

5-1991

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Recommended Citation

Joe M. Rodgers, Ambassador, *A Changing Europe*, 24 *Vanderbilt Law Review* 379 (2021)
Available at: <https://scholarship.law.vanderbilt.edu/vjtl/vol24/iss2/7>

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A Changing Europe

*Ambassador Joe M. Rodgers**

Those of you who have been here all day have heard some people that really understand what is going on in Eastern Europe, people from those countries, and experts in those subjects. I am going to take a little different approach. I am going to talk about Europe, and why I think it is at the real leading edge of global change today as we know our economic and political systems. There are four things happening in Europe today, any one of which would have an impact, or will have an impact, on the future as you young people know it. The drive toward the unified market at the end of 1992, of which you are all aware. The reunification of the Germanies. The winding down of the cold war or you could say, really, the destruction of the Soviet Union is probably a better way to say it today. And, of course, the collapse of communism in Eastern Europe, which probably I know better than the other subjects. I will leave it to last, and be a little brief. I do have an office there, and I think I can talk about it as a business man.

As I said, each one of these subjects would be a major topic. I am going to just hit a few high points to remind you of what is going on there in some of these areas and tell you why I think they all have an effect on what is happening in Eastern Europe. Europe 1992, Fortress Europe, Europe without borders, whatever you want to call it, is really moving ahead more rapidly than most thought. They have talked about this for over thirty years, and then finally in 1985 they came out with a white paper that talked about great things they were going to do in Europe. And then finally in 1987, an Act was passed that really put 285 changes, directives, into motion. Today, a good many of those have already been passed by the Commission itself, and the Parliament has passed over sixty percent of those directives. So they are moving ahead. The fact is, that Europe, as we know it today, will not be the same ten years from now—not only in Eastern Europe, but all of Europe.

They are trying, in Western Europe, to make what sort of resembles what we have here. The Commission will take the place of the federal

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government, the member nations, twelve today, will take the place of our states. And I think it is important to give you a simple little example of why Europe had to do what they are doing today.

A truck, traveling from Los Angeles to New York, can average thirty-six miles an hour hauling goods, with certain transportation costs. That same truck would have to go through nine countries of those twelve, would travel an average of six miles an hour, with five times the transportation cost in Europe. Another little tiny example, you take a dollar bill and you go through those nine countries, you do not spend a penny, you only have forty-seven cents left at the end of those nine countries through currency exchange losses. So it was essential, these are just two of many examples, essential that Europe, to be competitive in the future, does what it is doing today.

Another example, Phillips has to make seven different kinds of television sets to sell in those countries today because of the different specifications. Automobile people have to make cars with different suspension systems on them, different fog lights, in every country. This will all be gone, some of it already has gone. I visualize a common banking system, a common currency, and a common language. That language will be English, by the way. I think the French have decided that when they started requiring English in the schools in France—that was remarkable. But all of this, really I visualize Europe as a trading group, like I do Asia, like I do the Americas. Maybe three, if you want to dream, down the road, three trading competitive areas in the world. I really see that happening, and I believe that Eastern Europe is going to be a big part of that.

As we can see by countries like Spain, which ten years ago was bankrupt, the peso was worth nothing, today is one of the strongest currencies in Europe, but they were helped by the common market, by those twelve countries hanging together with each other. This has got to happen in Eastern Europe. They have got to be made a part of that.

One Germany today, can you believe that? I remember sitting with my colleagues from France, Germany, Italy, and England as little as eighteen months ago and saying, "What about the reunification of the Germanies?" No way any of us would have said less than five years. Some people talked to me about ten. And it is done. I think this should remind us of the determination of the German people and Mr. Kohl. They went charging ahead, cost was never a factor. What this was going to cost them, I do not really believe entered their mind. It was a thing they were going to do, and as you know, Germans usually do things right when they do it. Cost, I do not think, was ever a factor.

I think tough times are ahead. Unemployment is going to be huge,

thirty percent or more. The infrastructure, the cost of putting East Germany up to just almost equal the standard of West Germany is unbelievable. The psychological problems they've got. Remember, the East Germans, again, they do things right. They were the most rigid Marxists in the whole system. They did it by the book. They were the most successful at it, although it was a failure, they were the most successful in that rigid ideology. To try to meld these two societies together is going to be a really difficult thing.

I think this really opens a window of opportunity for the United States. I do with unified Europe. I think it is a great opportunity for us in our businesses to be able to compete in those twelve countries with one specification. They are not going to be fortified, it is going to be open. I think the unification of Germany gives us a window of opportunity in Eastern Europe. Out of the billion dollars you heard this morning from our Hungarian friend that has been invested there, six hundred million is from the United States. Remarkable, remarkable percentage. I was amazed when I was told this, not only by the United States Embassy, but by the Hungarian Government. Six hundred million was from the United States. It shows we are not sitting back and being lazy like maybe I thought we usually were, and some do. I think it is a window of opportunity for us to be involved in Eastern Europe. The unification of Germany, I think, has something to do with that. I think Germany took a lick in the recent Gulf Crisis, I think American opinion of the Germans today is a little less than it was before the war. I do not think many people thought that they did their share. I think they have got to overcome this, and I think they will.

The end of the cold war, maybe it has popped its head up again in the Gulf Crisis with Mr. Gorbachev and Mr. Bush having a few differences, but really, the disintegration of the Soviet Union as we know it. Those are really both two very different topics, the winding down of the cold war and disintegration of the Soviet Union. You have heard experts today, and they have confirmed that the economy is in total ruins. I do not believe there is a solution any time in the near future. I told someone today at lunch, I get a headache after about forty-five seconds of thinking about what I would do to correct that economy. It is unbelievable, and I do not think you could even talk about anything being corrected in ten years.

