of FFEs in China's Processing Trade (export), %	Share of Processing Trade in FFEs Export, %
1993	36.51	2.04	48.2	27.5	48.1	84.27
1994	48.95	2.12	47.1	28.7	53.7	88.1
1995	56.46	1.12	49.5	31.5	57.1	89.7
1996	58.79	4.74	55.8	40.7	63	86.31
1997	63.76	4.2	54.6	41	64.1	85.19
1998	76.56	1.82	56.9	44.1	66.2	85.45
1999	70.39	5.94	56.9	45.5	67.2	84.12
2000	76.67	5.51	54.9	47.9	70.6	81.4
2001	80.79	4.96	55.4	50.1	72.3	80.01
2002	56.77	3.93	55.3	52.1	74.8	79.21
2003	53.07	7.14	55.2	54.8	78.7	81.34

Source: *World Investment Report, 2004* and UNCTAD FDI database.

I. The Special Mechanism of China's Economic Connection With the World Economy

The connection of China's economy with that of world is through two channels: the first is FDI, and the second is international trade.

Compared with other countries, the nature of FDI in China is different. Firstly, the majority of FDI in China is greenfield¹ FDI (**Table 1**). The world's inward FDI is mainly composed of mergers and acquisitions (M&A). The share of this type of FDI is more than 80% in some years. In the last few years, the increase of world inward FDI has come mainly from this type of FDI, and this investment is mainly concentrated in the industrial countries. This type of FDI is highly economic-cycle related. Because of the economic recession, M&A decreased dramatically, and so did world inward FDI. But FDI in China is not M&A, but almost all belongs to the greenfield category. Because of this difference, while world FDI suffered during the world economic recession, FDI inflow into China continues to increase.

Secondly, the majority of greenfield FDI in China belongs to the category of labor-sourcing FDI. According to the assessment of Song and Chai (2002), 70% of the stock of FDI in China is concentrated in the manufacturing sector; of this, 70% belongs to labor-sourcing FDI. This type of FDI is induced by the low cost of production, especially local cheaper labor. During the development process of an economy, along with the increasing level of economic development, the local currency tends to appreciate, while production costs in general, and labor costs in specific, also tend to increase. Therefore, this type of FDI is mainly from a high-income economy,

and is invested in a low-income economy, not countries with a similar income level. The labor-sourcing FDI is intended to take advantage of local cheaper labor, and perform some of the more labor-intensive process or production activities, and the outputs of this investment mainly are exported to a third market, or directly resold to the home market of this FDI. The labor-sourcing FDI in China was initiated by entrepreneurs from Hong Kong in the 1980s, in the Pearl River Delta, and then firms from Singapore, Taiwan, and South Korea followed suit. So, more and more production base and manufacturing activities are transformed from those economies. Japanese firms also joined in the process during the 1990s, especially in the last few years after China's accession to the WTO.

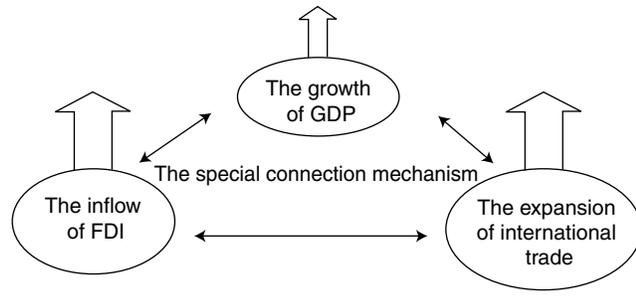
As far as international trade is concerned, it is also different from that of other economies. Since 1995, the share of processing trade in China's exports has been more than 50%. And since 2001, the share of FFEs [Foreign-Funded Enterprises] in China's exports has also been more than 50%.

Most importantly, the inward FDI is closely related to international trade in China. Because the labor-sourcing FDI is export-oriented, the more there is of this type of FDI, the more the exports. The connection of FDI and trade in the case of China is as follows: 1) Internal and external conditions make China a very attractive destination for inward FDI. Since 1996, each year China attracted more than \$40 billion FDI; 2) More than 95% of inward FDI in China is of the greenfield type. That means more new production capacity and manufacturing bases. 3) Seventy percent of these production bases perform processing trade. So, the share of processing trade in China's trade increased very fast, and became the main source of China's trade growth. For example, in 2003, 54.88% of the increase of China's export was from the processing trade. In the same year, 63.12% of China's export

1. Pertaining to new plant and equipment—ed.

FIGURE 1

The Simultaneous Growth of Inward FDI, International Trade, and GDP



increase was from FFEs. In summary, more than half of the FDI stock in China belongs to labor-sourcing FDI, so, on the one hand, we got more inward FDI, while on the other hand, we exported very fast (Figure 1).

The growth of the whole economy in general and China's export in specific is driven by inward FDI. That is the mechanism of the Chinese economic connection with the world economy. The key point of this mechanism is the export-oriented, labor-sourcing FDI. So, the question is, Why can China attract so much labor-sourcing FDI? What are China's advantages in this respect?

