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Nobel Economics Prize

The Price Is Usually Wrong!

by Lyndon H. LaRouche, Jr.

While the snow piles up to record heights in the Swiss Alps, "global warming" hoaxster Al Gore is not the only fellow enjoying the receipt of a Nobel prize for fraud. Just at the moment that the present world monetary system has entered its terminal-collapse phase, three relevant, intellectually culpable U.S. academics, the University of Minnesota's Leonid Hurwicz, Princeton's Eric S. Maskin, and Chicago University's Roger B. Myerson, have been awarded this year's prize "for having laid the foundations of mechanism design theory." The Nobel committee's folly in this case illustrates the nature of some of the most important causes for the currently ongoing, chain-reaction-like, physical disintegration of the world's present monetary-financial system....

In-Depth articles from Vol. 34, No. 42

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Feature

Nobel Economics Prize:

The Price Is Usually Wrong!

by Lyndon H. LaRouche, Jr.

The Nobel Committee's folly in awarding the Economics prize to Leonid Hurwicz, Eric Maskin, and Roger B. Myerson, 'for having laid the foundations of mechanism design theory,' illustrates the nature of some of the most important causes for the current chain-reaction-like, physical disintegration of the world's monetary-financial system.

National

Dump Cheney Now:

The Last Best Chance To Stop World War III

The danger of world war will continue to exist as long as Vice President Dick Cheney is in office. Fear that he may prevail has prompted a number of prominent figures to revisit the issue of the Sept. 11, 2001 asymmetric warfare attacks on the United States.

Blackwater Nazis Aim Homeward:

Kristallnacht in Virginia?

Greg Ahlemann, candidate for sheriff in Virginia's Loudoun County, is part of an international theocratic, fascist underground, connecting the

Blackwater USA corporate leadership to armageddonist Protestant and Catholic operatives.

International

Third World War or New World Economic Order?

Helga Zepp-LaRouche reports that the artificial staging of an incident à la the Gulf of Tonkin, to create the pretext for a U.S. military strike against Iran, would lead to World War III. The alternative would be collaboration between the United States and Russia to build the Eurasian Land-Bridge, centered around a Bering Strait rail tunnel, which is being actively pursued by Russia, and advocated by some circles in the United States.

U.S.-Russian Missile Defense Talks Have Reached a Turning Point

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Are Israel and Syria Holding Peace Talks?

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Economics

Spotlight on Bering Strait at Arctic Energy Summit

The idea of transforming the Earth through great projects of physical economy, was presented with passion by the Russian delegates at the Arctic Energy Summit in Alaska.

Dick Cheney's Oil Law for Iraq Is Neo-Colonial Theft

Colombian LaRouche Movement: Vote for Great Projects, Maglev

Make What Is Reasonable Possible: Darién Train and Bering Strait Tunnel

Engineering Projects for Development of the Atrato Region in Colombia

by **Dr. Héctor A. Múnera**, who teaches at the Department of Physics, National University of Colombia in Bogotá.

Danish Campaign for Maglev Picks Up Speed

The Promise of Fusion Power

Dr. Stephen Dean of Fusion Power Associates prepared this video address for the Schiller Institute's conference on 'The Eurasian LandBridge Becomes a Reality,' in Kiedrich, Germany, on Sept. 15-16.

PBMR: Clean, Safe, and Affordable Energy

Business Briefs

American System

The Fight for the American Republic:

James Fenimore Cooper and the Society of the Cincinnati

by Patrick Ruckert

This is the first in a series of articles on the American patriotic tradition, and its historical enemy, the British/ Venetian oligarchy. The purpose is to inject the issue of the American System, and the quality of republican leadership and culture that must be revived, into the political process today.

- **From *The Bravo:***
'A Republic, If You Can Keep It'

-

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U.S. Economic/Financial News

Economic Crisis Continues To Unfold

Oct. 20 (EIRNS)—The National League of Cities has issued a "Fiscal Conditions 2007" report in which city financial officers around the country project a collective deficit of 3.1% in their budgets for Fiscal 2008. The budget hole is "a financial strain driven largely by the nation's real estate downturn." In fact, the survey's forecast of an 0.4% growth in inflation-adjusted revenue in 2008, which may be too optimistic if LaRouche's Homeowners and Bank Protection Act is not implemented immediately. Already:

* Cleveland's falling property tax base has reduced its ability to borrow by \$10 million, and its building permit revenue by another half million;

* Milwaukee is cutting the manning of fire truck units;

* Chicago Mayor Richard Daley is calling for a 15% property tax hike and talking about selling off parking meter revenues to raise cash; and Cook County officials are preparing to raise sales, gasoline, and parking taxes. Even with all that, Chicago faces a budget deficit in running its metropolitan rail and bus services;

* Palm Beach, Fla. is laying off city employees;

* New York Mayor Michael Bloomberg announced he expects "a slowdown in economic activity [i.e., on Wall Street] and a slowdown in tax revenues";

* Half of the cities in the Midwest reported they were already less able to fund themselves in 2007 than in 2006, although nationally, most city finance officers were expecting the crunch to hit them only in 2008.

Treasury: Dumping of U.S. Investments Began in July

Oct. 17 (EIRNS)—The U.S. Treasury's Oct. 16 report of net investments into/out of U.S. securities in August (Treasury International Capital Statistics, or TICS), was a shock that opened another view of the financial crash underway. Since July, foreign investors, both private and "official" (central banks), have been dumping all dollar investments except for the short-term 30-, 60-, and 180-day Treasury Bills, to which they fled for safety when the credit crisis hit. This, after years in which \$100 billion/month inflows into U.S. investments from the rest of the world were typical. The reason is simple: The U.S. mortgage-based bubble was where the junk, subprime, high-interest action was for banks and funds worldwide, blowing that bubble to \$20 trillion proportions until it collapsed—and everybody had to dump the toxic waste. An accelerating dollar crash and banking collapses are the threatened results.

Royal Bank of Scotland economist Alan Ruskin called the Oct. 16 report "a truly stunning TICS number, the likes of which I have never seen." The Treasury reported that there was a huge net *outflow* of \$163 billion from U.S. securities in August. In July, there had been a fall to \$58 billion net inflow—just enough to cover the trade deficit for that month—and that, entirely the result of a rush for the safety of T-bills as mortgage-backed securities, leveraged buyout loans, and other junk securities tanked. In August, U.S. securities being dumped across the board, overwhelmed even the continuing flight into T-bills, which was a net \$33 billion. Net foreign private flows, overall were negative \$141.9 billion, and net foreign official (central bank) flows were negative \$21.1 billion.

Net purchase of long-term U.S. securities were minus \$69.3 billion, and every category was dumped—Treasury bonds; bonds of Fannie Mae, Freddie Mac and other government-backed mortgage enterprises, stocks, corporate bonds, real estate trusts.

The shocking August report is not an "aberration" just because the credit crunch intensified in that month; nor is it a "new trend"; but rather a marker of collapse of the entire dollar-based international monetary system, unless it is replaced rapidly by actions of governments to put "firewalls" of protection around their real economies, and create new credit and monetary agreements for investments into productive projects.

Housing Starts Drop to 14-Year Low: 'No Bottom in Sight'

Oct. 17 (EIRNS)—Housing starts in September fell 10.2% to the lowest level since March 1993, the Commerce Department said. Permits for future building declined 7.3%, the biggest drop since January 1995.

GMAC's Residential Capital unit, the second-largest independent U.S. mortgage lender, said it will eliminate another 3,000 jobs, or 25% of its workforce.

The Mortgage Bankers Association (MBA) forecasts that the housing "slowdown" will last until the end of the third quarter of 2008, or even into 2009, if the credit markets don't return to normal functioning. Mortgage originations will fall 18% to the lowest levels since 2000, triggering job losses for at least 30,000 more home finance bankers, according to MBA's chief economist.

