

Lebanon's President Aoun Proposes Arab Reconstruction and Development Bank

by Hussein Askary

Jan. 22—Echoing the Schiller Institute's continued calls in recent years, President Michel Aoun of Lebanon said, in his speech opening the Arab Economic Summit held in Beirut on January 20, that the creation of an Arab bank for reconstruction and development, and the reconstruction of the Arab countries that have been affected by war and terrorism in recent years, should become a priority. Aoun said he has "titled this summit 'prosperity is the name for peace'."

I hereby put forth my initiative aimed at adopting the strategy of reconstruction for development, calling to set up efficient mechanisms that live up to these challenges and to the requirements of reconstruction, at the top of which is the establishment of an Arab Bank for Reconstruction and Development.

According to a wire published by the Kuwait News Agency (KUNA), he also stressed the necessity of setting up efficient mechanisms that live up to the requirements of reconstruction and development in the Arab world: "Against this background, I call on all the Arab institutions and financing funds to meet in Beirut during the coming three months to discuss and finalize these mechanisms," he added.

As recently as November 2017, the Schiller Institute issued a call for the creation of a regional bank for reconstruction and development in the [Special Report, Extending the New Silk Road to West Asia and Africa](#). Chapter 4 of that report, "Financing Regional and National Infrastructure," outlined the credit mechanism by which such a bank could function in accordance with Alexander Hamilton's and Lyndon LaRouche's con-