The first reason is China's special advantages. China has four important advantages: 1) China's favorable geographical location. China is the geographical hub of the Asian core economies. She is in the neighborhood of Japan, South Korea, and Singapore, and she is the mainland of Taiwan and Hong Kong. China shares the Yellow Sea and South China Sea with those economies. 2) China's favorable cultural advantage. Chinese culture is the main source of Asian and Japanese cultures, and the most important connection among South and East Asian economies. It is well known that transnational corporations tend to invest in the same or similar cultural regions. 3) Overseas Chinese. There are more than 50 to 60 million overseas Chinese all over the world. They control huge economic resources in the world, and they invest aggressively in China. 4) Local market attractiveness. There are more than 1.3 billion people in China. This is a huge potential market. Along with the fast economic growth during the last two decades, comes a fast-rising purchasing power of local people. A new middle class is emerging in China.

The second reason is China's economic policies. China adopted opening up to the outside and economic reform policies since 1978. In the context of this policy framework, China continues to initiate more and more programs and projects to attract FDI. For example, in 1979 China set up four special economic zones in the Guangdong and Fujian provinces, which are the important coastal areas of China, and the most important homeland of overseas Chinese. In 1986, a new pol-

icy was initiated by China's government which targeted the inward FDI from Hong Kong, Macao, and Taiwan. More favorable incentives were provided for the export-oriented and high-tech FDI. In the early 1990s, Deng Xiaoping's famous south China tour provided a new dynamic for China's economic development in general and inward FDI in specific.

The third reason is the impact of China's WTO accession. Because China wanted to join the WTO, she made comprehensive commitments. 1) China opened up four new sectors for foreign investors. Those sectors are telecommunications, banking, insurance, and professional service. 2) China deepened the extent of opening to the outside world in the already opened areas. For example, full trade and distribution rights were provided to all firms three years after China's WTO accession, no matter what their type. 3) The environment of investment in China has improved dramatically because of China's commitments. China joined the TRIMs [Trade-Related Investment Measures agreement] and TRIPS [Trade-Related Aspects of Intellectual Property Rights agreement], which would provide more favorable/equitable treatment to foreign investment.

The fourth reason is the favorable international economic background. During the second half of the 1980s, because of the appreciation of the Japanese yen and the Asian NIEs' [Newly Industrialized Economies'] currencies, the labor-intensive industries in those economies lost their comparative and competitive advantages. On the other hand, the appreciated currency makes outward FDI more favorable for firms from those economies. China's policy of opening up to the outside world makes it deeply involved in the East Asian industrial restructuring process, and gradually integrated into regional economic development. More and more manufacturing capacity is transferred to China through inward FDI. This momentum built up in the second half of the 1980s, and was maintained in the next two decades.

In summary, these four important advantages allow China to attract much labor-sourcing FDI each year in the last two decades, and to survive the world economic recession and continue to grow faster than other economies in the last few years.

Thanks to that special mechanism of China's connection with the world economy, China's economic growth rate has been one of the highest in the world in the last two decades. From 1979 to 2000, its growth rate was 9.5%, the highest in the world. China's position in world trade improved dramatically, from No. 27 in 1979 to No. 3 in 2004. In terms of inward FDI, since 1993, China has been the favorite investment location among developing countries. By 2004, more than half a million foreign fund firms were approved, and the stock of contracts for inward FDI exceeded \$1,000 billion, while actual investment in China was \$562.21 billion in total. Therefore, the key to China's fast international and economic development in the last 20 years is the mechanism of connection with the world's economies.

II. The Sharing Economic Development Model And China's Position in Regional Trade

This mechanism also makes China economic development model different, and its international trade position special. First, labor-sourcing FDI and the processing trade makes many economies share in the economic growth of China in general, and its trade expansion in specific. And in this sense, we call China's economic development model the Sharing Economic Development Model, which is totally different from the traditional one—we call it the Non-sharing Economic Development Model. For the traditional development model, economic development is mainly, if not totally, based on indigenous firms, and international trade expansion is also coming from the non-processing trade. So in the model, few foreign firms, and then few foreign economies can take part in the local economic development process, let alone be deeply involved in it. However, for the Sharing Economic Development Model, foreign firms and foreign economies are comprehensively involved in the local economic development process in term of FDI and processing trade. In the case of China, for example, during 1985-2003, 61.64% of the total increase of China's export and import, 62.41% of export increase, and 60.90% of import increase, are from foreign-funded firms, not indigenous firms. During 1981-2003, 57.83% of China's total trade increase came from the processing trade. This is definitely a new economic development model.

In the Sharing Economic Development Model, what are shared, firstly, are the production activities. Transnational corporations move some of their manufacturing activities from industrial or high-income economies to China. Most of those activities are labor-intensive—that is, low-value-added and low wage activities in industrial economies. This transformation of industrial capacity from industrial to developing economies will upgrade and adjust the industrial structure in the advanced economies and promote those economies to perform more high-value-added activities. On the other hand, this transformation also provides many low-skilled jobs for the new workers in China, who have just migrated from the countryside. Every year more than 90 million farmers migrate from the agriculture sector, and find jobs in the urban areas, and each year there are more 500 billion RMB transferred from urban areas to the countryside. Those movements of people and funds between the city and the countryside dramatically promote the economic development of China.