But at the same Boston national meeting of the MBA—which was reported to be much more sparsely attended than usual—officials of Freddie and Fannie and CEOs of JPMorgan Chase Global Mortgage and National City Mortgage said the housing market is nowhere near recovery or even stability. "It's going to be a long time before we see it bottom out," said David Lowman, chief executive of Chase's Global Mortgage unit. "There's too much inventory already in the marketplace." They also said no price recovery is likely until 2010.

Fannie Mae executive vice president Thomas Lund said this year's price decline will be 2%, next year's 4% at the median. (On average, the decline is much more than that—for example, DR Horton just reported that its new home sales were down 39% in their fourth quarter, through September, from a year earlier; but its gross income from these sales was down 48%, from \$2.5 billion to \$1.3 billion.) Paul Bibb, CEO of National City Mortgage, said the price drop "could be quite severe."

Patricia Cook, chief business officer of Freddie Mac, said 2.5 million subprime ARMs will reset at sharply higher rates by the end of 2008—that's 160,000 a month—saying this figure comes from the FDIC, whose chairman Sheila Baer just called on Congress to stop the resets across the board by legislation.

Housing-Related Carnage Continues

Oct. 18 (EIRNS)—The latest reported developments in the economy, stemming from the housing and mortgage crisis:

* The *Wall Street Journal* reports that Wall Street investment bank Morgan Stanley is laying off 300 bankers, traders, and analysts, mostly in its fixed-income (e.g., mortgage- and other asset-backed securities) business.

* Bloomberg.com reports that Bank of America, the nation's second-largest bank, reported a profit-decline of 32% in the third quarter due to trading losses, defaults, and writedowns. An investment analyst is quoted that, "The next couple of quarters will be messy for Bank of America. You are only seeing the beginning. The banks will be putting up a lot of money for reserves." BOA announced later in the day, that it will cut back its investment-banking, after having taken about \$4 billion in trading losses in the quarter.

* The *Washington Times* reports that General Motors Acceptance Corporation (GMAC), the former GM finance division now run by Cerberus, is to cut 3,000 jobs in its Residential Capital unit, its mortgage arm.

* The *Wall Street Journal* reports that the SEC has opened an informal investigation of stock sales by Countrywide Financial's CEO. The mortgage-lender New Century Financial Corp., which filed for bankruptcy earlier this year, is also the subject of an SEC and DOJ investigation concerning accounting and stock sales by senior executives.

* The *Financial Times* reports that MGIC Investment, the largest U.S. mortgage-insurer, yesterday issued its first quarterly loss in 16 years, and said it would not be profitable in 2008. An analyst is quoted that everything is going wrong: "Delinquencies are up, severities are getting worse. California and Florida are getting weaker by the minute."

* Bloomberg.com reports that PMI Group, Inc., the second-largest U.S. mortgage-insurer, forecast a third-quarter loss, based on "the continued weak housing and mortgage markets and associated dislocation in the credit derivatives markets."

Electricity Shortages by 2009—Go Nuclear!

Oct. 17 (EIRNS)—Within two to three years, most of United States will fall below the industry-accepted level of reserve generating capacity for electricity, according to the latest report by the North American Electric Reliability Council (NERC). That means more frequent power brownouts and blackouts for most of the country.

Over the next decade, the U.S. and western Canada will require 135,000 megawatts of new generating capacity, NERC reports, even without significant industrial growth which could easily double or triple the requirement. The announcement underscores the need to start now on a crash program to build 6,000 nuclear power plants to meet world needs over the next 50 years. A 135,000 megawatt deficit in generating capacity translates into 135 new 1,000 MW nuclear reactors. Nuclear plants were licensed and built in as little as three years during the high point of Japan's nuclear construction program, but present capabilities are so limited that it will take longer now, especially in the United States. Despite the Bush Administration's pro-nuclear claims, the United States has not brought on line a single new nuclear plant since 1985, while many nations are experiencing a nuclear renaissance.

The only regions of the United States not on NERC's warning map are the southeastern TVA region, where one refurbished nuclear plant came on line last Spring, and another almost completed plant will be finished; and also, Florida. About two-thirds of the 32 new nuclear power plants presently planned are in the Southeast. Whether these ever materialize remains to be seen. NERC, which has sounded an increasingly sharp alarm for ten years about the dangers to the grid of deregulation, also warns that the aging workforce means that 40% of senior electric engineers and supervisors will be eligible to retire in 2009.

World Economic News

Northern Rock Borrowing Reaches \$32 Billion

Oct. 19 (EIRNS)—Northern Rock, the failed British mortgage lender, is believed to have borrowed another £3 billion (\$6 billion) from the Bank of England this week, bringing its total borrowings to £16 billion (\$32 billion). Of concern is the fact that the borrowings are increasing, up from £2.3 billion and £2.9 billion in the previous two weeks, "indicating that Northern Rock's funding problems remain acute," economist Simon Ward told the *Guardian*.

Northern Rock depositors are apparently continuing to withdraw their money, as reflected in a tremendous increase in new deposits at British building societies. (British building societies would be considered savings co-ops in the U.S.) Deposits for September were a record £2.92 billion, an astonishing £1 billion more than the previous record, as savers flee to the building societies from the banking system.

Home-Building Plummet in Germany

Oct. 19 (EIRNS)—At a Frankfurt press conference of the construction industry yesterday, Hans-Peter Keitel, head of the industry association, reported a drastic drop in new housing starts—by 50% during the first three quarters of 2007, compared with the same period 2006.

Nomura Hit by Subprime Crisis, Shuts U.S. Mortgage Unit

Oct. 16 (EIRNS)—Nomura Holdings, Inc., the *Wall Street Journal* leaked, will close its mortgage-backed-securities business, due to "the meltdown of subprime residential mortgages in the U.S." Nomura is Japan's largest investment bank by market capitalization. It plans to take a \$621 million write-down on residential mortgages and a charge of about \$85 million for closing that business. Nomura will have a pretax loss of as much as \$511 million for the last quarter. Combined with previous write-offs, Nomura has now taken losses of more than \$1.2 billion on residential mortgages in the U.S. "This is an extremely regrettable result," said Nobuyuki Koga, Nomura's president and chief executive.

Why Is Murdoch's Wall Street Journal Pointing at London?

Oct. 18 (EIRNS)—The lead article in today's *Wall Street Journal*, "How London Created a Snarl in Global Markets," reports that structured investment vehicles (SIVs), that is, those collapsing funds which are the subject of frantic rescue efforts by the U.S. Treasury and major U.S. banks, were created by "a small coterie of London bankers who engendered what became a \$400 billion industry."

"The funds boomed because they allowed banks to reap profits from investments in new-fangled securities, but without setting aside capital to mitigate the risk." The article describes SIVs as funds set up by banks to issue short-term commercial paper and medium-term notes to investors, and then use the proceeds to buy long-term higher-yield assets—i.e., subprime mortgages and related junk. The assets are owned by the investors, not the banks, so the SIVs aren't on the banks' books; the bank profited by collecting fees for operating the SIVs.

The *Journal* elaborates that, "Most of the few dozen SIVs, typically registered in offshore havens such as the Cayman Islands, are managed out of London." London law firms are also heavily involved in providing advice to SIV operators.

The *Journal* attributes this London-nexus to the fact that the initial SIVs were launched out of Citigroup's London office in the late 1980s, and the Citigroup bankers who invented them now run the world's largest SIV, Gordian Knot Ltd., from an office in the Mayfair district of London, and that "most people with the necessary skills and experience are in the United Kingdom."

