Then, a few weeks later, the PLO announced a similar move concerning all of its other offices in West Beirut and other Lebanese locations, withdrawing all armed men and organizers to the camps.

In the last week of July, the leftist Lebanese National Movement—an ally of the PLO—announced that all constituent parties of the bloc had mutually agreed to close all their offices except for a single central headquarters and to prohibit "armed manifestations" by their militias. Members of the LNM who violate this order will be turned over to the Lebanese authorities, the official communiqué stated. The National Movement also declared that its actions had been fully coordinated with the PLO.

While this was going on, a similar reorganization took place on the Christian Maronite side. In a blitzkrieg action, the Falangist militia wiped out the power of the forces around Camille Chamoun and his Tigers Militia. Chamoun had been the number one opponent of a deal with Syria—which has 30,000 troops in Lebanon. His elimination means that the Falangists are now free to make an agreement with Syria.

Within days after the crushing of Chamoun, Lebanese Prime Minister Selim al-Hoss resigned his position to clear the way for President Elias Sarkis to appoint Takieddine Solh, a political moderate, to try to organize a stable government. Since his appointment, Solh has been involved in round-the-clock consultations to assemble the core of a national unity government. Although uninformed press speculation has indicated that Solh's chances of succeeding are very slim, there is reason to believe that a preliminary accord was reached in Lebanon before Hoss's resignation, and that Solh's task is to consolidate a prearranged agreement.

Both the Syrians and the U.S.S.R. were deeply involved in the bargaining over Lebanon, along with the French. An especially crucial role is being played by Soviet Ambassador Alexander Soldatov. In a Beirut press conference, Soldatov said last week that the Soviet Union will support the establishment of a Lebanese force to assume control over the areas in southern Lebanon where the Israeli-backed militia of Major Saad Haddad has set up a virtually independent state. His stated support for the Lebanese army is an unusual Soviet move. Soldatov has also held meetings in the past three weeks with every important Lebanese political figure, including three separate talks with Bashir Gemayel, commander of the Falangist forces. His father Pierre Gemayel, patriarch of the Falangists, revealed last week that "contacts with Moscow still exist" and said that the Soviet Union is a "state that we cannot but respect." Gemayel and other Lebanese leaders will reportedly visit Moscow as part of the reconciliation.

Europe and OPEC

by David Goldman

Nothing has further distracted attention from the substance of an issue than this year's discussion of "petrodollar recycling," the supposed question of how the OPEC countries' $120 billion of revenues in excess of import requirements will be cycled back to needy recipients. The big mystery of Arab finances is not so much a black box as it is an empty one. There is no mystery to the distribution of Arab finances: they are being quietly shifted into state-to-state deals oriented toward industrial growth, mainly with the Europeans and Japanese.

Of course, adding up the equity purchases, investments in European and Japanese state securities, and other state-to-agreements thus far only yields a sum of about $20 billion, or a mere one-third of the estimated surplus for the first six months of this year. Commercial bank economists obsessed with the numbers are concerned about the "missing petrodollars," and the Bank of England's *Bulletin,* the authoritative source for the location of Eurocurrency deposits, noted $25 billion in Arab funds that did not show up in its columns for the second half of 1979. According to bankers, a similar sum for the first half of this year is not accounted for, yielding a total of $50 billion of "missing petrodollars."

However, conversations with European and Arab bankers indicate that the major portion of Arab funds have left the Eurocurrency market. What is much more interesting is that they are not banked through the usual channels. At one time the absolute majority of all Saudi deposits were held through three large American banks, Morgan, Chase, and Citibank. Bankers who wonder why the flood of surplus OPEC dollars never found their way to London this year ignore the impressive growth record of Arab-owned consortium institutions, and the new channels they have cut out for the OPEC surplus.

The best way to describe the state of affairs is in terms of the Eurodollar "interbank market." The net volume of Eurodollars is estimated by Chase Manhattan Bank at $800 billion; additional to these are $400 billion in loans between Euromarket banks. That special feature of the Eurodollar market, the extent to which its participants take in each others' wash, puts a special burden on its participants; if part goes, all goes, as nearly happened when the Herstatt Bank closed its doors in July 1974, petrodollars

creating a panic in all offshore banking.