Another important aspect of this Sharing Economic Development Model is the sharing of the market. First, along with the fast increase of Chinese exports comes the expansion of China's imports. In fact, the processing trade has a very high import content. For example, in 2004, \$1 in processing exports required \$0.6761 (two-thirds) in imports. Therefore, from the \$1 in processing exports, China only gets one-third in terms of wages and some local inputs, while another two-thirds is shared by China's trading partners, in terms of all kinds of inputs such as components and parts. The same is

true for another type of trade in China, such as general trade. In 2003, China's imports were valued at more than \$400 billion, the biggest import market in Asia, and this market expanded to \$560 billion in 2004.

Secondly, the Chinese market also expanded quickly because of the fast growth of GDP in the last two decades. One of the important conditions for inward labor-sourcing FDI is the opening of the local market to international investors, because the low cost of production is only the necessary condition for this type of investment, not the sufficient one. If one location can provide some extra incentives when competing for such an investment project, in term of local market access and so on, this type of FDI will pour in. So, one of the important differences between the Sharing and Non-Sharing Economic Development Model is local market access. For the former one, the market opening is a reciprocal opening, while the latter is only overseas-market-oriented. Therefore, the emerging market of China provides good justifications for local market-sourcing FDI². Take China's automobile industry as an example. Due to the rise in income, more and more cities in China have passed the benchmark of the household car purchase. So, the industry expanded dramatically in the last three years. It is well known that this industry is controlled by joint-venture firms. Meanwhile, even if for the processing export activities, not all their output goes to the outside world, and the share of local sales increases gradually.³

It is interesting for us to know which economies are sharing in China's international trade increase. Other trade partners share China's trade expansion mainly in two ways. The first is by sharing China's imports and the second is by sharing China's exports, in term of joint-venture or processing trade. **Table 2** tells us the beneficiaries of China's import increase in the last ten years. Japan, four Asian NIEs, Germany, the U.S.A., ASEAN-5, France, Australia, Saudi Arabia, Brazil, India, Russia, and Argentina are the main beneficiaries of China's import increase. Especially, the beneficiaries have been very stable in the last ten years. For example, the list of beneficiaries of 1993-2003 is almost the same as that of 2002-03, except Argentina.

On the other hand, the share of FFEs and processing trade in China's export to her main trade partners is very high. For example, for China's top three export markets, the share of processing trade is all more than or almost 60%, and among them, FFEs deal with more than 76%.

Take China's top three export markets as an example. In

2. It should be noted that because of the market access, much labor-sourcing FDI invested in China continues in business there. The reason for that is that the FDI can easily be transformed from labor-sourcing FDI to market-sourcing FDI. Otherwise they may move again to other locations. The transformation from market sourcing to labor-sourcing FDI also happened in China, and would more in the future.

3. We have no exact number of local sales of the processing trade in China, but we do have the share of local sale of FFEs. FFEs sold more half of their production in China's local market in 2004.

TABLE 2

Beneficiaries of China's Import Increase

The case of 2002-2003 import increase			The case of 1993-2003 import increase		
Beneficiaries	Import increase, \$100 millions	Share	Beneficiaries	Import increase, \$100 millions	Share
Japan	206.83	17.67	Japan	508.55	16.54
South Korea	145.6	12.44	South Korea	377.75	12.28
Taiwan	112.99	9.65	Taiwan	364.29	11.85
Germany	79.12	6.76	U.S.A.	232.78	7.57
U.S.A.	66.31	5.66	Germany	182.95	5.95
Malaysia	46.91	4.01	Malaysia	129.03	4.2
Singapore	34.31	2.93	Thailand	82.27	2.68
Thailand	32.25	2.75	Singapore	79.15	2.57
Philippines	30.89	2.64	Philippines	60.93	1.98
Brazil	28.41	2.43	Austria	53.56	1.74
India	19.77	1.69	Saudi Arabia	50.76	1.65
France	18.44	1.58	Brazil	49.82	1.62
Saudi Arabia	17.6	1.5	Russia	48.68	1.58
Argentina	14.9	1.27	France	44.57	1.45
Australia	14.5	1.24	Indonesia	43.02	1.4
Russia	13.19	1.13	India	38.38	1.25
Indonesia	12.47	1.07			
Total	1,170.7	100%	Total	3,075.4	100%

Source: China Customs.

2003, China exported \$92.47 billion to the U.S.A.; of this, 67.52% belongs to processing trade export, and for the processing export, FFEs provides 76.93%. China exported \$76.29 billion to Hong Kong, the shares of processing trade and FFEs are 71.60% and 78.57%, respectively. For the \$59.42 billion exported to Japan, the shares of processing trade and FFEs are 59.11% and 82.79%, respectively. Therefore, China's exports are not exclusively through Chinese firms (that is, belong to general trade) and enjoyed by the Chinese people, but they are shared with her trade partners.