IMF Chops Economic Forecast for United States

Oct. 17 (EIRNS)—The International Monetary Fund, in its semi-annual World Economic Outlook, made a sharp downward revision in its rosy growth forecast for the United States, citing credit tightening and mortgage market problems. The IMF said the U.S. economy was set to grow merely 1.9% in 2008, down from the 2.8% forecast in July.

United States News Digest

Dodd Puts a Hold on FISA Reform Legislation

Oct. 19 (EIRNS)—Sen. Chris Dodd (D-Conn.) announced yesterday that he is putting a hold on the legislation to reform the Foreign Intelligence Surveillance Act (FISA), thus preventing it from being brought to the Senate floor for full consideration. Dodd took this action after cowardly Democrats on the Senate Intelligence Committee caved in to White House demands to give retroactive immunity to telecommunications companies for their participation in the illegal domestic wiretap program from 2001 to 2008.

In a statement appearing on his website, Dodd, who is also a candidate for the Democratic Presidential nomination, charged that in granting immunity to the telecommunications companies, the proposed FISA reform "sets a dangerous

precedent" by granting the President sweeping authorization to violate Americans' constitutionally guaranteed right to privacy. "It is unconscionable that such a basic right has been violated," Dodd said, and warned that anyone who aided and abetted the President, whom he characterized as a perpetrator in these illegal activities, "will be held accountable." Meanwhile, in the House, Speaker Nancy Pelosi (D-Calif.) has pulled from the floor the Conyers-Reyes RESTORE bill which does not grant immunity, and which would restore much of the role of the FISA Court in overseeing the surveillance program.

Conyers To Administration: 'Fess Up About Pre 9/11 Spying

Oct. 16 (EIRNS)—Rep. John Conyers (D-Mich.), the chairman of the House Judiciary Committee, is demanding that the Administration inform the committee, with an immediate briefing and documents, about its surveillance activities against Americans that were already underway before the Sept. 11, 2001 attacks.

In a letter sent yesterday to Director of National Intelligence Michael McConnell and to the Justice Department's National Security Division chief Kenneth Wainstein, Conyers asks about the recent revelations by Joseph Nacchio, the former CEO of the telecommunications company Qwest, that he was asked by the NSA for warrantless access to customer phone records months before 9/11, and also that he was subject to retaliation for his refusal to cooperate.

"It is crucial," Conyers wrote, "that Congress be fully informed of *all* the Administration's surveillance activities involving telecommunications companies, particularly in light of the Administration's request that retroactive immunity from liability be provided to these companies and Administration officials."

Nacchio's revelations were first reported in the *Rocky Mountain News* last week. In addition, the *New York Times* reported Oct. 14 that Nacchio's lawyers have quoted from one of several lawsuits filed last year against telecommunications companies, that seven months before the Sept. 11 attacks, around the same time as Nacchio's meeting with NSA officials, another major telecommunications company, AT&T, began development of a facility for monitoring long distance calls and Internet traffic for the NSA. The lawsuit contends that this gave the NSA unlimited, unrestricted, and unfettered access to phone call information and Internet traffic on AT&T's network prior to 9/11.

Congress Fails To Overturn Bush's SCHIP Veto

Oct. 18 (EIRNS)—The House of Representatives today, by a vote of 273 to 156—came 13 votes short of the two-thirds majority required to overturn President Bush's "No Child Left Alive" veto on SCHIPS (State Children's Health Insurance Program), which would have extended health insurance to millions of children of working families who can't afford it. The vote was similar to the original House vote on the SCHIPS Reauthorization Act, which was 265 to 159, with 45 Republicans voting with the Democrats. This time, 44 Republicans voted with the Democrats.

Gates Tries To Put a Lid on Blackwater Explosion

Oct. 18 (EIRNS)—For the first time, Secretary of Defense Robert Gates said, during a Pentagon briefing this afternoon, that there is a conflict between the U.S. military mission in Iraq and that of the private security contractors. He said that the contractors, "in the objective of completing the mission of delivering a principal safely to a destination, just based on everything I've read and what our own team has reported, there have been instances where, to put it mildly, the Iraqis have been offended and not treated properly. So, those kinds of activities work at cross purposes to our larger mission in Iraq." Gates said that his goal is to work with Secretary of State Condoleezza Rice to "see how we reconcile those missions and bring it together."

Lyndon LaRouche noted that Gates must try to take some action to limit the mercenary fiasco in Iraq, but will not touch the central problem of the George Shultz/Felix Rohatyn "privatization" of the military.

Gates: We're on a Path Forward with Russia

Oct. 18 (EIRNS)—Secretary of Defense Robert Gates told reporters at the Pentagon, that he and Secretary of State Condoleezza Rice had "rather direct discussions" with Russian President Putin and their Russian counterparts. "Although some real differences remain between our countries, I think we've developed a path forward in several areas." He added, regarding regular meetings of the so-called 2-plus-2 (foreign and defense ministers of each country), "I think that'll help improve relations and lines of communication between the two countries." And, as part of that process, Gates reported that the Russian defense and foreign ministers have been invited to come to Washington in about six months.

Pelosi's Armenian Genocide Resolution Dead in the Water

Oct. 19 (EIRNS)—As of Oct. 18, House Speaker Nancy Pelosi was saying nothing about the fate of the provocative Armenian Genocide resolution, which she had promised to bring to the floor for a vote. She is now reportedly reconsidering that pledge.

A day earlier, she would only say that "it remains to be seen" whether the resolution would come up for a vote. And as opposition to the measure grows, it appears likely that it will be set aside altogether. Pennsylvania Rep. John Murtha, one of several Democrats who withdrew their support for the resolution, stated on Oct. 17 that "if it came to the floor today, it would not pass," given that there are between 55 to 60 Democrats who oppose it. Several key Democrats are suggesting that the resolution is "for all practical purposes, dead," commentator Jim Lobe reported on Oct. 19 in antiwar.com.

U.S. Supreme Court Halts Another Execution

Oct. 18 (EIRNS)—The U.S. Supreme Court halted the execution of a Virginia inmate yesterday, just four hours before he was to be put to death. Last month, the High Court halted two Kentucky executions in order to review whether the lethal injection method used by most states violates the U.S. Constitution's prohibition against cruel and unusual punishment. Death penalty opponents believe that this amounts to a de facto moratorium on all executions by lethal injections in the United States, until the Supreme Court decides the issue.

Associated Press reports that the U.S. is now on track for the lowest number of executions in a year—about 50—since the mid-1990s.

Wolf Calls Virginia's Dulles Greenway a Ponzi Scheme

Oct. 18 (EIRNS)—On Oct. 16, Rep. Frank Wolf (R-Va.) held a news conference at an office park overlooking the Dulles Greenway, the 14-mile private toll road in Northern Virginia, to announce that the Republican Attorney General of Virginia would be investigating the financial affairs of MacQuarie Infrastructure Group, the Australian company which bought the toll road from its previous owners. Wolf, who has said that Virginia must treat its roads as a public utility and take them back, had written an open letter to the Attorney General, quoting the Oct. 2 issue of *Fortune* magazine, which said that Macquarie borrows money and uses it to pay dividends now, the way a homeowner might take out a home equity line to pay a credit card bill. The *Fortune* article quoted financial analyst Jim Chanos, an early critic of Enron, saying, "Borrowing future growth to pay investors today bears the hallmarks of a Ponzi scheme."

Wolf emphasized the Ponzi scheme quote in the letter he mailed to his constituents.

Ibero-American News Digest

Ibero-American Nations Agree To Found Bank of South

Oct. 15 (EIRNS)—Eight of South America's 12 nations have now agreed to found the Bank of the South, whose mission will be to serve as "a development bank with a South American character, with a central role in the framework of a new regional financial architecture."

