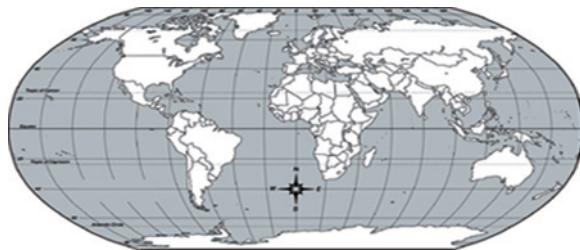


# E.I.R. STRATEGIC ALERT WEEKLY NEWSLETTER



Volume 31, No. 37 - September 14, 2017

## Vladivostok Forum Advances Strategic and Economic Cooperation

The highly successful Sept. 3-5 BRICS summit in Xiamen, China (cf. below), was followed by the Eastern Economic Forum in Vladivostok on Sept. 6-7, which brought together key actors in the Pacific Region to discuss strategic issues and enhance economic cooperation, including in Russia's Far East.

The issue of North Korea was high on the agenda of the political discussions, including in bilateral meetings Russian President Putin held with South Korean President Moon Jae-in and with Japanese PM Abe. Very importantly, a delegation of North Koreans attended as well.

Speaking to the press after their meeting, Putin and Moon presented several concrete proposals for working together in the transformation of the Russian Far East, while creating the conditions for a solution to the escalating crisis over North Korea, through development. Specifically, the Russian President proposed that Russia could deliver pipeline gas to both Koreas and integrate the power lines and railway systems of Russia, North Korea and South Korea. President Moon supported that vision. Trade between Russia and South Korea has increased significantly over the past months.

As for Japan, EIR was told by Daisuke Kotegawa, a former Japanese Finance Ministry official and Japan's Executive Director at the IMF, that the relationship between Russia and Japan reached a new high at the event. Well over one third of the attendees at the Forum were from Japan, including Prime Minister Shinzo Abe, three of his ministers, and a large number of business leaders. There was concrete discussion of jointly building a rail connection between Russia and Japan -- first from the Russian mainland to Sakhalin Island, and then from Sakhalin to Japan's northern island, Hokkaido. Putin described the project as "absolutely global in nature," and suggested it could be completed within three to five years.

Kotegawa, who attended the event, said the business leaders were very enthusiastic, perceiving that the political relations had improved so much that they could begin to think freely of joint investment and development projects without concern for political problems interfering.

## BRICS Emerges From Xiamen Summit Stronger and More Inclusive

The recent BRICS Summit, hosted by China and held in the coastal town of Xiamen, showcased a much stronger partnership with greater responsibilities than ever before. There had

been much talk prior to the gathering of the demise of the BRICS organization due to the downturn in international trade. And the recent tensions between China and India led some critics to predict that India would not be attending. But they have been proven wrong.

Indeed, it was undoubtedly the solidarity exhibited in the BRICS partnership which allowed the two countries' leaders to put the border dispute aside and to focus on their common interests as the largest developing nations. Both leaders stated after their bilateral meeting that the talks were productive and constructive.

China took the initiative to invite the leaders of five non-BRICS countries to attend the summit and to engage in a Dialogue of Emerging Markets and Developing Countries. The invitees, Egypt, Mexico, Thailand, Tajikistan and Guinea, come from all the major continents. As President Xi pointed out during the event, all emerging market and developing countries have great expectations for the BRICS, as a platform for co-operation.

During the Summit, it was announced that China was contributing \$4 million to the project preparation fund of the BRICS New Development Bank for the bank's operation and long-term development. In addition it was setting aside \$75 million for economic and technological cooperation and exchanges among BRICS countries. China will also commit \$500 million to the Assistance Fund for South-South Cooperation.

The concluding Xiamen Declaration also underlines the long-term goal of the BRICS partnership to introduce a new form of global governance. "We resolve to foster a global economic governance architecture that is more effective and reflective of current global economic landscape, increasing the voice and representation of emerging markets and developing economies."

While the issue of economic development will remain a primary task of the BRICS cooperation platform, the Xiamen Declaration also clearly indicates that BRICS coordination and cooperation will play an even greater role on major security and political issues. In this way BRICS -- and the developing sector generally -- will have the opportunity to exert an even greater influence on how the world is governed.

In his opening statement, Xi Jinping quoted a Chinese proverb to express the importance of solidarity in the group: saying "a partnership forged with the right approach defies geographical distance; it is thicker than glue and stronger than metal and stone."