In summary, in the past 20 years, China's economy in general and trade in specific are growing very quickly. This growth is not so much a threat to other economies, but an opportunity to grow together with China. This is a controllable sharing economic development.

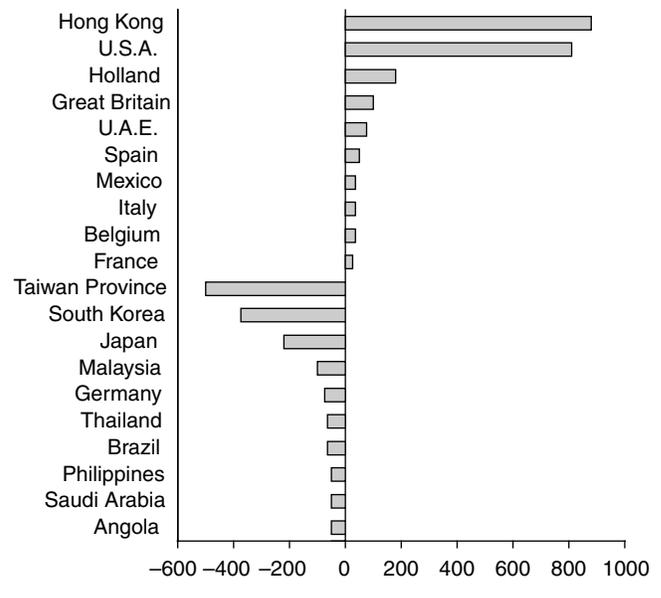
Secondly, because of that integration with the world economy, China is becoming something like a bridge between Asian economies on the one hand, and the U.S. and EU markets on the other. According to the trade balance with her trade partners, since 1990s, China has gradually become the middleman between Asian NIEs, Japan and ASEAN, and the U.S. and EU markets. Every year, China earns a trade surplus from the U.S.A., Hong Kong (re-export to the U.S.A. and EU), and the EU, and transfers most of the surplus to Asian NIEs, Japan, Malaysia, Thailand, and Germany (**Figure 2**).

Finally, because of WTO accession and China's deeper integration into the world economy, more and more economies have gotten involved in China's economic development

FIGURE 2

China's Trade Balance, 2004: Sources of Trade Surplus and Trade Deficit

(\$ Hundreds of Millions)



Source: Dr. Song Hong.

TABLE 3

China's Trade Increase, 2003-04

Beneficiaries	Increase of Import and Export, \$ billions	Increase of Export, \$ billions	Increase of Import, \$ billions	Share of Export Increase	Share of Import Increase
Total	303.80	155.13	148.61	100%	100%
Asian-Pacific	213.91	105.89	108.02	68.26	72.68
Asia	169.48	72.99	96.61	47.05	65.01
Europe	53.53	34.22	19.37	22.06	13.03
EU	44.59	28.88	15.68	18.62	10.55
ASEAN	27.62	11.97	15.66	7.72	10.54
North America	48.85	35.12	13.78	22.64	9.27
Africa	10.92	3.63	7.29	2.34	4.9
Latin America	13.22	6.37	6.85	4.1	4.61
Pacific	7.61	2.88	4.73	1.86	3.18
Japan	34.33	14.08	20.24	9.08	13.62
South Korean	26.86	7.72	19.11	4.98	12.86
Taiwan Province	19.96	4.54	15.40	2.93	10.37
U.S.A.	43.32	32.46	10.81	20.93	7.27
Germany	12.39	6.31	6.07	4.07	4.09
Australia	6.82	2.57	4.25	1.66	2.86
Malaysia	6.14	1.95	4.18	1.25	2.81
Singapore	7.33	3.82	3.51	2.46	2.36
India	6.01	2.58	3.43	1.67	2.31
Canada	5.51	2.53	2.98	1.63	2.0
Brazil	4.38	1.53	2.84	0.99	1.91
Philippines	3.93	1.18	2.75	0.76	1.85
Thailand	4.68	1.97	2.72	1.27	1.83
Angola	2.56	0.05	2.51	0.03	1.69
Russia	5.47	3.07	2.40	1.98	1.62
Saudi Arabia	2.98	0.63	2.35	0.41	1.58
France	4.19	2.63	1.57	1.69	1.05

Source: China Customs.

process and benefit from it. For example, in 2004 (**Table 3**), some of the resource-abundant countries, such as Canada, also enter the list of main beneficiaries of China's import increase, or improve their position in the list. This is a very important development, because it signals a new stage of the Chinese economy integrating itself into the world economy, that is, from importing from her neighborhood economies parts and components and machinery and equipment, to raw materials and primary commodities. Meanwhile, China's consumption-drive imports are also increasing very fast, because of the quick economic growth and rising per-capita income. For example, because more cars are being sold in the local market, the import of oil has increased dramatically in the last few years. So, the development of Chinese economy provides new opportunities for other countries to share her economic growth.