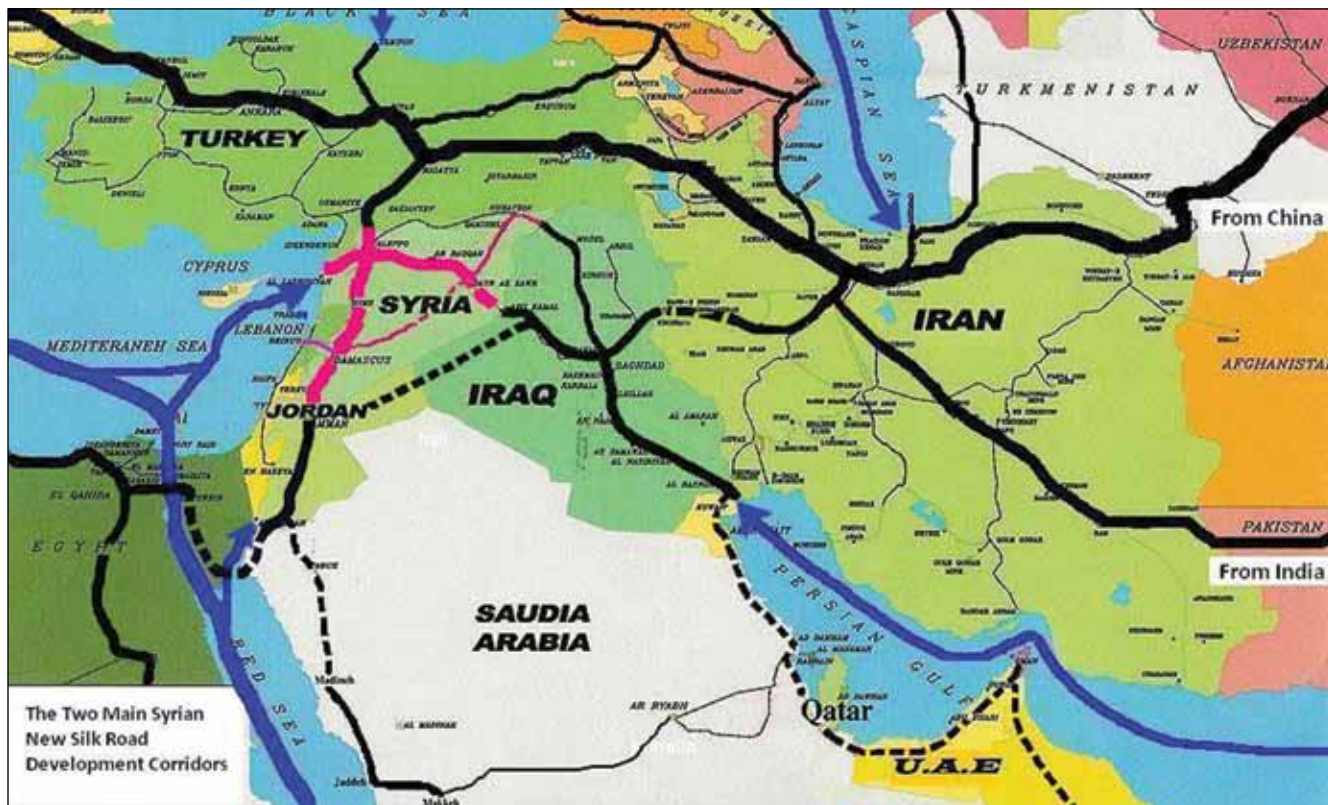


Lebanese President Michel Aoun (left) and French presidential candidate Jacques Cheminade discuss "peace through development" for the entire region, at the Baabda presidential palace, the official residence of the President, near Beirut, Lebanon on April 7, 2017.

cepts of productive credits. The same call was published in Arabic translation in the *EIR Special Report, The New Silk Road Becomes the World Land-Bridge*, which was launched from Egypt at a special event hosted by the Egyptian Transport Minister in February 2016.

In April 2017, then French Presidential candidate Jacques Cheminade [met](#) with President Aoun in Beirut to discuss the prospects for peace and development in Syria and the wider region. Speaking in a press conference at the Lebanese Presidential Palace after meeting with President Aoun, Cheminade emphasized the importance of economic development as the basis for any durable peace in the region.

In July 2018, the President of China, Xi Jinping, pledged in his [speech](#) at the China-Arab States Cooperation Forum conference, to provide \$20 billion for a reconstruction fund targeting specifically Syria, Lebanon, Jordan and Yemen; President Xi addressed this



In 2004, Syrian President Bashar al-Assad announced his vision for a “Five Seas” 5-year plan, to include gas pipelines, roads and ports. Speaking in 2009, he announced: “Once the economic space between Syria, Turkey, Iraq and Iran becomes integrated, we would like the Mediterranean, Caspian, Black Sea and the [Persian] Gulf ... to become the unavoidable intersection of the whole world in investment, transport, and more.” Shown on the map are the transcontinental sea routes (blue arrows), the New Silk Road land routes (large black lines), and Syria’s domestic development corridors (red).

issue in the context of the Arab countries joining the Belt and Road Initiative. Later, officials from China and the Arab world met in Lebanon to discuss the mechanism of a joint reconstruction fund, incorporating the Chinese funds with Arab funds. Combining China’s financial backing with that of China-initiated financial institutions such as the Asian Infrastructure Investment Bank (AIIB) will be a key element in the success of this proposed bank, as will be explained below.

However, given the fact that the wealthiest Arab countries are controlled by City of London and Wall Street interests, and given the massive control the IMF and World Bank have had over the poorer Arab countries, this idea might be derailed from its real intention as expressed by President Aoun, President Xi and the Schiller Institute. This was made clear in the final communiqué of the Arab Economic Summit, in which there was no mention of this initiative. However, President Aoun’s courageous initiative has opened the door for a completely new discussion of credit and economy in the region. We will follow up this initiative closely.

The oil-rich Gulf Cooperation Council (GCC) countries (Saudi Arabia, United Arab Emirates, Bahrain, Qatar and Oman) have accumulated nearly \$3 trillion in their sovereign wealth funds. However, these funds are managed in collaboration with London and Wall Street financial, consultancy, and law firms that have been advising these funds to invest in financial paper, real estate speculation, and to a lesser degree, utilities and industries in Western Europe, the United States, and Southeast Asia.

The GCC countries contributed massively to the bailout of British and American banks following the 2008 financial crisis. If a fraction of these funds, about \$80-100 billion, are invested in the bank proposed by the Schiller Institute, they can contribute greatly to the reconstruction and development of the Arab countries, especially in the badly needed infrastructure sector (transport, power and water) in addition to health care, education and scientific research. The needs of reconstruction in the devastated western Asian and North African countries of the Arab world (Iraq, Syria, Lebanon,

Jordan, Yemen, Libya and Tunisia especially) are much larger than this sum. However, if used in accordance with the productive credit generation methods of Hamilton and LaRouche, they can generate the resources needed.

The following, concluding part of this article is a passage from Chapter 4 of the Schiller Institute's [report](#), *Extending the New Silk Road to West Asia and Africa*, which deals with establishing a regional bank for infrastructure development. It is applicable not only to Arab nations, but to many others. The chapter was written by *Executive Intelligence Review*'s economics editor Paul Gallagher and edited by Hussein Askary.