## **North Korea Provocations Lead to Build-up of Strong Deterrent**

Following on North Korea's recent nuclear test and the demonstrations of an emerging ICBM capability, virtually all significant opposition in South Korea to the deployment of the THAAD missile defense systems has now been dropped, and the government of President Moon is accelerating plans for an integrated South Korean/American multi-layered defense against North Korea. It will include anti-submarine warfare (ASW) systems, American submarines and even tactical nuclear weapons.

In Japan, a similar plan for intensification of multi-layered missile defense systems -- beyond the American Aegis systems already in place -- is also moving rapidly ahead.

The Chinese leadership does not wish to see Japan and South Korea "go nuclear" in response to the North Korean advances, as that would create a regional arms race and put China at a disadvantage.

Chinese President Xi Jinping is well aware that the three most provocative North Korean missile and nuclear tests in 2017 all occurred while critical strategic negotiations were ongoing. In April, North Korea tested a long-range missile during Xi's meeting with President Trump at Mar-a-Lago. In May, during the Belt and Road forum in Beijing, the DPRK conducted another missile test. And the nuclear test occurred when Xi was hosting the BRICS summit earlier this month. That message has not been lost on Xi, who is now preparing for the most important political event of his career -- the Nineteenth Party Congress, where he will be reelected President for a second term and consolidate his power.

Washington has rejected so far the joint Russia-China proposal for a deal under which North Korea would halt all nuclear and missile tests in return for cancellation of all future joint maneuvers between the U.S. and South Korea. However, the fact that no such new maneuvers are scheduled for the next six months affords a genuine window for re-launching negotiations.

While the Trump Administration is not prepared to recognize North Korea as a nuclear weapons state, as demanded by Kim Jung-un, they are still hoping that a framework can be reached with China, Russia, Japan and South Korea leading to de-nuclearization of the Korean peninsula.

Meanwhile, a wide range of military options has been developed, none of which are without major risk of escalation to full-scale war. For the time being, Washington will likely wait for North Korea's next moves, and for China and Russia's responses. While the danger of imminent war is totally based on a suicidal pre-emptive attack by the DPRK, the crisis in Northeast Asia has moved into a danger zone, beyond anything since the end of the Korean War, and that will require enormous cooperative effort on the part of all the key regional powers to avoid an eventual devastating war.

## **Draghi Keeps Inflating the Bubble Despite Growing Protests**

When the CEO of Deutsche Bank, which is sitting on a pile of €50 trillion of derivative bets, says the European Central Bank (ECB) should raise interest rates, you know the situation is serious. "We are now seeing signs of bubbles in more and more parts of the capital market where we wouldn't have expected them," Cryan told a *Handelsblatt* conference on Sept. 6 in Frankfurt, making the low interest-rate policy partially responsible for the decline in earnings at European banks.

Cryan's call on the ECB to end the zero-interest rate was backed by German bankers and economists at the same event, which took place on the eve of the ECB board meeting, in-

cluding by German Finance Minister Wolfgang Schäuble. The president of the German saving banks Georg Fahrenschon expressed the hope that the ECB would "start in small steps" to normalize rates.

The head of Credit Unions and Raiffeisen banks (BVR) Uwe Fröhlich said that for the roughly 1,000 members of his association of cooperative banks, "it is clear for all of us that the ECB is exaggerating."

Schäuble told the Frankfurt meeting that the ECB policy had helped to get over the crisis, but is now no longer required. "And therefore everyone would like that possibly soon, we should go back to normalization." Isabel Schnabel (*Wirtschaftsweise*), Joerg Krämer (Commerzbank) and Axel Weber (UBS) said the longer it takes, the more difficult a tapering will be.

Despite these warnings, ECB chairman Mario Draghi announced the following day, on Sept. 7, that the ECB had postponed any decision on "tapering" until the October board meetings. However, according to unconfirmed rumors picked up by the Italian business daily *Il Sole 24 Ore*, Draghi's likely successor Jens Weidmann has promised him he won't raise rates until the end of 2018.

The ECB zero-interest policy has destroyed traditional banking business in Germany. [It has been calculated](#) that German families lost € 670 billion in deposit revenues between 2012 and 2016 – money which would have been invested in child education, homes, etc.