As of today, only Chile, Peru, Guyana, and Surinam have yet to join. A high-level South American source intimately involved in the project reported today that the project to found the bank is advancing very well, and noted that with President Alvaro Uribe's formal Oct. 12 request for Colombia to join, it is unlikely that Chile will continue holding out.

The project, which international financier interests have sought to sabotage every which way since it was first proposed formally by Argentine President Néstor Kirchner and Venezuelan President Hugo Chávez last February, took an important step forward on Oct. 8, when the economics and finance ministers of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela, meeting in Rio de Janeiro, agreed on the text of a founding document for the bank, which the Presidents are scheduled to sign on Nov. 3, in Caracas.

Many of the central issues of the substantive nature and functioning of the bank are still being fought out.

Santander Chief Attempts To Stop Bank of the South

Oct. 15 (EIRNS)—Emilio Botín, head of the Royal Bank of Scotland's Spanish partner, Santander Bank, is scheduled to visit Brazil this week, during which he is expected to announce details of the \$27 billion in new investments which he recently promised President Lula da Silva his bank would be making in Brazil over the next few years, *Gazeta do Povo* reported Oct. 11.

The Franco-ite Botín is being deployed personally by London to Brazil to try to sink the project to found a Bank of the South as a regional financial institution controlled by the sovereign governments of South America, and independent of private financier interests. Santander Bank, Spain's largest, and the number one foreign bank operating throughout Ibero-America, has insinuated its agents into key positions within the Lula government, and deployed them repeatedly to sabotage the South American project, which the Lula government is part of.

For example, Development, Industry and Foreign Trade Minister Miguel Jorge, a former vice president of Santander's Brazilian branch, stated on Oct. 9, that Brazil's giant National Economic and Social Development Bank (BNDES) will *not* put up any money for the Bank of the South. The BNDES, a state bank which has served in the past as a key vehicle for Brazil's participation in regional integration projects, is formally part of the Development Ministry, which Jorge now heads.

Seventeen of Santander's promised \$27 billion will go for the purchase of Brazil's Banco Real, which Santander intends to gobble up as part of its buyout of the Dutch ABN-Amro giant. Santander, the Royal Bank of Scotland, and Fortis Bank hope to purchase ABN Amro next month for a cool \$93 billion—if they can come up with the cash. If that purchase goes through, Santander will become the third-largest bank in Brazil.

Argentine First Lady Shows U.S. Congress How To Fight

Oct. 18 (EIRNS)—Cowardly U.S. Congressmen could learn a thing or two from Argentina's Victory Front Presidential candidate and First Lady, Sen. Cristina Fernández de Kirchner, on attacking those British-inspired interests that devastated Argentina's economy in the 1990s, and are now determined to annihilate the United States as well.

President Néstor Kirchner, who took office in 2003, earned the respect of the Argentine people by bucking the IMF's murderous austerity demands during his four years in office. Taking off from that, a video clip on Sen. Fernández's (Mrs. Kirchner's) website, (www.cristina.com.ar) entitled "What is the IMF?" interviews several small schoolchildren who are asked what they think the IMF is.

"It's a satellite that crashed into the moon," one child explained. "It's a country where everything is backward," said another. A third noted, "it's a place where there are many animals—'quack-quack,' it's a duck." One child held up a drawing to explain, "this is the IMF walking its dog."

Following this comical introduction, the narrator adds, "Thanks to us, your children and grandchildren don't have any idea of what the IMF is." He concludes that what Argentina needs now, is not banks to lend it money, but serious investors who will put their money into productive enterprises in the country.

Argentine political forces and media that defend the British model are tearing their hair out at Sen. Fernández's feisty polemics, seen in this video clip, and on the campaign trail, in which she repeatedly attacks the speculation-based free-market model as the enemy of the sovereign nation-state.

The Internet daily Urgente24, which reflects the thinking of the fascist Mont Pelerin Society, complained on Oct. 18 about President Kirchner's "intolerance" toward the IMF, while taking potshots at Sen. Fernández's appearance the previous day in the working class district of La Matanza. There, she and the President inaugurated a factory-school, where young workers can learn a trade while earning a salary.

Such institutions proliferated in Argentina in the 1950s under the Presidency of Juan Domingo Perón, but large numbers were shut down under the IMF policies that dominated both the 1976-83 military dictatorship and the 1989-99 Presidency of IMF poster-child, Carlos Menem. Upset at the enthusiastic greeting Sen. Fernández received from the working-class crowd, and the singing by some of the "Peronist hymn," Urgente24 could only whine that La Matanza "looks more and more like Venezuela," under President Hugo Chávez.

Judge Who Indicted Pinochet Family Under Attack

Oct. 17 (EIRNS)—Chile's Supreme Court has initiated a "disciplinary investigation" of Carlos Cerda, the federal judge who indicted the widow and children of the late fascist dictator Augusto Pinochet on Oct. 4, on charges of embezzling public funds. The Supreme Court's action is allegedly due to remarks that Cerda made in the United States shortly after he issued the indictment, in which he criticized aspects of Chile's judicial system.

Human rights activists and other political leaders point out, however, that the Pinochets' defense lawyers and family members are desperate to have the internationally respected Cerda thrown off the case, knowing his reputation for being both principled and tough. Cerda was one of a handful of lawyers who took on human rights cases while the dictator Pinochet was still in power.

Western European News Digest

Grim Perspectives for German-Russian Relations

Oct. 15 (EIRNS)—Commenting on the Oct. 13-15 meeting of the St. Petersburg Dialogue between Russia and Germany, held in Wiesbaden, Germany, a former Russian diplomat told *EIR*, that the panel on politics was "awful, we cannot go on like this, we're not making any progress." *EIR* reporters who attended, added that the panels were pathetic compared to the Sept. 15-16 conference of the Schiller Institute, founded by Helga Zepp-LaRouche, which was entitled, "The Eurasian Land-Bridge Is Becoming a Reality!"

These comments reflect the decision of the German government and mass media to join the London-centered neocon black propaganda campaign against Russia and in particular, against President Vladimir Putin—a strategic flaw that will greatly damage German interests in the future. (See InDepth for "Third World War or New World Economic Order?" by Helga Zepp-LaRouche.)

Brits Continue Obstruction on BAE Investigation

Oct. 17 (EIRNS)—Britain's Home Secretary will now have the power to block extraditions to the U.S., such as in the BAE case, under new powers that come into effect in November, the *Sunday Times* of London reported Oct. 14. Proponents of the new powers say that this could prevent a repeat of the "NatWest Three" case in which three British bankers were extradited to the United States to stand trial in Houston, Texas, in an Enron-related fraud case.

Meanwhile, Mike Turner, the CEO of BAE Systems, announced his retirement amid fears of a U.S. Department of Justice investigation into multi-billion-dollar corruption charges.

Nils Pratly, writing in the Oct. 11 *Guardian*, under the headline "Stench of Conspiracy at BAE Systems," asserts the real reason for Turner's early retirement could very well be the U.S. Department of Justice investigation in the BAE "Al-Yamamah" deal with Saudi Arabia, where up to \$2 billion in bribes were paid into the U.S. bank accounts of former Saudi Ambassador to the U.S. Prince Bandar.

Scandals Heat Up French Politics

Oct. 16 (EIRNS)—Several scandals are rocking French President Nicolas Sarkozy's government; his approval rating has dropped by 5 points, according to the latest polls.

* A major insider trading scandal by the management of the European aircraft manufacturer EADS was revealed by *Le Figaro*, a paper belonging to the Dassault aviation group. (See Jacques Cheminade's statement http://www.solidariteetprogres.org/spip/article-imprim.php3?id_article=3402.) At the very same moment that the company's "Power 8" plan projects firing 10,000 members of its highly productive workforce, the management and staff stole hundreds of millions of euros.

