GOOD GUYS ARE HARD TO FIND

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As the scandal around the Bank of Credit and Commerce International widens, it is tempting to believe that this shadowy offshore bank's demise eliminates much of the bad element in global finance. Thanks to the arrogance of Clark Clifford and the Masters of the Universe at Salomon Brothers, Americans are denied the comfortable delusion that we are not like those nefarious foreigners who ran BCCI.

BCCI is a small fish in the vast ocean of offshore money. Compared to the daily flow of illicit funds - some of them, as the Iran-Contra and Banca Nazionale del Lavoro affairs show, sponsored by the U.S. government itself - the few million in laundered drug money and the billions in fraud at BCCI are a pitiful example of a far larger game.Each day, tens of billions of dollars from narcotics traffic and illegal capital flight move through havens like Panama, Buenos Aires and even Miami. Wall Street's leading financial houses deny wanting or doing such business, but many take it nonetheless. Indeed, leaving aside the major issue of

financial fraud, BCCI was indistinguishable from offshore operations of major American, Japanese and European banks.

Like larger, more reputable houses, BCCI did profitable but high-risk business in exotic indebted countries, using political clout to ensure it was repaid. Measured by the type of business they did, what was the difference between some of the offshore offices of Citibank and those of renegade BCCI?

One bank kept records in the Pakistani dialect, Urdu, but each courted business and made loans in unstable venues such as Nigeria, Mexico and the Philippines, presumably in exchange for favors to be returned later. Each wooed the same corrupt local officials, and operated under the same unwritten rules.

Consider this. Late in October 1989, Citicorp Chairman John Reed traveled to Buenos Aires to discuss several pending "debt for equity" swap deals, in which Citibank would exchange loans to that country for equity in local companies. Mr. Reed met with President Carlos Menem, a personal friend who took office that July amid one of the worst financial crises ever to hit Argentina.

Mr. Reed also met with Javier Gonzalez Fraga, then head of the Argentine central bank, who also was on the payroll of BCCI agent Ghaith Pharaon, before and perhaps during his central bank tenure. Mr. Fraga reportedly performed a crucial service for Citibank, indirectly, that helped ameliorate difficulties against Citibank's $1.5 billion loan exposure to Argentina.

As Mr. Reed negotiated in Buenos Aires, the Argentine central bank stunned currency markets when, in the second week of November, it sold nearly $400 million in a futile attempt to defend the sinking currency, then called the austral. Despite earlier support, the austral had slipped from 17 to the

dollar in January 1989 to 456 per dollar by June. Argentina's total dollar reserves were then below $1.6 billion, inflation was surging and smart money was fleeing the country.

Is it just happenstance that after Argentina's central bank spent almost half a billion dollars in foreign exchange market transactions, Citibank announced a deal involving a heavily indebted timber and pulp company, Celulosa Argentina S.A., from which the New York bank realized a $300 million earnings windfall by reducing its loan exposure to Argentina and thereby avoiding increase of its loss reserves? Argentine debt then was worth 20 cents on the dollar, but when

Citibank closed the Celulosa debt swap, it exchanged loans for equity at par value, dollar for dollar.

Citibank has denied any wrongdoing relating to Celulosa, but sources in Argentina and the United States claim Mr. Reed engineered a remarkable coup, benefiting from the central bank's inexplicable dollar sales while also realizing a highly advantageous price for $300 million in moribund Argentine debt.

At the end of 1989, it should be noted, Argentina was 18 months behind on debt payments - $5 billion in arrears - including interest on Citibank loans. By December, Mr. Fraga was out at the central bank (due to the foreign exchange fiasco) and the free-market rate for australs had fallen to 1,000 per

dollar, an astounding 5,700 percent devaluation in just 10 months.

From the perspective of Citicorp shareholders, John Reed is a hero who should be praised for using his political clout in Argentina to make sure his bank got paid when others did not. But from a Third World viewpoint, Mr. Reed and other bankers who ply the financial trade in risky markets like Argentina are in the same category as BCCI. Who on Wall Street or in Washington would presume to judge?

But Citibank is not alone. In fact, instances like Citibank in Argentina, BCCI and Salomon in the United States, or market rigging by mighty Nomura in Tokyo, seem increasingly to be the rule, not the exception. Ask not whether the big banks do dirty deals, but rather how often, where, and under what degree of foreknowledge and acquiescence by responsible politicians and regulators.

When, for example, did New York **Fed** President Gerald Corrigan and Treasury Secretary Nicholas Brady first know of Salomon's bond market machinations? Did they approve such activities in advance to further yet unspecified goals, or did they simply look the other way to preserve Washington's access to the debt market? While on the subject of institutional memory loss, someone should ask Mr. Corrigan when he first knew about problems at BCCI.

But for BCCI's high-profile Washington connections and the more recent travails of Salomon, Americans might be tempted to sit back and quietly gloat over the ill-disciplined nature of foreign financial markets, secure in the knowledge that it can't happen in the good old U.S.A. But the truth is that while we hear constantly from Washington about values and principles amidst reports of late-breaking scandals and mounting government debt, it becomes progressively difficult to tell the good guys from the bad.