Although data are not available, deposit banks have also lost a corresponding margin on those deposits, which they would have gained by investing in government bonds, life insurance policies or businesses.

As a result, banks have increasingly turned to financial investment in order to be able to enter gains on their balance sheets. But even an investment banker like John Cryan understands that if commercial banking shrinks, that pulls the carpet from under the financial sector. An end to the zero-interest policy is necessary, but so is bank separation under the Glass-Stegall standard, which he should promote. But that might be asking too much from an investment banker...

## **The ECB Kills the Goose That Laid the Golden Eggs**

Economist Gunther Schnabl of Leipzig University has dissipated the illusions of all those Germans who think nothing should be changed in the EU monetary policy, because things are going well in Germany. He warns that when the bubble bursts – and burst it will – the German economy will be so severely hit that it will not be able to help other countries in Europe.

In comparison to citizens of other EU countries, Germans are still relatively well off, Schnabl told the *Deutsche Wirtschaftsnachrichten*, because their incomes are somehow sustained by the bubble. But that won't last long, because incomes are not supported by real productivity.

Moreover, the ECB policy has lead to increased social imbalances in the various countries, [Schnabl said](#). In his view, the ultra-cheap money policy reduces wage levels for large strata of the population, and at the same time "promotes speculative phases on the financial markets, which will make the very few much richer."

Although in Germany, "the GDP is higher than ever, the costs of the bailouts of bankrupt banks and states are very unfairly shared." For older generations, who are better-off, wages, job security and pensions are still high, but for young people, they are dropping.

In Schnabl's view, the ECB cheap money and Assets Purchase

Policy (APP) policy has helped southern European countries to refinance their state debt, "but the cheap money has taken the dynamic out of the German economy. One could say that the golden goose is getting slaughtered."

Schnabl omits to say that the "aid" to southern EU countries has been in reality a bailout of northern banks which owned southern debt assets. And, being a von Hayek scholar, he has no solution other than the free market. However, his analysis of the delusionary positive dynamic of the German economy and the threat looming is absolutely correct.

## **Trump's Deal on the Budget Could Have a Much More Profound Impact than Expected**

As U.S. deficit spending has gone up every year during the George W. Bush and Obama presidencies, there has been an increasingly partisan and nasty annual battle over raising the "debt ceiling", i.e., the legal limit on how much the government may borrow. This year was shaping up as no exception, as the Treasury Department announced that the debt ceiling would be reached in September. It appeared the Republican deficit hardliners would force a government shutdown, by refusing to raise the ceiling, if the Democrats rejected the significant spending cuts they demanded.

But then, President Trump surprised them all by making a deal with Democratic leaders Charles Schumer in the Senate and Nancy Pelosi in the House, which not only raises the ceiling for three months, but adds over \$15 billion in spending in aid to victims of Hurricane Harvey. Trump did so over the heads of his party leaders, Mitch McConnell and Paul Ryan, and his Treasury Secretary Mnuchin, provoking their wrath. He then went further, saying he had spoken with Schumer about the possibility of eliminating the debt ceiling altogether, saying on Sept. 7, "There are a lot of good reasons for doing that."

This prospect has broad implications for the future. In the short term, it indicates that Trump actually intends to neutralize the Republican Party establishment and reshape the present dysfunctional U.S. political system. His campaign themes of Glass-Steagall bank separation, investing in infrastructure, and ending the disastrous free trade agreements resonated with the base of both parties. In the longer term, it could be part of an entire rethinking on spending, moving away from the neo-liberal orthodoxy which controls both parties, and opening the door to the revival of a system of Hamiltonian credit, to fund the real productive capability of the U.S. economy.

Trump is well aware that many of the Republican members Congress do not support his agenda, as they are beholden to the Wall Street financial swindlers, but also that support for Republican Congressional leadership has dropped among Republican voters from 75% last January, to 39% today.

In addition, some Democrats are realizing the need to rethink their strategy and end their collusion with the anti-Trump Republicans and "Deep State" anti-Russia fanatics pursuing regime change, or face the continued decline of the Democratic Party.

In that vein, Senator Dianne Feinstein of California shocked her supporters in San Francisco last week when she rejected calls to impeach Trump, saying that if he can learn and change, "he can be a good president."