* Police raided the office and home of Denis Gautier-Sauvagnac, the boss of the powerful Metal Industries Association (UIMM). French financial police have identified over EU17 million in cash taken out of secret slush fund estimated at over EU200 million. The fund, created to "fight labor strikes," is suspected of being used to "grease social relations," i.e., secretly financing the trade unions. Gautier-Sauvagnac, a leading figure in the national employers' association, MEDEF, recused himself as a negotiator in some of the talks with unions. According to today's *Le Parisien*, the police will raid the homes of five or six other people this week to track down the cash flows. The scandal throws suspicion on the unions two days before Thursday's planned national rail strike.

* Some 6,000 people, across all party lines, gathered this weekend in Paris to express their opposition to the new law that would allow DNA testing to regulate immigrant families.

IMF: European Housing Bubbles Worse Than Those in USA

Oct. 18 (EIRNS)—The housing bubbles in Britain, Ireland, Spain, and the Netherlands are even more extreme than in that in the United States before the recent crash, says the IMF World Economic Outlook, issued today. "Could a housing correction in western Europe be as deep as in the US? The extent of house price over-valuation may be considerably larger in some national markets in Europe than in the US, and there would clearly be a sizeable impact on the housing markets in the event of a widespread credit crunch," the IMF report says.

Additionally, the BBC is reporting that the Council of Mortgage Lenders (CML) said that gross mortgage lending in Britain fell by 12% from August to September, to £30 billion, although the overall amount was higher than September 2006. The monthly drop was higher than usual, which was 5% last year.

The Italian consumers association ADUSBEF reports that foreclosures in Italy have increased 27%, as a result of the resetting of adjustable-rate mortgages. About 120,000 families could face foreclosure this year, 3.5% of total mortgage borrowers.

The big debate in Spain, is which Spanish bank will be that country's Northern Rock, the collapsed British mortgage bank. According to the London *Times*, the real estate markets of Spain, Great Britain, and Ireland are all expected to collapse—the only question is when.

Reality Disagrees with German 'Upswing' Propaganda

Oct. 12 (EIRNS)— Rather than continuing with its "the upswing is here" propaganda, the government of Germany should take a look into the latest reports coming from the Federal Office of Statistics, which tell a quite different story. For example, private insolvencies jumped up by 50% in 2006 (against 2005), from 68,000 to 92,000. The number of welfare recipients increased by 8%, which translates into a quarter million Germans.

Also revealing about the state of the real economy, about which the government is in hysterical denial, is the development of consumer price inflation, especially of food products: a preliminary review of the first three quarters of 2007 done by the Office of Statistics notes an alarming inflation trend, especially during quarters two and three. Food prices are expected to increase by another 50% during the coming 12 months, experts forecast. Year-on-year, September featured an increase of 62.9% for cereals, seeds and feed grains; livestock and farming products increased by 33.8%; milk, milk products, eggs, and vegetable oil up 18.8%.

Russia and the CIS News Digest

Putin Webcast Addresses National Security, General Welfare

Oct. 19 (EIRNS)—Yesterday, Russian President Vladimir Putin conducted his sixth, and final webcast dialogue with the Russian population. The question-and-answer session lasted three hours, including live questions from groups of citizens assembled in various cities, some of the over 2 million phone-in questions, and e-mail and SMS messages. What came through in the broadcast that was carried on two major national TV channels, and archived on the Kremlin website, is a Russia that is back on its feet after the disastrous 1990s, and is grappling with problems that are daunting, yet

approachable.

The outstanding themes of the webcast were national security, and the welfare of the population.

Several of the group Q&A exchanges were staged to emphasize national security. A group of officers and staff from the Plesetsk Cosmodrome in Arkhangelsk Region reported to Putin on the successful test-firing of a Topol intercontinental ballistic missile that morning—and showed rare footage of the launch, also reporting that the rocket had hit its target on Kamchatka Peninsula in the Far East, 25 minutes later. Putin then launched into a briefing on the maintenance and upgrading of Russia's strategic triad, including its modernization on the basis of new technologies. He called these plans "grandiose."

A group of military men and citizens from the village of Botlik, Dagestan, recalled how they repulsed an attack by the Chechen insurgent commander Shamil Basayev and his foreign accomplice, Hottab, in 1999. It was a turning point in beating back the attempt to spread separatist insurgencies throughout the Russian North Caucasus. The questioners, and Putin, talked about the stabilization of Chechnya, yet the abiding danger of foreign instigators moving to inflame Ingushetia and other areas.

In reply to questions from Kaliningrad on the Baltic Sea, the Russian enclave (historically Königsberg) that is separated from the rest of Russia by the Baltic states, Putin gave a detailed discussion of the problem with the planned U.S. ABM system to be installed in Poland. He repeated grave warnings of the consequences, if the United States plows ahead with this plan, but also reiterated that there were positive signs in the most recent ministerial talks about the ABM systems, held on Oct. 12-13 (see separate item).

A question that startled Putin came from a mechanic in Novosibirsk, where the group of questioners was broadcast from a dramatic setting: inside the nuclear fusion research center of the Institute of Nuclear Physics at Akademgorodok. This man asked what Putin thought about alleged remarks by former U.S. Secretary of State Madeleine Albright, that it was not fair for Siberia's enormous natural resources to belong only to Russia! Putin said that he was unaware of such a statement, and called the notion "political wet dreams," of a sort whose best example is the disaster in Iraq. In view of such statements, he added, clearly Russia's current policy of strengthening the Army and Navy is correct. (It remained unclear, however, whether Albright really said this, or if the questioner had picked up a distorted press report of a recently declassified 35-year-old State Department seminar presentation by one Raymond Albright, titled "Siberian Energy for Japan and the United States.")

Answering questions on the situation within Russia, the major themes of the Russian President's dialogue with the population were infrastructure, incomes, and inflation. On questions ranging from bridges between Russky Island (off Vladivostok) and the mainland, to the restoration of the Makhachkala-Botlik highway and tunnel in Dagestan, to Moscow traffic jams, Putin reported and made promises about the government's commitment to build up infrastructure.

Putin discussed the first glimmer of a turnaround in the country's demographic crisis. Programs to attract emigrés back to Russia were discussed several times. He said that the most painful problem of his Presidency has been the impoverishment of the population. He answered numerous questions about government funding for health care, pensions, and the agriculture sector.

The low point of the interview came when Putin suggested that Russia's vast, under-farmed land area represents a great potential for the biofuels market.

The high points were the Russian President's interchanges with teachers and young people, with regard to optimism about

the country's future, the crucial importance of studying history, and learning foreign languages.

Lavrov Calls on Japan to Join Siberian Development

Oct. 18 (EIRNS)—On the eve of his visit to Japan, Russian Foreign Minister Sergei Lavrov told Japanese press that Moscow is "closely" following "the current trends in the foreign policy of Japan," especially "that Japan seeks to conduct active diplomacy in Eurasia, based on its political and economic interests." Asked about potential Russian-Japanese cooperation in Siberia and the Russian Far East, Lavrov told Kyodo that Russia sees the Asia-Pacific as the "engine" of the world economy.

Lavrov noted "the swift development of integration" in the region, "in which Siberia and Russia's Far East are becoming organically involved." Along with their raw materials resources, no one should forget "the potential of innovative development accumulated in these Russian regions." This process "calls for closer Russian-Japanese economic and commercial ties in Siberia and the Far East." There will be further discussion of these plans at the meeting of the Sub-Commission on Regional Cooperation of the Intergovernmental Trade and Economic Commission, to be held in Vladivostok on Oct. 26.

