

Credit crunchers target Romania

by Konstantin George

“Soon after Poland will come Romania. . . .” That was Felix Rohatyn, master of putting debtors through the meat-grinder, writing in the April 19, 1982 *Wall Street Journal* about the next victim in Eastern Europe.

Word went out from the Rohatyns of the banking world, in New York and in Europe, that Romania, with industrial growth rates as high as 12.5 percent within the past decade, suffered from the Polish syndrome—allegedly too much industry, too many credits taken on in order to build it, and too few markets on which to realize its products, raise revenues, and pay the debt. A year later, their predictions or, better, threats about a Romanian debt crunch have fulfilled themselves.

In the past few months Romania has been the target of an intensified campaign of economic warfare, political attack and damaging rumor-mongering, coordinated by financial and political institutions centered in London, Switzerland, and Vienna. This pressure was compounded by Washington’s application of the Jackson-Vanik amendment to Romania, reportedly at the urging of the Anglophile State Department, which led to an order to revoke its Most Favored Nation (MFN) status effective July 1, 1983. Purely on the economic balance sheet, this step will reduce the level of Romanian-American trade by about 50 percent, several hundred million dollars this year.

Those carrying out the “Romania’s next” line may get more than they bargained for from Romanian President Nicolae Ceausescu. In a March 30 interview with the Kuwaiti newspaper *Al-Siyasah*, Ceausescu practically associated himself with the most advanced discussion among LDC leaders, about international, joint action by debtors to save themselves from being ground up by the creditors’ policemen at the International Monetary Fund and Bank for International Settlements. Ceausescu said:

The task that devolves today on all states . . . is, first of all, that of making every effort to overcome the world economic crisis, so that a normal activity may

be resumed, through a broad collaboration among all states. I have in view mainly the necessity that the poor countries should no longer be forced to bear the brunt of the crisis. This demands, above all, the substantial reduction of debts in general. I said in general, because, as far as the developing countries are concerned, we pronounce for the least developed countries’ debts to be written off, for a reduction in the debts of other states and the granting of credits, under advantageous terms, so that economic activities may be resumed. In fact, this presupposes that negotiations between the rich countries and the poor ones be held, that a new world economic order be set up such as would take into consideration the developing countries’ interests and help these countries to develop. Without a viable solution to this issue, neither will the economic recession of the world be overcome nor will the economic activity be resumed. What the world needs are resolute, daring solutions and the rich countries have to understand that it is their responsibility to act in support of the developing countries.

Fight with Club of Rome

Ceausescu’s pronouncement in favor not only of radical debt relief, but “the granting of credits, under advantageous terms, so that economic activities may be resumed,” left a number of people sweating. The Romanian president, who in the past called for the IMF itself to play an increased role in world credit, could no longer be counted on for such endorsements. And Romania, whose Ambassador to Washington was a member of the Club of Rome—advocates of global economic contraction even to the point of mass deaths—was defying Club of Rome policy.

The Club of Rome is furious with Romania. One leading Club of Rome member in Europe is Hannes Androsch, head of the Kreditanstalt Bank in Vienna. A top official of Kreditanstalt recently bared the truth as to why total economic warfare is being waged against Romania. The Viennese gentlemen began by confidently predicting that “Romania will definitely be kicked off the list.”

Androsch’s lieutenant then elaborated the policy and the “reasons” for it: “Romania is not going to get one penny from the banks. Before it gets anything, it will have to change its whole attitude and style of government. They are like a bunch of gypsies. They are always doing things not good for bankers.” The banker expressed the Anglo-Swiss-Austrian demand that Romania submit to conditionalities: dismantle its heavy industry and decentralize its economy. “Nothing,” he said, “nothing will change as long as Ceausescu lives.”

Ceausescu’s economic policy has violated Club of Rome rules across the board. Over the last 15 years, a sustained one-third of the national product has been plowed back into industrial investment. Much of this was in energy and fuels-processing. Having signed a 30-year oil supply agreement with the Shah of Iran—abrogated by the Khomeini regime—

the Romanians greatly expanded their petrochemicals industry during the 1970s. They also laid the basis for energy independence, by charting a program to have 10 nuclear plants completed or near completion by 1990. At first, they imported components from Canada, the United States, and Italy, but more recently they have been increasingly manufacturing the turbines and boilers themselves, at the IMBG steel-processing plant in Bucharest. Romania's concentration on building up heavy industry extended also to the basic steel (14 million tons per year) and the shipbuilding sectors.