Moreover, House minority leader Nancy Pelosi said in an interview on Sept. 4 that the Democrats should stop their endless criticism of President Trump, who was elected by the voters. She also condemned "unequivocally" the Antifa movement, which has been engaged in violent actions and rioting in Charlottesville, Berkeley and elsewhere. Trump was treated to a storm of protest and accusations of being a racist and a white

supremacist for denouncing Antifa after Charlottesville (cf. SAS 34-35/17).

Moreover, the rumored re-emergence of Barack Obama, and the efforts of Hillary Clinton to make a comeback, with both committed to bringing down Trump, are dreaded by many Democrats who wish they would just accept the defeat of their policies and disappear gracefully.

## **EIR Hosts Conference with VIPS on the Fraud of the Russian Hack**

EIR held an intense conference in Manhattan on Sept. 9 on the theme "The 'Russian Hack' Inside Job: Who's Trying To Destroy The Presidency And Start A World War With Russia?" Featured speakers were two experts of Veteran Intelligence Professionals for Sanity (VIPS) William Binney and Ray McGovern, as well as EIR's William Wertz. The event drew a packed crowd, including many activists from organizations eager to hear the evidence of how the "Deep State" (financial interests, intelligence community, complicit media and politicians) manipulated the entire Russiagate affair,

The two experts also gave insider views of many other cases of megaspying and disinformation campaigns. A number of activists from different 9/11 groups, who demand an end to the coverup of those atrocious attacks and of the intelligence community's responsibility, were in attendance, as were several national and international press, etc. The three and a half hour event can be viewed here: [https://www.youtube.com/watch?time\\_continue=1&v=hzJCl1xnvvU](https://www.youtube.com/watch?time_continue=1&v=hzJCl1xnvvU)

## **Syria Accelerates Victory over Terrorism**

Coordination by the U.S. and Russia of their respective battles against terrorism and of the expansion of the de-escalation zone (or at least the non obstruction of the effective Syrian-Russian-Hizbollah-Iran joint efforts to retake large portions of the country from the terrorists) shows what could have been achieved long ago. The rapid advance of the Syrian army and its allies under Russian air cover to Deir Ezzour in Eastern Syria and its airport that have been besieged by the Islamic State (IS) for more than 3 years, brings the armed forces close to liberating most of the eastern part of the country all the way up to the Iraqi border.

On the Iraqi side, the offensive against IS, with military support from the U.S., and ironically Iran as well, is achieving similar results. The U.S. backed Kurdish forces in Hasakeh province are closing in on IS in Raqqa, the purported capital of that terrorist organization. This means that IS will soon cease to exist in these two countries, at least in the form of an organized military force with large territories under its control, as it has done since the summer of 2014.

The main reason the war stretched out for so long, with catastrophic consequences, was because Syria's neighbors, in particular Turkey, Jordan, Israel and indirectly Lebanon and Iraq, were a source of arms, funding, logistics and manpower to the terrorists operating in Syria, with the support of the United States, the EU and the Gulf countries. But President Trump managed to get the Saudis, Qataris and other Gulf sheikhdoms to end their financial and logistical support to such groups, while Moscow convinced Ankara to drop its logistical support or face an unproductive confrontation with Russia.

Then it became possible to stop the destructive process, thanks mainly to Russian military and diplomatic efforts, and clearly to the courage and resilience of the Syrian people, army and leadership.

Moreover, British special forces escorting and backing so-

called "moderate" Syrian rebels in southern Syria on the border with Jordan, withdrew last week under the cloud of dust created by the Syrian victories. And the U.S. command center in Jordan ordered some of those rebels to leave the Tanf border checkpoint between Syria, Iraq and Jordan and withdraw to their bases in Jordan.

However, some unresolved military and strategic issues will remain once IS eliminated. The Al-Qaeda-controlled Idlib province in the north-west of Syria on the border with Turkey, has become a massive dumping ground of militants and terrorists who were allowed by the Syrian army to move there after surrendering in other parts of the country. Turkey continues to have an open border with this province over which support continues to pour in. Different groups with loyalty to either Saudi Arabia or Qatar are engaged in a bloody fight for control of this area. The Syrian army is not interested at this point in dealing with this already contained force, but it will soon re-emerge as a problem.

Israeli leaders are becoming increasingly panicked at seeing their nemeses -- Hizbullah and Iran -- become ever more powerful and a key factor in the fight against the takfiri terrorism. Provocations from PM Netanyahu could derail the potential of reaching a political solution in the region.