Russia Takes Leading Role in High-Tech Sectors

Oct. 15 (EIRNS)—Russia is playing a leading role worldwide in the nuclear, space, aircraft, and shipbuilding industries, sectors where Russia has maintained its "know-how" both in personnel and technology, Russian First Deputy Prime Minister Sergei Ivanov said in Podolsk, Moscow region today, Itar-Tass reported. "We are consolidating assets and the state's attention to such high-technology sectors in the economy as nuclear, space, aircraft, and shipbuilding is growing," Ivanov said, "These are such sectors where Russia has preserved both technology and personnel and know-how. We are playing in these spheres either a leading or serious role on the world market." The state must consolidate its assets and create new corporations in these sectors, Ivanov said.

These issues will be under discussion at the next meeting of the government committee for the industry, technology and transport. In the nuclear industry, building more nuclear power plants is a top priority, Ivanov said. "Nuclear energy today must become a universal tool which can meet not only growing industrial demands, but also the demands of the country's social and economic development," he said.

U.S. 'Blew' Chance to Ally With Russia After Cold War

Oct. 19 (EIRNS)—In an article published on antiwar.com today, conservative commentator Patrick Buchanan inveighed against the Bush Administration's policy of targetting Russia at the end of the Cold War, instead of taking advantage of the "great opportunity of history: to embrace Russia ... as partner, friend, and ally."

What Buchanan failed to mention, were the British imperial interests directing a policy which, as he explained, responded to every conciliatory Russian action toward the West, with one provocation after another. The United States began moving NATO into Eastern Europe and the former Soviet republics; the National Endowment for Democracy, Freedom House, and other NGOs funded the ouster of pro-Russian regimes in Serbia, Ukraine, and Georgia; the U.S. bombed Russian ally Serbia, dissolved the Nixon-Brezhnev ABM Treaty, and is planning to install missile defense systems in Poland and the Czech Republic. And the list goes on.

Is it therefore any surprise, Buchanan asks, that Russia today has become a key ally of China, India, and Syria, and is resisting U.S. imperial adventures in the Middle East, Iran, and elsewhere? "We moved NATO onto Russia's front porch,

ignored her valid interests and concerns, and, with our 'indispensable-nation' arrogance, treated her as a defeated power, as France treated Weimar Germany after Versailles." So, "who started the Cold War? Bush and the braying hegemonists he brought with him to power. Great empires and tiny minds go ill together."

Southwest Asia News Digest

LaRouche: Putin-Olmert Meeting Is Extremely Important

Oct. 19 (EIRNS)—Lyndon LaRouche evaluated the Oct. 18 three-hour meeting between Israeli Prime Minister Olmert and Russian President Putin as follows:

"This is extremely important, because we know exactly what it is. The point is, that the question is Iran ... it involves everything, including the U.S. policy on this missile-defense thing. And so, what Putin is going for, is to get a package which is attractive to a number of people, and see what can fly from it. It's obvious. And therefore, from the standpoint of Israel, are they going to go to this Annapolis meeting or not? The Annapolis meeting question hangs, to some degree, on specifically that question, why should they go? Maybe it's a liability to go. Maybe it's better that Israel doesn't go at all, rather than go to a boo-boo session.

"I think that's what the issue was," LaRouche continued, "because, obviously, Olmert would have to have that kind of information, and he would run like hell to Moscow to get it. A several-hour discussion? That is not a minor thing, especially with an Israeli talking to a Russian leader."

An Olmert spokesman told *Ha'aretz* newspaper, "Russian President Vladimir Putin exhibited great understanding of the Israeli position regarding all matters on the agenda, especially the Iranian issue. There was an open and serious atmosphere, and the prime minister is very pleased with the results of his visit."

LaRouche remarked, "Absolutely! That's exactly what I would expect. So, something worked. What, we don't know—but something did."

Iran Must Be Included in Persian Gulf Security Arrangement

Oct. 17 (EIRNS)—If there's to be peace in Southwest Asia, then all of the powers of the region must be included in any security architecture, and especially both the U.S. and Iran must recognize realities that they now refuse to accept. That was the response of Trita Parsi, the president of the National Iranian American Council, and the author of a new book entitled, *Treacherous Alliance: The Secret Dealings of Iran, Israel and the U.S.*, to a question from LaRouche PAC on how to get out of the pattern of balance-of-power politics that has dominated the region for the last 50 years or so.

Parsi, speaking at a book event hosted by the American Conservative Defense Alliance in Washington, D.C., said that the United States would have to recognize that Iran is a major regional power. Iran would have to accept Israel as a fact, though Iran has come closer to this than the Bush/Cheney regime has come to accepting Iran as a major regional power, as indicated by Iran's 2003 offer of a "grand bargain" to Washington, that included implicit acceptance of the Saudi peace offer that included a two-state solution for the Palestinian-Israeli conflict. Parsi warned that if this is not done, "We'll see a continuation of the balance-of-power game that means a war every 7 to 12 years." He said this situation does not exist anywhere else in the world, because security architectures elsewhere are all-inclusive. "In the Middle East, we've pursued bilateral defense deals with individual states at the expense of other states."

Parsi also traced back the roots of the current situation in the Persian Gulf region to the U.S. decision to exclude Iran from the 1991 peace talks in Madrid. That exclusion, resulting from U.S. hubris after the defeat of Saddam Hussein, allowed the hardliners inside Iran to pursue a policy that Ayatollah Khomeini had actually prevented them from doing during the 1980s, which was to send soldiers to fight with the Shi'ites against Israel in Lebanon. "You can't create a stable order by excluding someone," Parsi said. "That gives them the incentive to undermine it."

Iraq Awards Power-Plant Contracts to Iran and China

Oct. 18 (EIRNS)—The Iraqi electricity ministry has awarded contracts to Iran and China for the construction of power plants, alarming U.S. officials, today's *New York Times* reports. One Iran power project will be built in Sadr City in Baghdad. Iran will also provide cheap electricity from its power grid to southern Iraq, and will build another plant between the Shi'ite holy cities of Karbala and Najaf, both in Iraq. The Chinese plant will be built in Wasit, by the Shanghai Heavy Industry firm.

The United States has already spent \$5 billion on electricity projects in Iraq, with almost nothing to show for it. White House Press Secretary Dana Perino said today that the Administration doesn't have details on the projects, and of the Iranian and Chinese deals that "if it's legitimate and it's a good, productive way to contribute to helping the Iraqis rebuild, great." But, "if they are doing something that is a clandestine way to bring in foreign fighters into the country or to cause additional mischief, in addition to what they've already been doing, then we would be concerned."

Sanchez: Iraq War 'A Nightmare With No End in Sight'

Oct. 13 (EIRNS)—Lt. Gen. Ricardo Sanchez (ret.), the top U.S. commander in Iraq from June 2003 to June 2004, slammed the White House, the State Department, and the lack of leadership in Congress, for the disaster in Iraq. In a speech to military reporters and editors meeting in Arlington, Va. on Oct. 12, Sanchez said that "America continues its desperate struggle in Iraq without any concerted effort to devise a strategy that will achieve victory in Iraq." He attributed this failure to the failure of the Bush Administration to "employ and synchronize its political, economic and military power"; to the failure of Congress to provide focused oversight; to partisanship in both the Democratic and Republican parties, that has led to political decisions "that have endangered the lives of our sons and daughters"; and to "America's lack of commitment, priority and moral courage in this war effort."

As a result, "America is living a nightmare with no end in sight." The political leaders of the country "have unquestionably been derelict in the performance of their duty. In my profession, these types of leaders would be immediately relieved or court martialed," he said.