Moreover, China's non-processing trade (general trade) also provides good opportunities for her partners. According to an analysis published by the IMF (2004), the change of China's general trade has an important impact on her trade partners, especially the Asian economies (**Table 4**). For ex-

TABLE 4

Effects of 10% Reduction of China's Non-Processing Trade

	Real GDP, %	Current Account Balance, \$ billions
Asia, excluding China	-0.4	-6.5
Japan	-0.5	-3.5
Asian NIEs	-0.6	-2.0
Other Asian countries	-0.3	-0.7
ASEAN-4	-0.3	-0.5

Source: IMF 2004 *World Economic Outlook*, Chapter 1, Box 1-2, "What Are the Risks of Slow Growth in China?" September 2004, p. 21.

ample, a 10% reduction in China's general trade imports will make the GDP growth rate of Asian economies decrease by 0.4%. Among them, the impacts on Japan and Asian NIEs are most serious. The same change of China's general trade will reduce Japanese GDP growth by 0.5%, and Asian NIEs' 0.6%. Meanwhile, China's general trade decrease also dra-

matically reduces the trade surplus of Asian economies. For example, the 10% reduction of China's general trade will reduce the trade surplus of Asian economies by \$6.5 billion: for Japan, the reduction is \$3.5 billion, for Asian NIEs, \$2 billion.

III. Challenges and Perspective

The huge inflow of labor-sourcing, industrial-market-oriented FDI establishes a special connection mechanism between the Chinese economy and the world economy. It is this mechanism which is responsible for the quick, stable, and healthy development of the Chinese economy in the last few years in specific and in the last two decades in general. However, the function of this mechanism faces serious challenges.

The Challenges From Inflow of FDI

1. The reduction of inward FDI: After WTO accession, inward FDI in China has tended to increase, not decrease. However, because of her deep dependency upon inward FDI, it is dangerous and fragile for the Chinese economy to survive a sudden reduction of inflow of FDI.

2. Due to the reduction of labor-sourcing FDI relative to other types of FDI, the effect of the special connection mechanism of the Chinese economy and the world economy on China's economic development will become weaker and

weaker. After WTO accession, thanks to local market liberalization and the gradual rise of labor costs in China, more and more inward FDIs are motivated to target the local market. Moreover, some of the labor-sourcing FDI are being transformed into other types of FDI. This is especially true for Japanese investment in China (*JBIC 2003 Survey*).

3. The share of M&A FDI in China will also increase, and that of greenfield FDI will decrease. Because of this change, the effect of that mechanism will suffer. In November 2003, a new policy was introduced in China. More policy space and more incentives are provided for M&A investment in China. Qualified foreign investors are allowed to buy the A-share in China's stock markets. Moreover, China's government encourages transnational corporations to purchase financially stressed SOEs [State-Owned Enterprises]. This is one of the several most important reform policies to restructuring SOEs. For example, in 2003, Renault and Nissan invested \$1 billion in the DongFeng auto group and acquired 50% of this company. In the same year, Kodak from the U.S.A. invested \$100 million and got the 20% share of Lucky Group. The CITI Group bought \$1.8 billion non-performing loans from Bank of China. So the share of M&A in inward FDI in China reached 7% in 2003, the highest level yet.

The Challenges From International Trade

1. The limits of the overseas market: Thanks to the inflow of FDI, China's international trade have been growing at more 20% annually since China first opened to the outside world in the late 1970s. Along with the expansion of China's international trade, there also came the constraints of access to overseas markets. China had replaced Japan and Asian NIEs as the world favorite targets of anti-dumping actions. One of seven anti-dumping actions in 1990s, and now one of four anti-dumping actions, is targeting China. And this situation cannot be changed in next ten years, because of the commitments of China's WTO accession. According to these commitments, WTO members can initiate product-specific safeguard measures for imports from China before 2013, and treat China as a non-market economy in anti-dumping and surveillance actions before 2016. As far as textile and clothing imports from China are concerned, a special safeguard mechanism is there before the end of 2008, after the 50-year quota system ended on Jan. 1, 2005. All those treatments are unfair for China, and are not consistent with the basic principles of nondiscrimination. Against this background, we cannot expect free access to the overseas market for China's exports. The textile and clothing trade conflicts between China and the EU, and China and the U.S.A., are the cases in point now. So, what China get from WTO accession is conditional MFN [most-favored nation status], and China's access to other WTO member's markets is partially guaranteed.

2. A difficult role as a bridge: It is obvious that China has been becoming the regional, if not the global, trade intermediary. On the one hand, China earns much more trade surplus

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from the U.S.A., Hong Kong (most of it is also re-exported to the U.S.A. and EU), and EU. On the other hand, China has a huge trade deficit with Japan, Asian NIEs, Germany, and ASEAN. For example, in 2004, China had a \$214.58 billion trade surplus with her top ten trade-surplus providers, and also had a \$116.61 billion trade deficit with her top ten trade-deficit suppliers, even if China only had a \$32 billion trade surplus this year. China now is something like a bridge transforming the trade surplus from the U.S.A. and EU to Japan, Asian NIEs, and ASEAN, with which China has a huge trade deficit. Because of this role of intermediary, China and her trade partners need a new framework to deal with their bilateral trade relations. China needs more appreciation from her trade partners for her role as a bridge. However, it is difficult for each trade partner to appreciate it. Not only China's trade-surplus providers, but also some of China's trade-increase sharers ever take advantage of it. So, the cost of China's development model is very high. This cost is shown itself in trade conflicts with her trade partners.