## **Germany Continues to Cause Bottlenecks in Rail Transportation**

Given the notorious failure of Deutsche Bahn to modernize the rail connections to its European neighbors, freight from and to Switzerland is now down to a transport capacity of only 25% on the German rail grid. The remaining 75% must be transported by truck -- adding to the heavy congestion on the country's highways and roads.

As for combined rail-truck service, it has fallen to the abysmal level of 15%, as Deutsche Bahn has shut down many regional logistics centers over the past years, in addition to disinvesting in the freight sector. In Austria, rail freight investments are three times per capita what they are in Germany, and with Switzerland the ratio is five to one. The lack of funding was mainly due to the Deutsche Bahn's long-standing obsession with making the railway "fit for the market", by privatizing it and taking an IPO at the stock exchange. That has not yet happened because, ironically, Deutsche Bahn now has been made totally unfit for the market.

Several Swiss transport associations (Cargo Forum, VAP, numerous automobile importers) have now called for crisis emergency decisions on the EU level to set up a special new task force on cabinet minister level, to discuss the issue.

The situation of passenger train service is scarcely better, with the high-speed ICE trains in particular rarely running on schedule. The national railway grid is overburdened with trains of all categories using the same tracks, as well as repeated technical malfunctions causing cancellations and substantial delays of trains on a short notice.

Even when the rare decision is taken to finally construct an entirely new track for high-speed trains, the snail pace of bureaucratic procedures and the notorious lack of Deutsche Bahn's own engineering capacities lead to absurdities such as the case of the planned connection between Dresden and Prague. In discussion since the reunification of Germany 27 years ago, an agreement has now been signed between the German and Czech Transport Ministers. However, the German side does not plan to begin construction until 2028, with the first test runs planned for 2035!

Perhaps in an attempt at self-irony, the German Transport

Ministry defined this project as a "priority". But what does that say about all the other projects that have not been "prioritized"?

## **Hurricanes, Earthquakes, We Can and Must Forecast Natural Disasters!**

Late August into early September has been a tumultuous time in our Solar System. The United States, Mexico, and the Caribbean are being slammed by a series of intense hurricanes (Harvey, Katia, Irma, Jose); the Sun experienced a series of explosive solar flares (including the largest in over a decade) launching bursts of plasma directly at the Earth and generating severe geomagnetic storms; and Mexico was rocked by the largest earthquake in over a century -- a magnitude 8.1 quake 90 km off the southwest coast.

These natural events remind us of mankind's vulnerability to the hazards in our Solar System, and underscore the strategic reality that nations must come together to defend Earth from these threats.

The magnitude 8.1 Chiapas earthquake has tragically taken about 100 lives (according to information available on Sept. 10). Thanks to electrical sensors and warning systems, many residents were given a few tens of seconds warning before the earthquake waves reached them -- providing just enough time to exit buildings, or find shelter. But what if we could provide hours, or even days before such disasters strike?

For decades, small groups of pioneering scientists have dedicated themselves to detecting, studying, and understanding precursor signals that appear in the hours, days, and weeks before the eruption of seismic events. These scientists have shown that various forms of electrical, electromagnetic, magnetic, thermal, and other anomalies and signals precede earthquakes, providing the basis for early warning systems that could save countless numbers of lives.

One of the leading pioneers in this area is Professor Sergey Pulinets, who has presented his revolutionary work to EIR, and who has collaborated with his colleague Professor Dimitar Ouzounov in the development of their lithosphere-atmosphere-ionosphere coupling model. This model explains the physics behind earthquake precursor signals, and provides the theoretical framework for an early warning system.

After extensive study and demonstration, their team is ready to bring this work into active application -- if governments are ready to step forward and support the development of such warning systems.

As the new paradigm is shaping up under the Belt and Road Initiative and the BRICS partnership, it should lead to strategic collaboration among all nations to defend the Earth and its inhabitants from such catastrophes that threaten all. Together, we need to be able to forecast earthquakes and volcano eruptions, defend Earth from asteroids and comets, control extreme weather events, and collaborate in the defense of that one humanity which we all share.

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### **E.I.R. STRATEGIC ALERT**

[www.eir.de](http://www.eir.de)

Published by: E.I.R.GmbH, Bahnstr. 9a, 65205 Wiesbaden

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Subscription: EUR 3000/ ISSN 0936-7527

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Printed in Germany