

East and West bankers in Vienna talk, but don't agree

by William Engdahl and Mark Burdman

Our correspondents filed this story from Vienna, Austria, on May 17.

Leading Western financial figures are involved in a series of private talks with top officials of the Comecon, Eastern European, and Soviet state apparatus which parallel the ongoing military and "regional matters" negotiations between the United States and U.S.S.R. On May 16-19, the Inter-Action Council, a private group of Western political leaders including Germany's Helmut Schmidt and France's Valéry Giscard d'Estaing, held its first meeting in Moscow with the ambitious title, "Perspectives for the Next Century."

According to participants, that meeting was to propose what is being dubbed by Giscard and others, an "East-West Marshall Plan," conceived as an emergency infusion of Western capital in order to prop up the troubled regime of Mikhail Gorbachov and ultimately tap what these circles claim to be a potential trade market of some \$100 billion per year.

But at the same time, in this former capital of the imperial Hapsburgs, another private gathering took place under the auspices of a little-known private East-West channel called the International Council for New Initiatives in East-West Cooperation. This Vienna seminar brought together one of the highest level exchanges between Western bankers and their Soviet and East European counterparts since the 1917 break of Soviet Russia with Western finance.

The meeting was an extremely indicative testing by both sides of the extent to which the East is willing to open its economy to demands of Western lenders, and the extent to which the West is prepared to incorporate Russia as a full

member of the Western financial "club," subsumed under the postwar Bretton Woods organizations, the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade (GATT).

Declarations of senior Soviet officials as well as top East Europeans at this gathering, would have the West believe that the 400 million people behind the Iron Curtain are in the process of dropping any remnants of Marxist economic orthodoxy in order to adopt the most radical model of Western rentier capitalism, at precisely the time that that financial model has begun a new collapse into a breakdown crisis. From direct discussions and observations, this signal gathering could be characterized as a mating ritual between a preying mantis and potential mate.

Neither of the two sides in Vienna was willing to yet agree to play the role of the dead victim of the suitor mantis. They circled one another cautiously in two days of intense talks which came to no conclusion according to leading participants.

However, the terms of those talks revealed the advanced stage of proposals presently being advanced by leading representatives of *both* East and West. They are staggering in their implications for creating a supranational East-West financial dictatorship to police the world economy in the years ahead.

The bankers and the Bolsheviks

Participants included senior representatives of Western financial institutions. Britain's leading banks, Barclays and Lloyds, were present as was Germany's Deutsche Bank, France's Crédit Lyonnais, Italy's Banco di Roma, Austria's

Kreditanstalt, Holland's AMRO Bank, Swiss Bank Corporation. Goldman Sachs, Citicorp, and First Chicago were also present. From the East, Yuri Ponomaryov of the Soviet State Bank, Janos Fekete of the National Bank of Hungary, and Werner Ploze of the East German Foreign Trade Bank attended.

The areas of negotiations between the leading financial figures both East and West was outlined in the opening speech of Ponomaryov in a paper provocatively titled, "Integration of CMEA Countries in the World Financial System." The Russian state banker outlined his position: "In our opinion, the general level of trade and other forms of economic relations between the CMEA and Western countries is inadequate . . . a substantial underutilization of our cooperation possibilities. At present the normal development of East-West trade and economic relations is also hindered by the position of some Western countries who block the participation of the U.S.S.R. in international organizations, for example, the GATT." Ponomaryov expressed optimism based on the progress of the Reagan-Gorbachov summit meetings, however.

In concrete economic proposals, the Russians called for establishment of a convertible currency within the Council for Mutual Economic Assistance countries, known as Comecon, and, "as a long-term aim, creation of a common monetary unit convertible into hard currencies, a hard currency itself." He cautiously discussed possible Soviet entry into the inner sanctum of the Western monetary club, the IMF, while attacking the latter's weakness and "failure to prevent the debt crisis."

But the immediate point of interest from the Soviet side was membership in the World Bank, and convocation under the United Nations Organization of an "international monetary conference" to establish a "democratization of the international monetary organizations." He concluded by warning, "in view of the economic importance of the CMEA group of countries, and within that group, of the U.S.S.R., it would be impossible to settle the major problems of the world economy without its participation."

The economic New Yalta

The conference took up four sub-themes: the integration of the Eastern Comecon state economies into the world financial system; consequences of the Western financial integration process for East-West relations; new approaches within the Comecon states to banking and new approaches to financing East-West trade through "joint ventures." Every significant area of joint financial relations was taken up in the course of the talks. But while the public statements, particularly the closing statements to assembled press stressed only the promising prospects of a renaissance in East-West financial relations in the offing, the private discussions over the two days gave a stark picture of mutual distrust, hesitation, and refusal to agree on vital points.

"If détente and the perestroika reforms continue," stressed

Banco di Roma's international head Mario De Luca, "the CMEA will become more open to Western capital markets, and banks in the West will be willing to market to the creditworthy countries. I expect first and foremost that the Soviet Union will join the GATT and IMF, and for the Comecon to become major players in international financial markets. They are considered by Western banks as 'prime borrowers,' and prime borrowers today are hard to find."

Other Western bankers were privately more blunt. One Austrian banker long involved in East bloc financing declared, "Let's be frank. Western banks are giving such low interest rates to Eastern Europe not because those countries are such good risks but because other risks are so bad."

New York investment banker Robert Hormats of Goldman Sachs was selling Wall Street "optimism" to the crowd. "Big investments are always risky; we need a continuous improvement in security talks as well as in the military climate *in order to induce* such investments." The savage austerity being imposed on Eastern Europe by the IMF and the Russians, Hormats cynically remarked, "There will be pain with reforms in Eastern Europe. You can't make an omelette if you don't break a few eggs." He then went on to make what more than one European banker found to be a crass self-promotion. He offered "my firm" as a consultant and financial adviser to Eastern states in financial ties with the West. His offer visibly rankled the Russian Ponomaryov with his a "patronizing" air—to the imperious Russians from a financially troubled New York Wall Street banker.

Skepticism

But, aside from the public declarations of intent, the overall discussion was sober and extremely pessimistic about chances for getting Comecon economies to open wide their doors, especially Russia. Umberto Agnelli, chairman of the Council for New Initiatives and member of the European Industrialists' Roundtable as well as vice chairman of Italy's Fiat, told reporter William Engdahl, "I personally am very cautious about East-West prospects. The June [Soviet Communist Party Plenum] is so key; depending on the outcome it will indicate if something is not working with the reform process." He added that the timetable for huge openings to the 400 million population Comecon market for Western companies is decades away at best. "If perestroika goes ahead, what is anticipated will converge in maybe 10 to 30 years. There is great caution on the European side and great expectation of increased cooperation from the U.S. side. The Soviets are dangling a carrot to the U.S. of a big military treaty along with economic consequences."

Agnelli and most other Western participants sharply attacked the idea of a Marshall Plan to the East. "That is a good *political* move by Giscard, but it is premature. A Marshall Plan is not possible with the East."

As one British banker expressed at the closing session, the entire affair was disappointing. "The Russians don't know which way to jump."