The Perspectives of This Development Model

The special mechanism of China's economic connection with the world economy will last for another decade. The reasons are as follows:

Firstly, Chinese economy has not yet finished integration with Asian NIEs, especially Taiwan's economy. Most importantly, deep integration with the Japanese economy is just on the way.

Secondly, the crowding out effect of inward greenfield FDI is not a very serious concern now in China, because the industrial capacity of FFEs is highly complementary with that of the old one China had. In terms of geographical locations, what FFEs have contracted is mainly concentrated on China's coastal areas, while China's old industrial bases are mainly in the west or middle regions. In term of industrial composition, what FFEs have established is mainly the labor-intensive industries, such as textile and clothing and so on, while what China had had was a diverse industrial base, mainly focussed on heavy industries. The former mainly focus on new emerging industries, while the latter the traditional industries. China has an almost unlimited low-cost labor force. Under these conditions, the crowding-out effects from inward labor-sourcing FDI are limited, if not zero. China is still a large developing country, with many investment opportunities untapped, so the crowding out effect is small or limited. However, this effect will increase in the future.

In the long run, the international trade in specific and economic development in general will depend upon the new competitive advantages results from the integrating of the industrial capacity of inward FDI with indigenous industrial bases; and will depend upon the cluster effects of this integration. If the Chinese economy is fully integrated into the world economy, the special mechanism will disappear.

Lyndon H. LaRouche, Jr.

It's Time To Dump 'Brand X' Economics

During the discussion following Dr. Song Hong's contribution, moderator Jonathan Tennenbaum asked Mr. LaRouche to comment further on the effects of globalization.

Just one fact—let's take the effect of a 30% collapse in the value of the dollar on China. Just take the one fact—just take a 30% collapse of the U.S. dollar, a sudden 30% collapse of the U.S. dollar. What's the effect of that on China? China's economy? With what [Dr. Song] describes, China's economy has a vulnerability to certain kinds of problems. Some are long-term. Some are always short-term threats.

And these are the things that we should be concerned about, if we outside of China, are concerned with maintaining China's stability as a part of the world system, we have to be concerned about the effects of something like that on China's economy and political system.

Factors of Vulnerability

Therefore, the fact that China is dependent on—two vulnerabilities: import of capital, in the form of licensing foreign investors; import of capital in the form of taking semi-finished goods or raw materials, and processing them in China, then adding something to semi-finished or processed goods to the world market. Which means that the power of China over its own internal market, is limited by these outside factors. These are factors of vulnerability.

And since the whole world system depends, to a large degree on—India has a different kind of problem. But, the whole world system, if you take Asia into account, take North Asia, take South Korea—for example, in electronics, in computer technology, South Korea is very crucial in the world supply of this. You take Japan's capability, which is also a machine-tool capability, which is lacking generally in Asia. Then you take the economies of Southeast Asia, then you take India: This area of the world, which is a key part of the world's population, has a certain built-in vulnerability which is a left-over effect of colonialism.

And therefore, the question: If we want to have a planet, we can not sit back and let something happen to destroy the stability of the economies of Asia, of which China is the largest single component. Therefore, it is in the interest of the world, it is in the interest of the United States, that China's stability be protected. Hmm?

And the problem he describes, which I just went through,

following through, making a diagram of what he's describing. The diagram is obvious. It's a vulnerability. It's a success, but it's a vulnerability. And it's the vulnerability we have to deal with.

And this is where the Russia problem, the project of the Vernadsky approach, becomes crucial: Because in this whole area, we have the need to develop an autonomous supply of essential raw materials. Then, you would have in Russia and associated countries of Central-North Asia, you then have a China, which is, with India, a major market for consumption of raw materials, and therefore, now you have a bigger *inside Asia* component of production; and now more of the product that is coming into China is now a China- or Asia-oriented product—which means that the economy is stronger.

Not that the economy is bad, but it's vulnerable, because the whole world system makes it vulnerable. The dependency on this kind of trade you described, of the internal/external reprocessing of semi-finished product.

Of course, the world is going in that direction anyway. We're going toward a world where the final product is not going to be the trade product. The intermediate product *is* going to be the characteristic product of export. People are not going to start, where they produce their own product, and come up with a finished product which is then marketed to other countries. We're going to depend, as we take in the case of South Korea, which has a very special part of the components of the computer industry. Therefore, we're going to have that kind of economy.

But, we have to have a sound base economy at the same time, which means we've got to have an orientation of an *Asia development*, a vertical development project in Asia, to take most of this stuff off the world market, bring more into Asia as such, in a straightforward line. And China's the key issue on this one.

It's the center of it. China will be the center of any such development. India has a slightly different role. But it also has a significant role, in terms of the overall determination of the Asia market.

It is a dangerous situation—and we have to think about it. We have to be strategically alert to it.

Concluding Remarks

At the conclusion of the evening panel on June 28, LaRouche gave this summary presentation.