A Southwest Asia/Africa Regional Infrastructure Bank

A number of financially stronger countries in the region, such as those in the Gulf Cooperation Council (Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain, Qatar and Oman) along with other potentially large economies such as Egypt, Turkey, Ethiopia, Iraq, and Syria, should form a Southwest Asia Regional Infrastructure Bank ("Bank") to create credit to cooperate in new infrastructure projects with the new international development banks led by the Asian Infrastructure Investment Bank (AIIB). Political antagonisms may prevent the participation of either Iran or Israel as founding stockholders, but that may change in the future, and both those nations in the meanwhile should be permitted to buy bonds for specific projects issued by the Bank. All nations of the region should buy bonds and join this proposed bank, even if they have weaker financial capability.

Proposals were made by the United States more than 20 years ago for a \$100 billion regional development bank to be formed in Southwest Asia, and that can be taken as a baseline level for the Bank's equity and borrowed capital combined.

The Bank should be managed by a combination of bankers with experience in construction and engineering financing, business leaders from the productive sectors of the economies, and scientific and engineering experts of governments from the broad region. Their task will be to identify the new infrastructure platforms that are most important for the productivity and growth of the region, and to work out both financing and timetables for projects, as well as future growth in economic activity and revenue the new infrastructure platforms are likely to bring about.

The nations forming the regional development bank should provide a basic share of its equity capital, at least 20% of the total stock, in the form of new full-faith-and-credit bonds issued by their Treasuries, and back those bonds by dedicated future tax revenues which are to make the payments on the bonds to the Bank. The Bank will have other revenues directly and indirectly related to the infrastructure projects it invests in and the economic expansion around these projects; but the "sinking fund" for the Bank's stock dividend payments should be identified in advance and be independent of future expansion, to ensure the soundness of the Bank's liabilities.

The founding nations will offer stock in the Bank directly to their citizens and to their private banks in order to subscribe the other 80% of the equity capital. This will include banks or citizens who already hold bonds issued by their governments, subscribing those bonds to the Bank in exchange for its stock—which will increase the future payments of the governments to the Bank.

The Bank should be authorized to issue bonds to the public as well, including internationally, in order to reach its targeted capitalization with the help of borrowed capital. But the goal should be to meet the original capitalization entirely by stock subscriptions of the governments, citizens, and private banks of the countries forming the Bank. The Bank's stock should carry a dividend which is higher than the (currently extraordinarily low) interest rates on developed countries' sovereign debt and the bonds of large international corporations. It should be preferred stock with a relatively long term before redemption.

The Bank will issue loans exclusively to agencies assigned to carry out important infrastructure developments, whether those be local government agencies or agencies created for the purpose of the project. It will conduct discounting activities with private banks only as those banks make loans to contractors and service providers on the projects, and only as necessary for those loans to flow. It will also buy and/or syndicate infrastructure bonds issued by regional governments and local governments for approved projects.

Cooperation with International Development Banks

The recent important emergence of new international development banks for non-austerity-conditioned, infrastructure-specific lending—the BRICS

New Development Bank and the Asian Infrastructure Investment Bank (AIIB) initiated by China—open up potentials for credit agreements not seen since the 1944 Bretton Woods Conference. The critical great projects or “infrastructure platforms” proposed here require cooperation among several nations, including credit cooperation among the major economic powers providing the bulk of capital goods and industrial products for these projects—but not supranational direction.

Extending the New Silk Road to West Asia and Africa will require more credit for major projects than can be created by a single new development bank for the region. It requires international project lending as well. This is clearly true for the great reconstruction efforts needed in areas which have been subject to war, such as Syria and Iraq. It is also shown by the long-term, low-interest international credits recently extended for the nuclear power complex at El-Dabaa in Egypt, for example, or the new Kenya Standard Gauge Railway. A Southwest Asia/Africa Regional Infrastructure Bank will provide proportional matching funds for such major projects or assist national development banks in doing so; and it will facilitate the conversion of international project loan funds into national currencies (also essential to prevent capital flight and/or speculation).