This is the first time Sanchez has spoken out publicly since he retired from the Army in 2006, and was, in many ways, the victim of the misleadership that he describes. He arrived in Iraq as the most junior three-star general in the Army, in the aftermath of the decisions by Paul Bremer, the U.S. proconsul in Baghdad, to disband the Iraqi Army, and purge Ba'ath Party members from their jobs, which created the conditions for the insurgency that began to build up that Summer. Sanchez described Gen. David Petraeus's "surge" strategy as a "desperate attempt" by an administration that has not accepted the political realities of this war. "Continued manipulations and adjustments to our military strategy will not achieve victory," he said. "The best we can do with this flawed approach is to stave off defeat."

Asia News Digest

India To Sign Strategic Port Agreement With Myanmar

Oct. 17 (EIRNS)—Virtually ignoring domestic and international pressure to act tough against the Myanmar junta, New Delhi's Manmohan Singh-led United Progressive Alliance (UPA) government has indicated that it will sign an agreement with the Burmese military junta to develop the port of Sittwe, officials in Delhi have said. They hope the port will allow easy and cheap transport of goods to India's remote, restive northeastern states. India will put \$103 million into the project, despite international calls for sanctions against the military rulers of Myanmar. Sittwe is situated on the eastern shore of the Andaman Sea—an access to the Indian Ocean and Arabian Sea for a number of nations, including China.

"We are now in a final stages of negotiations and the agreement should be through within a month," said an Indian Foreign Ministry official, who did not wish to be named. Under the agreement, India will develop the port and put in place facilities to use the Kaladan River. Goods will then be easily shipped from ports in eastern India and taken to the landlocked northeast Indian states in smaller vessels. Logistics experts say it will take three years to complete the project after the agreement is signed. "Once that happens, it will hugely benefit northeast India and save transport costs to the region by 40%, even 50%," said Atin Sen of the Kolkata-based Asian Council of Logistics Management.

Benazir Bhutto Survives Assassination Attempt

Oct. 19 (EIRNS)—Within 12 hours of her return to Karachi after eight years of exile, Pakistan's former Prime Minister Benazir Bhutto survived a massive attempt on her life. The death toll from the midnight suicide attacks has grown to 136 and more than 250 injured (more than 500 according to private TV channels). Days before her planned arrival from Dubai, a provincial government official had cited intelligence reports that said three suicide bombers linked to pro-Taliban warlord Baitullah Mehsud, and to al-Qaeda, would be waiting for Mrs. Bhutto in Karachi.

The attempted assassination is symptomatic of the civil war-like conditions that have developed in Pakistan. Bhutto is considered a creature of the Americans, who are deeply mistrusted there, particularly by the Islamic militants, by a section of the army, and by the powerful Inter-Services Intelligence (ISI). Mrs. Bhutto blamed the attack on supporters of Pakistan's late military ruler Gen. Zia ul-Haq. She told *Paris-Match* magazine that they remain extremely powerful, and see her return to Pakistan, and her pledge to restore democracy, as a threat to their influence. In a letter to President Pervez Musharraf, Benazir named three people's involvement in the assassination attempt. She refused to identify the names in public.

One of the men Bhutto may have named in that letter is Brig. Gen. Ejaz Shah, the officer placed in charge of her security on arrival. Shah is a former officer of the ISI, and a close personal friend of Musharraf. It was Shah who orchestrated the overthrow of former Prime Minister Nawaz Sharif in October 1999, which put Musharraf in power. Shah, when he was in the ISI, was the case officer for Osama bin Laden and for Mullah Omar, the chief of the Taliban.

Preparations for China-India-Russia Meeting

Oct. 19 (EIRNS)—In preparation for the meeting of China, India, and Russia on Oct. 24 at Harbin, China, India's Ministry of External Affairs (MEA) has floated, through a favorite correspondent, some concepts on areas where discussions should focus.

Since both China and India are short of electrical power and hydrocarbons, the MEA believes the three nations must get their heads together to work out a plan. One idea should be to utilize the considerable hydropower potential in Siberia and Tibet. This could be tapped for transmitting electricity via Xinjiang and Tibet to the large Indian market just across the mountains.

Overland pipeline projects, if found technically and economically feasible, could transport Russian and Caspian Sea oil

and gas to markets in India via China, as well as to global markets via India's warm-water ports. This could be cheaper and would obviate many of the risks associated with exclusive reliance on maritime energy-supply routes. China is already exploring alternative routes via Pakistan for transporting Persian Gulf oil to China. It may well find a sea-land route via India more reliable and secure, particularly if there is a reciprocal dependence—India's on Russian and Central Asian gas transiting China on its way to India, and China's on Gulf oil transiting India on its way to China.

Nuclear Future of China and India

Oct. 16 (EIRNS)—Nuclear energy is the "way forward" for China and India, International Atomic Energy Agency (IAEA) deputy director-general and head of the department of nuclear energy Yuri Sokolov said yesterday at a Chinese symposium on nuclear power plant management in Beijing, *China Daily* reported. "China has developed quite fast in the nuclear power industry in the past 20 years. In China, in India, you have very definite plans for increasing the nuclear capacity six to ten times for 20 years; this is really fast growth. The growth of the world is not so fast," he said. Sokolov said nuclear power has an international future: "Now nuclear power exists in 30 countries, and 30 to 40 other countries have expressed their willingness to explore nuclear power."

China plans to increase installed nuclear power capacity from the current 9,000 MW in 2007, to 40,000 MW by 2020, while India plans to increase installed nuclear power capacity to 20,000 MW by then.

India Sees Danger in Derivatives

Oct. 18 (EIRNS)—India's Securities and Exchange (SEBI) is taking measures to regulate the "offshore derivative instruments" (ODIs) used by hedge funds and other hot money operations to get into the Mumbai stock exchange. When the SEBI announced yesterday that these ODIs (known as "Participatory Notes" or "P-notes") would be curbed beginning Oct. 25, the Bombay exchange plunged by 9.2%, wiping off \$100 billion worth from Indian stocks. The exchange was closed down in the middle of the day, until Finance Minister Palaniappan Chidambaram put out a statement that "We have not banned P-notes. We have simply placed a cap on the proportion of money coming through these [notes]." Then, the market rose again.

Foreign investors, of which at least half are hedge funds, use the P-notes to invest, but avoid registration with the SEBI. The London *Times* today quotes an Indian fund manager saying that "the kind of money flows we've seen in the last couple of months has got regulators and the Government worried." Foreign investors have put \$17 billion into Indian stocks so far this year, \$4.6 billion just this last month, compared with a full-year record of \$10.7 billion in 2005. The SEBI said foreign institutional investors should stop issuing or renewing participatory notes on underlying derivatives and extinguish existing participatory notes within 18 months. Today, New Delhi's *The Hindu's* lead editorial endorsed the restrictions on P-notes, saying that the Reserve Bank of India has "for long argued that the anonymity that this route provides goes against transparency and makes the task of monitoring capital inflows onerous."

Asians Pulling Out of the Dollar at Record Rates

Oct. 18 (EIRNS)—Chinese and Japanese sales of U.S. treasuries grew in August "at a pace unprecedented in the last five years, as the U.S. subprime mortgage crisis triggered the biggest sell-off of dollar assets since Russia's 1998 default," as reported in the *China Daily*. China cut its holdings of U.S. treasuries by 2.2% or \$9 billion, to \$400 billion, while Japan dumped 4% of its total holdings to \$586 billion, the most since March 2000. Taiwan's ownership of U.S. government bonds fell sharply by 8.9% to \$52 billion.