Let me just do what I think is probably most useful, which ties into my initial presentation, some aspects of my initial presentation this morning.

The problem of the world economy, is that what is believed to be economics is largely absurd. And what is practiced by governments is largely absurd. The reason is obvious: Is that, in 1763, the Anglo-Dutch Liberal system established imperial control, or imperial hegemony in world trade and

world economy. And therefore, the world has operated since that time, chiefly under the domination of an increasingly powerful liberal system, which is a method of economics which is taught in universities, and practiced generally, which is clinically insane from the standpoint of science.

There existed prior to 1763 the foundations of a competent form of economics. Now, modern economy started during the Renaissance. Before the Renaissance, that is, the 15th Century, *there was no real economy describable as such as a system of economy, in Europe*. It began with the formation of the sovereign nation-state, with Louis XI's France. But then, in the process, this Venetian crowd was able to develop, after a number of experiments, the Anglo-Dutch Liberal system, which in 1763 became an empire: *an empire of the British East India Company*—even before the British monarchy became imperial.

This empire has dictated—for example: Marxism was a branch of British liberalism! Marx studied at the British Library, but he studied under the British Haileybury School economy of Bentham. And his ideas were those of Bentham. His cell theory, or his *Capital I*, is nothing but British economics, with a certain social implication added to it.

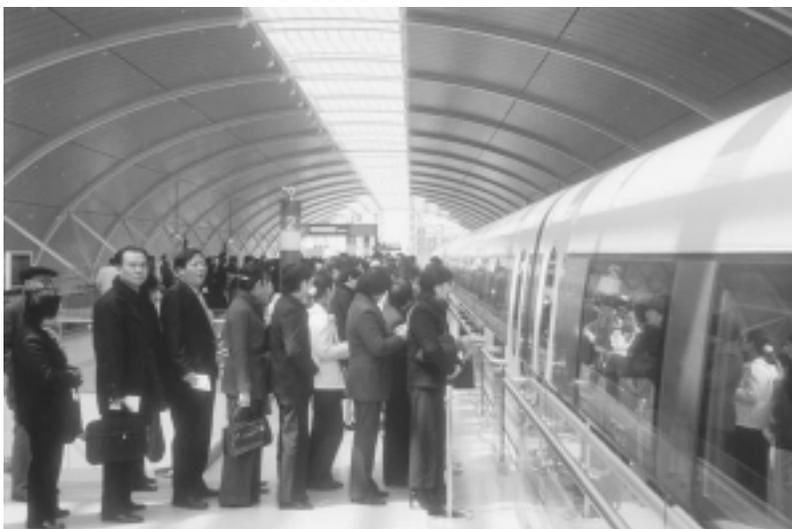
Now, these systems that were used are *mechanical systems*. They are *Cartesian systems*, based on the method of René Descartes. These are systems which are incompetent in physical science, which have been taken over into the field of economics. The reason I've emphasized, among others, the Vernadsky point, is that Vernadsky understood these kinds of systems, as dynamic systems, in the sense of Leibniz. And therefore, world economy is actually based on a system of thinking, which has *nothing to do* with anything generally accepted in textbooks as economics today, around the world. And what is taught is fundamentally incompetent!

The System Is Finished

The reason we're having a world crisis, is because the system of economics under which we've been operating, including the economic theory, is *incompetent!* Systemically incompetent! Now, a systemically incompetent system does not necessarily collapse today: It collapses in its appropriate time, when reality catches up with it. And that's what's happened to us.

So, now we're in a collapse of a system which could not work. For a time, systems using that kind of economics *did* work, but only for one reason: Because they violated the principles of that economics. They worked, because governments were protectionist, and applied protectionist measures to ensure the provision of infrastructure, and to regulate trade *and prices—by regulation, by protectionist methods* as they were called, and fair trade methods.

We're now in a system, where we *eliminated* fair trade methods, over the period 1971 through 1981-82. We eliminated them. We went to a *free trade* society. We eliminated fair trade, we went to free trade.



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The discrepancy between China's drive for modernization, as shown in the world's only commercial maglev train in Shanghai (above), and primitive agriculture in the countryside, underlines China's economic vulnerability. Said LaRouche: "We can not sit back and let something happen to destroy the stability of the economies of Asia, of which China is the largest single component. Therefore, it is in the interest of the world, it is in the interest of the United States, that China's stability be protected."

So therefore, the system, the liberal system is working *to perfection*, as taught by the Mont Pelerin Society. That system is systemically insane! The only reason that that kind of accounting and that kind of economics succeeded at all, is because governments imposed protectionist distortions of that system, to compensate for its intrinsic insanity.

Now, we've come to the point, the system is finished. It's finished, because globalization as taken to its extreme, doesn't work any more. So, the problem is, we have to go to a different kind of thinking, than is used in this kind of teaching. *Scrap all standard economic theory: It is all incompetent*, especially when it's allowed to run its in its pure form. Only protectionist

methods of sovereign government can prevent this from doing this. To the degree you decentralize, to the degree you globalize, you remove *all* protection against the full impact of this insanity.