A Southwest Asia/Africa Regional Infrastructure Bank will be able to develop credit agreements for major projects in cooperation, for example, with the Export-Import Bank of China at low, government-to-government interest rates, if that country’s companies are involved in providing capital goods and logistics; and could develop similar agreements with the AIIB, New Development Bank, or the Silk Road Fund. Such credit partnerships will minimize the need of the Bank to borrow capital by issuing bonds on international capital markets at higher rates.

Were the United States and Japan to join both the AIIB and the Belt and Road Initiative (which already suggests the connection of high-speed rail corridors across the Bering Strait and their development across North and South America), an international combination of powerful development banks would be capable of acting as an International Development Bank with capital in the trillions.

A Southwest Asia/Africa Regional Infrastructure Bank will be able to act as an arm of this combination of international development banks, and the mediator between them and national banks of the nations of Southwest Asia and Africa.

Agreements among the countries involved, on joint funds or agencies to carry out great projects, will require agreement on issuing credits over the long term and at low rates of interest. Moreover, the nations involved must remain sovereigns with their own national credit systems, so that the long-term credits are required in several currencies with relatively stable parities over the long term, together with currency-swap arrangements among central banks.

Over a period of now more than three decades, economist Lyndon LaRouche and his associates have proposed a return to a New Bretton Woods system of agreements which would return to the credit, currency, and banking arrangements among nations of the post-World War II period, as exemplified by the credit relationship between the United States with its Marshall Plan and Germany with its reconstruction re-financing institution, the Kreditanstalt für Wiederaufbau (KfW).

The KfW example provides a clear illustration of the cooperation between a major international source of development credit, and a regional or national development bank. KfW was extraordinarily successful in the German “economic miracle” recovery from World War II because: it was formed as Germany’s illegitimate Nazi debts were written off in 1950; it was initially capitalized by the German government; and it acted as a re-lending vehicle for low-interest dollar loans from the U.S. Marshall Plan (the European Cooperation Agency acting as an international development bank).

The grant- and loan-aid of the Marshall Plan, while brief (1947-51) and small (roughly \$125 billion in current-dollar terms), had a relatively powerful impact on post-World War II European recovery and development. It provided low-interest dollar credits which, due to capital controls in European countries under the Bretton Woods System, were not re-exported to pay European countries’ war and other foreign debts. (The Marshall Plan encouraged the writing off of most of Germany’s crushing burden of illegitimate Nazi debt and the Versailles, World War I reparations debt through the London Debt Conference.) And it provided capital goods, eventually paid for in marks or other European national currencies. The European nations “paid for” the goods and loans by creating equivalent “matching” credit funds in their own currencies, the KfW being by far the most successful, high-impact, and long-lasting in this policy. There was no significant use of dollars except for trade purposes.

The KfW played the same internal development-

credit role in Germany, relative to credit initially generated from the United States, as Alexander Hamilton's "Bank of the United States" had played for U.S. development, relative to the European banks which heavily invested in Treasury Secretary Hamilton's national Bank in 1791.

The existence of a *national* credit institution for industrial development, such as the KfW, ensured that international loans were converted from dollars to national currencies for actual investment; that additional capital was raised domestically by bond issues in national currencies; and the Bretton Woods System's capital controls ensured that the borrowings did not turn into flight capital and/or speculation on securities markets. Today, controls on export of capital by borrowing nations are important to ensure that no international infrastructure credits are diverted to flight capital or "carry trade" securities investments, and that their use for development projects preempts any attempted use for repayment of other sovereign debts of countries receiving credits.

The private banks involved in financing the work on these projects cannot be allowed to speculate with credits involved; bank separation (from investment and merchant banking), on the Glass-Steagall Principle is necessary to prevent this.

Furthermore, it is necessary to the effectiveness of the credit issuance by the major new international development banks, that over-indebted nations with sovereign debts which have been imposed on them illegitimately, in whole or in part, be able to place the illegitimate debt in moratorium, replacing it with much longer-term debt if agreements cannot be made to write down, or write off, such debt.

The relationship of this process, to the generation of new credits from international development banks, is discussed in EIR's report, *The New Silk Road Becomes the World Land-Bridge*. (The relevant section of the report is reprinted below.)

Since trade will increase among the nations participating in the treaty agreements for the building of these great projects, both those issuing credit through international development banks and those receiving loans, the national banks of the participating nations will necessarily create currency swaps large enough for increasing trade payments in each other's currencies.