Lending cut-off

The ostensible reason for loss of MFN was an October 1982 decree by the Romanian government that emigrees must pay, in hard currency, for their higher education before leaving the country. Losing the preferential tariffs of MFN—which means no special breaks, but only the absence of special penalties on trade—will hit Romania particularly hard because the United States is the centerpiece of Romania's trade with the West. Romania is the only country of the CMEA, the socialist economic group, which has the United States among its top-ranked trading partners among advanced industrial nations.

But credit pressure began well before the decree on education. At the beginning of 1982, when retaliation against Poland was decreed after the declaration of martial law, Romania fell in the line of fire. At that moment, U.S. Export-Import financing was stopped for Romania; Ex-Im credits had been slated to cover, for instance, General Electric turbines for two of Romania's nuclear plants and the Ex-Im contribution has had to be compensated for by counter-trade arrangements. There was also a shut-down of bank loans from Europe, from private banks, and even from the Bank for International Settlements, as Hungary, more heavily indebted per capita, continued to get credit. Only an IMF bridge loan kept some credit available to Romania last year. In 1982, a peak year of payments due, Romania negotiated for the first time to reschedule its commercial debt.

In order to keep MFN, under the terms of the 1974 Jackson-Vanik amendment on trade, Romania had to pass muster every year before a congressional review of its "human rights" record. Bucharest had done so every year since receiving MFN in 1975. Already at the spring 1982 hearings, however, the high level of bluster from Sen. Daniel P. Moynihan, among others, signalled that there was a move on to deny the MFN renewal. When Romania then declared its policy of emigrees' payment for education, representatives from the State and Commerce Departments, ultimately Assistant Secretary of State for European Affairs Lawrence Eagleburger, travelled to Romania to inform Ceausescu of the verdict: loss of MFN.

Club of Rome allied bankers in Vienna are not alone in wishing Ceausescu out of the way. Alongside the credit crunch, Romania has been the target of several political pressure campaigns. The Balkan region is in the Mideast-Medi-

terranean danger zone for major international explosions; destabilization of Romania, especially by means of ethnic-minority agitation, will send shock waves beyond its borders.

In early 1983, while the U.S.-Romanian showdown over MFN unfolded, letters to the editor in the London press and demonstrations outside Romanian diplomatic offices in various cities testified to an upsurge of manifestations by Hungarian groups asserting a claim on the Transylvania region in Romania.

In February, a string of broadcasts and articles in the British and the Swiss media alleged that a coup attempt had occurred in Romania and been crushed. The story originated with the BBC's correspondent in Turkey—in plain English, British intelligence—and the BBC team involved candidly admits that there was no hard evidence to substantiate it. But the manufactured story quickly found its way into *The Times* of London and Swiss *Weltwoche*. A West German source commented that the story "was a well-planted rumor and achieved its purpose in beginning the discreditation of Romania and Ceausescu. . . ."

The remaining crucial political fact for Romania is Moscow's attitude. After former President Richard Nixon visited Romania and Hungary in the summer of 1982, he revealed that in Budapest, he had been tipped off that Yuri Andropov would be the next Soviet party General Secretary, but that in Bucharest, this was not known. Many Romanians believe that Andropov's ascent means a rekindling of Russian-Romanian conflicts.

The last years of rule by Ceausescu's predecessor, Gheorghe Gheorghiu-Dej, and Ceausescu's coming to power in 1965 were marked by a public debate within the CMEA, where a Pan-Slavic faction inside the Kremlin was demanding a "Morgenthau Plan" deindustrialization perspective for Romania and other East European nations. Behind a rhetoric about the "international socialist division of labor," some CMEA members would be relegated to primarily agrarian backwardness.

A Munich-based observer of East European affairs recalls: "It is a well-known and established fact that there was a faction in the Comecon [CMEA] that wanted some of the member-countries to remain agrarian states, including Poland, Romania, Bulgaria, and Hungary. In 1964, an article was allowed to be printed in the Soviet Union by the Pan-Slavic 'Third Rome' faction, written by a Professor Valev of Lomonosov University. In the article, Valev not only restated the agrarian state perspective for Eastern Europe, but created a major international incident in publicly calling for the dissolution and partition of Romania. Under the Valev Plan, Romania would be carved up as follows: The southern portion along the Danube, Wallachia, would go to Bulgaria, the eastern portion, Moldavia, would be incorporated into the Soviet Ukraine, while Transylvania would be annexed by Hungary. As one could imagine, the article touched off a major diplomatic incident, and Khrushchev had to issue a public apology to Romania."