So therefore, what we have to do, is we have to realize that the topic which has come up here, in the course of the day, which I introduced, but nonetheless keeps coming back in different forms, is, we have to recognize that what is believed to be economics, what is taught about how to manage a business, all the things that are generally accepted by accountants and so forth: Throw it away! It's all garbage. But you have to understand what is a true economic system, a physical economic system. And Vernadsky, in his work on defining the Biosphere and Noösphere, addressed this question. Real economy is a Leibnizian *physical* economy, in which these principles are *dynamics*, which apply to *organic systems*—like a whole organic process, a forest, a continent—would apply to organic systems, is what we have to use in understanding economy.

And, to me, this is, of course, my specialty. This is what I understand. And it has come to the fore, here, in the discussions, because it's coming to the fore in science on a large scale. We can no longer pretend that "Brand X" economic doctrines work—they don't. They've come to the outer limit. We're going over the cliff. There is no way of living with this kind of system.

And what our friend here from China has just expressed, is an expression of an anomaly which is imposed on a country, by a *global* system which is insane. And what we have to do, is, we have to—from my standpoint—the basic solution is, we have to go back to sovereign nation-state government. End globalization. We have to use protectionist methods, so that countries such as China, and others,

defend themselves by state authority of protectionist measures.

But, at the same time, rather than just trying to protect ourselves from a disease, why don't we try to eliminate it? We should protect ourselves, but we should eliminate it. And that means, that we start to think—redefine economics, by defining it on a physical basis, in terms of what are called *dynamic methods*, the methods of Leibniz, as opposed to those of Descartes.

And that's what we're really talking about here: It's how to have a sane economy, when we have come to the point, we're about to be put in the dungeon of an insane asylum.

Editorial

End Globalization, the New Feudalism!

It is almost impossible to exaggerate the evil, and danger to mankind, which is represented by the phenomenon most people today accept under the name of “globalization.” If globalization is not stopped in the immediate period ahead, we will find our planet returned to a new feudalism, global serfdom, and a New Dark Age.

There’s no wild speculation behind this evaluation. The impact of imperial policies is well established through history, and it stands in sharp contrast to the progress which much of mankind has undergone under the influence of nation-states committed to providing for the general welfare of their populations. The premier such nation-state is the United States republic, which, for all its problems, still represents the best hope we have for coming back from the brink.

Henry C. Carey, the economic advisor to President Abraham Lincoln, provided perhaps the sharpest portrait of what “globalization,” which he knew as the British Empire, represents, as against the American System of economics, when he published his pamphlet *Harmony of Interest* back in 1851. Read his contrast between the two systems, and see if this does not accurately reflect what we face today:

“One looks to the continuance of that *bastard* freedom of trade which denies the principle of protection, yet doles it out as revenue duties; the other to extending the area of *legitimate* free trade by the establishment of perfect protection, followed by the annexation of individuals and communities, and ultimately by the abolition of custom-houses. One looks to exporting men to occupy desert tracts, the sovereignty of which is obtained by aid of diplomacy or war; the other importing men by millions for their occupation. One looks to the *centralization* of wealth and power in a great commercial city that shall rival the great cities of modern times, which have been and are being supported by aid of contributions which have exhausted every nation subjected to them; the other to *concentration*, by aid of which a market shall be made upon the land for the products of the land, and the farmer and planter be enriched. One looks to increasing the necessity for commerce; the other to increasing the power to maintain it.

One looks to underworking the Hindoo, and sinking the rest of the world to his level; the other to raising the standard of man throughout the world to our level. One looks to pauperism, ignorance, depopulation, and barbarism; the other to increasing wealth, comfort, intelligence, combination of action, and civilization. One looks toward universal war; the other toward universal peace. One is the English system; the other we may be proud to call the American system, for it is the only one ever devised the tendency of which was that of *elevating* while *equalizing* the condition of man throughout the world.”

What Carey, his predecessors, and his followers understood, is what we must bring our leaders to understand today. There *is* no way to improve the conditions of mankind by “spreading the wealth,” or “democratizing,” per se. The progress of civilization depends upon investing so as to increase man’s power over nature in the long term, which means that it is a *crime* to shut down science and technology and education, in the name of “feeding the poor,” or providing “free competition.” These are precisely the areas of investment required in order to raise the standard of living of all mankind.

It is precisely in this area that the fallacy, and potential criminality, of populism can be seen. The populist, on the left or right, is in a rage against those who *have*, and wants to tear down the accomplishments of civilization. He does not look at the means required—especially long-term capital investment—to lift up the capabilities of the population as a whole, but wants to pull everybody down to the level of the poorest individual, no matter what the consequence for the future. He or she is thus easily manipulated by the banking establishment, which simply wants to maintain its power to do as it chooses, despite the fact that the consequences will be physically, as well as morally, devastating for the human race.

Don’t let anyone tell you globalization is inevitable; that’s like agreeing to let our planet commit suicide. The LaRouche movement has committed itself to preventing such a catastrophe. It’s time for you to join in the fight to crush the New Feudalism.