According to the latest statistics, \$400 billion of U.S. treasuries only account for 28% of China's \$1.43 trillion foreign

reserves now, a sharp contrast to years ago, when most of China's foreign reserves found their way into U.S. treasuries. While the driving force is clearly the recognition that the crash is on, analysts covered by *China Daily* attributed the spark for the rapid exit from the dollar to the low exchange rate caused by the subprime mortgage fallout, and the Federal Reserve's decision to lower the interest rate by 50 basis points. The dollar has devalued by some 7% this year against the euro. Suspicions that the Federal Reserve would cut the interest rate again further contributed to pressure for China and other countries to reduce holdings of U.S. assets.

China's State Administration of Foreign Exchange said at a conference that foreign exchange management departments should move against hot money flows, by "regulating foreign capital inflow and foreign exchange management, preventing illegal capital inflow and short-term overseas speculation, to ensure the national financial security."

Plan Aims To Turn Taliban Leaders

Oct. 15 (EIRNS)—A plan to orchestrate the defection of Afghan Taliban leaders, reportedly spearheaded by Afghan President Hamid Karzai, is being backed by the Brits, according to the Oct. 15 *Guardian*. Members of the Taliban leadership council have used go-betweens to negotiate their defection, said the report. "There is a remarkable amount of contacts between senior and serious [Afghan] government figures with people who are in the Taliban movement," a senior British official was quoted as saying. "It is conceivable you could have chunks of the Taliban breaking off and giving up violence. Some have already done so," he said. Tribal elders, former Taliban ministers, and UN officials have opened multiple back channels between the two sides, the report said.

Many of the contacts were initiated by Taliban commanders themselves, dispirited by losses at the hands of NATO bombing campaign and worried about the loss of the sanctuary in neighboring Pakistan, a senior diplomatic source in Kabul said. "Effectively what some of the commanders are offering is to capitulate," he said. "They are worried for their own skins and the skins of their families."

The official refused to give any numbers, only saying they were "numerous."

Africa News Digest

World Bank Shifts to Mini-Agriculture, Low-Carbon Energy

Oct. 21 (EIRNS)—The World Bank is making a shift in its policy towards Africa, to an emphasis on small-scale agriculture which will supposedly serve as a motor for development of African countries, as well as emphasis on a transition to low-carbon economies. At the IMF/World Bank annual meeting in Washington, D.C., World Bank President Robert Zoellick today won support from Bank member countries for his strategy for the next five years, according to Reuters. The IMF/World Bank annual meeting ends tomorrow.

The Bank's annual *World Development Report*, released the week preceding the annual meeting, noted that "A greater focus on agriculture will boost overall growth and can offer multiple pathways out of poverty." There was no mention of development of infrastructure or industry to facilitate this.

In preparation for the policy shift, an internal World Bank report was recently made public by the Bank, which admitted that its policy for the 1980s and 1990s had willfully neglected agriculture in sub-Saharan Africa, according to the Oct. 15 *New York Times*. The Bank had pushed for the public sector in African countries to pull back from involvement in agriculture, saying that market forces would step in and solve the problems. The Bank pushed governments to cut or eliminate fertilizer subsidies, decontrol prices, and privatize agricultural input supply and marketing institutions. But the

private sector did not move in, and food production fell.

Without access to significant credit, roads, and fertilizer markets, the theory that higher prices to farmers for their products, resulting from deregulation, would fuel development, fell flat in those two decades. The new policy focusses only on "small holders," and not on infrastructure or industry.

Somalia Crisis Escalates as UN Official Is Kidnapped

Oct. 18 (EIRNS)—In the wake of the sabotage of recent efforts to reconcile the Somali government with opposition factions in Mogadishu, the situation in the country has plunged further into chaos. Yesterday, Idris Osman, the head of the UN World Food Program in Mogadishu was seized at gunpoint by up to 60 heavily armed Somali government security officers, who had forced their way into the WFP offices, according to news reports. This action prompted the WFP to stop desperately needed food-aid distribution. The kidnapping occurred on the eve of a confidence vote for Prime Minister Ali Mohamed Gedi, and in the aftermath of some of the heaviest fighting in weeks in the capital, Mogadishu. On Oct. 10, Gedi was the target of a suicide bomb attack near his residence.

The Interior Ministry denied responsibility in the kidnapping Osman. Everything indicates that the escalation of violence has been engineered to sabotage a process of reconciliation which Prime Minister Gedi had been part of. On Oct. 9, Gedi—the leader of the Hawiye, the most powerful clan in Mogadishu—had signed a truce deal that was seen as a major step in bringing about reconciliation between the Ethiopian-supported transitional government and the anti-government Islamic militias.

The agreement between Gedi and the Hawiye clan had been supported by the Italian government, which the cabinet chief of the transitory government, Abdisaid M. Ali, had called on for help. Italian Deputy Minister of Foreign Affairs Patrizia Sentinelli promised support on the condition that "the Somali executive must take concrete steps towards the inclusion of the clans and of the political forces which have not participated in the work of the reconciliation conference." On Oct. 10, the Italian government announced the formation of a working group to come out with concrete suggestions for Somalia. This reconciliation process is now jeopardized.

Last week, Gedi's government imploded, as the occupying force, Ethiopia, withdrew its support and now backs Gedi's rival, President Abdullahi Yusuf. Relations between Gedi and Yusuf worsened last month, after Gedi dismissed a close political ally of Yusuf. In the aftermath of a Oct. 10 suicide attack, 22 ministers out of 30 abandoned the government coalition.

Abdullahi Yusuf is from the Darod clan. His power base is in Puntland, an autonomous region in Somalia state. In October 2006, the Puntland autonomous government entered into a contract with the small Australian company Range Resources Ltd, selling off 50.1% of the exclusive rights to all mineral, oil exploration and development in Puntland.

Any solution for stability in Somalia involves the Islamic Courts and the transitional government. The Ethiopian occupation force, although key in overthrowing the former Islamic government, is not able to control the territory.

Meanwhile, an alliance of opponents to the Ethiopia-backed transitional government has been recently formed in Eritrea. "A situation suggesting ... a proxy war" is taking place, wrote the Catholic press service *Fides* Oct. 10, pointing to the fact that foreign interests are eager to put their hands on water, oil, and other interests in the region. "The most worrisome development for observers is the growing tension between Somaliland and Puntland." Both are in the former British-controlled part of Somalia, both are heavily dependent on Ethiopia, and Somaliland wants independence from Somalia.

The Sool region, contested by Puntland and Somaliland, is ethnically aligned with Puntland, but, in classic British colonial style, was formerly part of British Somaliland. "In the first days of October at least ten persons died in clashes in the Sool area, at the border between the two Somali regions, where there are years-long tensions over the control of water-rich areas," Fides wrote.

Confidence Vote on Somali Premier Postponed Again

Oct. 21 (EIRNS)—The vote on the no-confidence motion brought against Somali Prime Minister Ali Mohamed Gedi has been delayed again, according to Garowe Online today. Originally scheduled for Oct. 17, it was delayed until today because Gedi was meeting high-level officials in Ethiopia for three days. Upon his return today, the vote was put off until tomorrow, because President Abdulahi Yusuf Ahmed was conducting closed-door talks with senior legislators and administration officials.

While in Ethiopia, Gedi said he would follow legal procedures and step down, so as to avoid a divisive struggle. He does not have a private army, as do many of the political figures in Somalia. He is from the Mogadishu-centered Hawiye clan, one of the two largest clans in Somalia, significant numbers of which are opposed to the President and the Ethiopian military presence. Gedi has had differences with Yusuf since 2004.

Gedi has been appealing to feuding clans to settle their differences peacefully. Since Ethiopia militarily intervened in Somalia last December, there has been a growing insurgency, which, Gedi charges, has many external stakeholders. Mogadishu is becoming more and more like Baghdad; some pilots are now refusing to fly into Mogadishu.

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