However, to the extent that the Arab consortium banks strike up a much more limited set of relations with European and Arab institutions, i.e. a second "interbank" market, their independence and deposit safety is vastly enhanced. The $50 billion of "missing" petrodollars have been deposited first through Arab-owned banking institutions, and then in interbank deposits with European and Japanese commercial banks or central monetary institutions. That implies a much more aggressive European and Japanese lending position on the Eurodollar markets for the fourth quarter of this year—something that American bankers have resigned themselves to.

"This is as it should be," Morgan Guaranty economist Rimmer de Vries said of the shift of petrodollars to European and Arab institutions. "There is no way that the American commercial banks are going to absorb the volume of deposits they have in the past."

However, last week the Saudis and Kuwaitis threw in a new twist that has provoked some serious upset among international bankers and at the World Bank and IMF. In coordination, the Saudi and Kuwaiti monetary authorities stalled World Bank bond placements worth $472 million, in order to bring pressure on the World Bank and IMF to allow Palestine Liberation Organization observers at their Annual Meeting at the end of September.

The financial issue itself is not of major importance, World Bank officials say, but the political implications are devastating. For the first time since the early 1970s, immediately following the first big oil price rise, the World Bank stood to acquire a really large sum of petrodollars. Now, over what seems a trivial issue, the World Bank and IMF are heading into a confrontation with the Arabs. The World Bank's executive directors have already met and decided that it would be impossible to let the PLO in—under the strong influence of a Carter administration that carries a veto at the World Bank, and will make no concession to the PLO in the midst of an election year.

In effect, the World Bank is now demanding of the Saudis and Kuwaitis that they "honor their commitments," that is, back down, and this threatens to wreck an entire range of future funding prospects. "The entire range of recycling plans is in jeopardy," said one senior official. "Now most of the funds will go into state-to-state deals."

Won't Europe view this split between the Gulf countries and the Bretton Woods institutions ambiguously, considering that they stand to gain the most? an IMF official was asked. "Europe has virtually recognized the PLO. I don't think their attitude is ambiguous in the least," the official replied sarcastically.

In fact, the PLO issue cannot be explained by a sudden flash of patriotism on the part of the Gulf monarchies. The issue is much broader. Saudi Arabia's King Khaled visited Bonn at the end of June of this year and agreed with Chancellor Helmut Schmidt that both countries' security depended on certain economic criteria. The program Khaled agreed to, according to *EIR*'s briefings from Bonn officials, included substantial equity investments by the Saudis in West German capital goods industries. Concentrating on nuclear power and high-technology coal, auto, machine tools, and petrochemicals, Saudi investments will ultimately burgeon into a five percent limited partnership in the West German economy.

The objective is not merely to give the Saudis a stake in the companies which will help build Saudi Arabia's own future, but to help capitalize West German industry for a general export drive to the developing countries. Swiss National Bank President Fritz Leutwiler, once one of the most committed monetarists, is now promoting Swiss industry throughout the Arab world, in hope of arranging a similar deal. "Industrial investment is not his first choice," said one Swiss observer, "but he sees which way the trend has gone." Commented a World Bank official sadly, "Leutwiler really shouldn't be doing this."

In contrast, the World Bank and International Monetary Fund are very bad at development economics. In fact, the IMF has had to advertise its new interest in "supply-side economics," which presumably means that the IMF should not shut down borrower-countries economies all at once. In a few cases, the IMF and World Bank have gone out of their way to be nice to borrowers. Western European bankers say flatly that they are interested in letting the IMF and World Bank provide emergency funds for countries that they have no current plans for. But the idea of letting the IMF absorb the majority of the world's lendable resources is fairly repellent to Europeans, Japanese and Arabs.

World Bank officials are suspicious that the Arabs set them up over the PLO issue, knowing what the outcome would be in advance. They are probably right.