The responsibility and purpose of both the international development banks and a Southwest Asia/Africa

Regional Infrastructure Bank, is to guarantee that development credits issued by nations go exclusively into the development of the new infrastructure platforms and technological developments most important to increase the productivity of national economies and of the labor forces of the human species.

International Development Banks and National Indebtedness

The New Silk Road Becomes the World Land-Bridge (EIR, 2014) discusses international development banks in relation to national indebtedness in Part II, pages 33-34. The relevant paragraphs are as follows:

This International Development Bank (IDB) can be a means of debt reorganization for over-indebted nations or groups of nations requiring IDB credit for great infrastructure development platforms.

Many nations of the world labor under unpayable, and wholly or partially illegitimate debts resulting from (1) extremely unfavorable terms of trade imposed upon them, or corrupt spending of development loans, or both (the cases of Argentina and Mexico, for example, which dealt with the problem differently; or (2) the rapid loading of debts onto governments in order to bail out private banks' bad debt (the cases of Ireland and Greece, for example). In these cases, the over-indebted nations can, as of a date certain, issue low-interest and long-term sovereign bonds to the IDB *to replace (a) by agreement, their debts owed to major economic powers issuing credit to the IDB as described above; and (b) by agreement, their debts to international lending agencies such as the International Monetary Fund and the European Central Bank. The IDB can use these bonds as the basis for issuing credits to those nations' national development banks, in those nations' currencies.*

Where national and regional authorities receive loans from the IDB *in order to carry out the actual creation of great infrastructure projects and or scientific and technological developments, which will generate highly productive economic activity as well as revenues for them, they will "repay" these IDB credits in the same way: by creating national credit banks—on the model of the KfW in Germany for decades after World War II—both to generate additional internal develop-*

ment credit and to invest in the IDB themselves, using their own national currencies.

Lyndon LaRouche described this process, in his 1982 book-length *Operation Juárez* proposal to the nations of Ibero-America for debt reorganization and development, as being identical in its requirements both for debtor nations and for the (then-) creditor nation the United States:

“1. In no republic must any other issues of credit be permitted, . . . excepting (a) Deferred-payment credit between buyers and sellers of goods and services; (b) banking loans against combined lawful currency and bullion on deposit in a lawful manner; (c) loan of issues of credit created in form of issues of national currency—notes of the Treasury of the national government.

“2. Loan of government-created credit (currency notes) must be directed to those forms of investment which promote technological progress in realizing the fullest potentials for applying otherwise idled capital-goods, otherwise idled goods-producing capacities, and otherwise idled productive labor, to produce goods or to develop the basic economic infrastructure needed for maintenance and development of production and phys-

ical distribution of goods. . . .

“3. In each republic, there must be a state-owned national bank, which rejects in its lawfully permitted functions, those private-banking features of central banking associated with the Bank of England and the misguided practices of the U.S.A.’s Federal Reserve System. . . .

“4. No lending institution shall exist within the nation except as they are subject to standards of practice and auditing by the Treasury of the government and auditors of the national bank. No foreign financial institution shall be permitted to do business within the republic unless its international operations meet lawful requirements for standards of reserves and proper banking practices under the laws of the republic, as this shall be periodically determined by proper audit (‘transparency’ of foreign lending institutions).

“5. The Treasury and national bank, as a partnership, have continual authority to administer capital controls and exchange controls, and to assist this function by means of licensing of individual import licenses and export licenses, and to regulate negotiations of loans taken from foreign sources. . . .”

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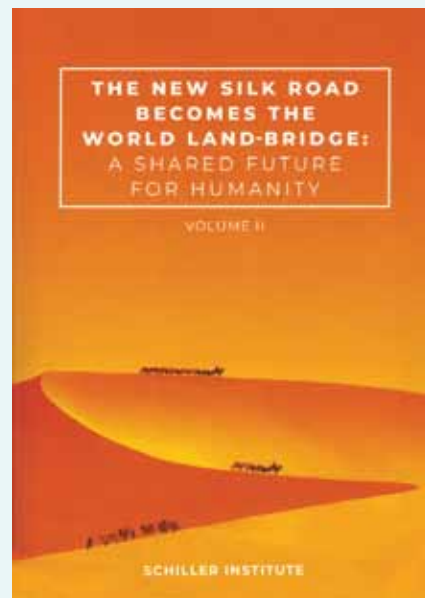
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