Politically it is not much better. The situation is pretty bad. Some experts give Mr. Gorbachev a fifty-fifty chance to make it. I heard President Nixon recently say there were three scenarios for Gorbachev. I sort of agree with this. First, he can change radically, really make some real changes in the economy, hoping to make it survive. But there is no way

he can do that. He is so tied, a life-long tie, to the Marxist ideology that President Nixon does not believe Gorbachev will do that. Secondly, he could be replaced, but President Nixon does not think that will happen either, because no one really has the support of the KGB, the military, and just as important, the bureaucracy in that country, including Mr. Yeltsin, who is only in Russia. So probably a successful coup could not take place because he is the one who has the support of those three very important agencies. And the third scenario, which President Nixon thinks is the most likely, is that Gorbachev will use these vast new powers that he has in his Presidency to really crack down on the dissidents. He will use the military if he has to; you have seen some of that recently. He will take away some of those democratic measures, the most important things that have been passed, and he will go back to a much larger crack down on dissidents, and he will stay in control. And we will let him. Unless he gets a little more aggressive with his foreign policy like he did in Afghanistan and other places, the other countries of the world will allow him to do this. And that is what President Nixon thinks will happen to Mr. Gorbachev and the Soviet Union. He does believe that there could be some kind of loose confederation of the fifteen republics, but Gorbachev will be there because he has these three most important factors: the military, the KGB, and the bureaucracy.

Should we help the Soviet Union today? Probably we should. I think we should get something in return, though. I do not think we should give them one penny. They are still giving fifteen billion dollars around the world today to communist leaders, five billion a year to Cuba. You know, there has only been one communist government felled by a free election, and that was Nicaragua. The rest of them, Mr. Gorbachev has helped stay in power with money. Until he takes some of that money away from the Cubans, I do not think we should help him at all in any way. We should use this opportunity not to be blood thirsty, not to hurt the people of the Soviet Union, they are not going to get any of it anyway, much of it. We should be sure we get something in exchange for helping him.

Fourth, and what the subject is today, another event that is happening that is unbelievable is the collapse of communism in Central Europe. When I left France in January of 1989, I wanted to stay involved in Europe in some way, businesswise. I am in the merchant banking and investment banking business. I really looked at Spain and Portugal, because I think those countries in the southern part of Western Europe are really the future of Western Europe. Because of the climate, the good pools of labor available there today, Spain, Portugal, France, and Italy have a lot of future in those areas. I looked at that part of the continent

for real estate development, construction, and the like, and then what happened, Eastern Europe started changing, and I stopped and really spent six months of detailed study on Eastern Europe.

I found two things that have sort of been the theme of this whole talk today. Number one, you cannot paint Eastern Europe with a broad brush, they are all different. You look at the Soviet Union, and what you have heard today. To the other side, Hungary has done most everything that is necessary legislatively to invest there, and then Czechoslovakia, Poland. I am not quite as optimistic as Mr. Hill is about Yugoslavia; I really think there is a real possibility we are headed into a civil war there. But you go to all these extremes of those countries, so do not paint Eastern Europe with a broad brush. Every country is different, every one of them is in a different stage.

Second, they will never go back to communism. I think you have heard that today; none of them are going back to communism. They might not be a democracy, we do not know exactly what all of them will end up being, but they will never go back to communism. I think those are two very important things to remember about Eastern Europe.

Why I chose Hungary, again, I say after spending six months of detailed study, I found that Hungary had passed all of the right legislation to allow me to be an investor there and to feel comfortable about investing money. The laws are good; I think they protect us. They have still got problems with title, like the other countries do, but basically they have passed all the laws. They have got good tax incentives for foreign investors to be there. We were talking earlier about ninety-eight percent of the people there being literate—a good skilled work force—and wages are very, very low.

The work ethic is still there. Fourteen months ago, Levi came there and bought a sewing plant. Ladies were sitting there sewing up blue jeans for a hundred dollars a month. The quality was bad, and the work habits were bad; the productivity was low. They came in and said, okay, after about four weeks, if you will meet these standards on productivity, quality, and work rules, we will double your pay. Big deal, two hundred dollars a month. But it was a big deal to them, twice as much. They made that in three weeks. Then they put an incentive on piecemeal work of paying them more than what they did. They tripled their salaries at that plant in fourteen months. That shows the work ethic is still there.

We picked Hungary. We have been there seven months. We opened the office the first of August, and we are sort of taking an approach of trying to be a matchmaker, matching American companies and industries with Hungarian opportunities. Two months ago we opened an office in Prague, a part-time office. An American woman is going to be there for

three years, half-time, to represent us in Prague. We plan to go to Warsaw in the next several months with a part-time office. Those three countries, I think, are ready for Americans. I think they are excited. I agree with Mr. Hill when he says ten years, twenty years from now we can look back at those countries, especially, and see some unbelievable things happening there. We are excited about being there. We have not found anything in the seven months since we opened the office there with a full-time staff, three people, two former Ambassadors working part-time for us, that make us worry about our investment there.

Exciting things going on, and I recommend, like Mr. Hill does, to you young people, an exciting part of the world, that we as the only superpower in the world today, have a responsibility to help these countries in Eastern Europe, like we do others around the world. It is exciting to be there, to see what they are trying to do for themselves.

One last quote about democracy that I read yesterday that I think is so great. I think we all ought to remember. Democracy is like love, it can survive anything except indifference and neglect. And we cannot neglect the democracies in Eastern Europe.