

# Briefing on Trade and Investment in Central Europe and the NIS



July 10, 1995

Briefing of the  
Commission on Security and Cooperation in Europe

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## **ABOUT THE ORGANIZATION (OSCE)**

The Conference on Security and Cooperation in Europe, also known as the Helsinki process, traces its origin to the signing of the Helsinki Final Act in Finland on August 1, 1975, by the leaders of 33 European countries, the United States and Canada. Since then, its membership has expanded to 55, reflecting the breakup of the Soviet Union, Czechoslovakia, and Yugoslavia. (The Federal Republic of Yugoslavia, Serbia and Montenegro, has been suspended since 1992, leaving the number of countries fully participating at 54.) As of January 1, 1995, the formal name of the Helsinki process was changed to the Organization for Security and Cooperation in Europe (OSCE).

The OSCE is engaged in standard setting in fields including military security, economic and environmental cooperation, and human rights and humanitarian concerns. In addition, it undertakes a variety of preventive diplomacy initiatives designed to prevent, manage and resolve conflict within and among the participating States.

The OSCE has its main office in Vienna, Austria, where weekly meetings of permanent representatives are held. In addition, specialized seminars and meetings are convened in various locations and periodic consultations among Senior Officials, Ministers and Heads of State or Government are held.

## **ABOUT THE COMMISSION (CSCE)**

The Commission on Security and Cooperation in Europe (CSCE), also known as the Helsinki Commission, is a U.S. Government agency created in 1976 to monitor and encourage compliance with the agreements of the OSCE.

The Commission consists of nine members from the U.S. House of Representatives, nine members from the U.S. Senate, and one member each from the Departments of State, Defense and Commerce. The positions of Chair and Co-Chair are shared by the House and Senate and rotate every two years, when a new Congress convenes. A professional staff assists the Commissioners in their work.

To fulfill its mandate, the Commission gathers and disseminates information on Helsinki-related topics both to the U.S. Congress and the public by convening hearings, issuing reports reflecting the views of the Commission and/or its staff, and providing information about the activities of the Helsinki process and events in OSCE participating States.

At the same time, the Commission contributes its views to the general formulation of U.S. policy on the OSCE and takes part in its execution, including through Member and staff participation on U.S. Delegations to OSCE meetings as well as on certain OSCE bodies. Members of the Commission have regular contact with parliamentarians, government officials, representatives of non-governmental organizations, and private individuals from OSCE participating States.

## **BRIEFING ON TRADE AND INVESTMENT IN CENTRAL EUROPE AND THE NIS**

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**MONDAY, JULY 10, 1995**

COMMISSION ON SECURITY AND COOPERATION IN EUROPE  
WASHINGTON, DC.

The Commission met, pursuant to adjournment, at 2 p.m., in room 2200 Rayburn House Office Building, Marlene Kaufmann, staff counsel for the Commission, presiding.

*Present:* Marlene Kaufmann, Counsel for International Trade, Commission on Security and Cooperation in Europe; and Charles Meissner, Executive Branch Commissioner of the CSCE.

*Witnesses present:* Harriet Craig Peterson and Thomas Price.

Ms. Kaufmann. Good afternoon, and welcome to our briefing. My name is Marlene Kaufmann, and I am staff counsel for the Commission. Today's topic is trade and investment in Central and East Europe and the NIS. This is the tenth briefing in a series of briefings conducted by the Commission during the 104th Congress. Earlier briefings covered topics such as U.S. assistance to Central and East Europe and the NIS, and free trade unions.

For those of you who are not familiar with the Commission, let me take a few minutes to explain who and what we are. The Commission on Security and Cooperation in Europe, also known as the Helsinki Commission, was created by statute in 1976 to monitor the implementation of the Final Act of the Conference on Security and Cooperation in Europe, which was signed in Helsinki, Finland, on August 1, 1975, by the leaders of 33 European countries, the United States and Canada. Next month will mark the 20th anniversary of the signing of the Helsinki Accords. The conference was renamed the Organization for Security and Cooperation in Europe [OSCE] in 1994 and, following the demise of the former Soviet Union, is now composed of 53 participating countries.

The Helsinki Commission is made up of nine members of the U.S. Senate, nine members of the House of Representatives, and three executive branch commissioners. Our current chairman is Congressman Chris Smith of New Jersey. Assistant Secretary Meissner, to my immediate right, is our representative from the Department of Commerce, and he is joined on the Commission by Assistant Secretary of State John Shattuck and Assistant

Secretary of Defense Ashton Carter.

The Helsinki Final Act addressed three substantive areas (or baskets, as they are commonly called): security, economic cooperation, and human rights. The primary focus of our Commission during the past 20 years has been human rights and security issues. Cold war realities left little room for effective implementation of the economic basket. Following the fall of the Berlin Wall, and the demise of the former Soviet Union, the economic dimension of the OSCE process has become more dynamic as the participating states seek ways to assist the transition to free-market democracy in the OSCE region.

We are pleased to have with us today a distinguished panel to discuss the trade and investment aspects of the transition process. Charles Meissner is assistant secretary of commerce for international economic policy. As such, he is responsible for international commercial policy development, regional market access strategies, and multilateral organizational issues for the United States. Mr. Meissner is uniquely qualified to speak to us about these topics today, having spent the past 20 years working in the fields of international financial, monetary and trade policy in both the public and private sector. Immediately prior to coming to Commerce, Mr. Meissner served as manager of the Office of Official Co-Financing and Trust Fund Management at the World Bank. Before that, as a Vice President of Chemical Bank, he worked for 9 years on a variety of matters dealing with debt restructuring, economic development, and export financing. Mr. Meissner's career also includes stints at the State and Treasury Departments, and on the staff of the Senate Foreign Relations Committee—no stranger to the Hill, Mr. Meissner. He is a three-time graduate of the University of Wisconsin, where he received his PhD in agricultural economics in 1969.

We are pleased to have with us another panelist who joined us within the last week and a half, and she is to my right, next to Mr. Meissner. She is Harriet Craig Peterson. Ms. Peterson was a member of our delegation to the recently-concluded OSCE economic forum in Prague which Mr. Meissner led. She is the founder and president of Cornerstone International Group, a company that directs business among the newly independent states, Central and East Europe, and Western firms. Cornerstone's primary operating division is involved in growing, processing and distributing popcorn in the NIS and Europe. The company is also involved in consulting, including startup and established projects in aviation, food processing and general business. Ms. Peterson's professional background includes positions as Vice President for marketing at Radisson Hotels International and director of area marketing at Northwest and Republic Airlines. She holds an MBA from the University of Minnesota and a master's degree in education from Lewis and Clark College.

The next panelist is Mr. Tom Price, who will not be making any opening remarks, but like myself is here to answer any particular questions you may have regarding the OSCE economic dimension. Tom is coordinator for OSCE affairs at the State Department, and he as well as myself were also members of the delegation to the economic forum.

So with that I will turn the mike over to Mr. Meissner.

Mr. Meissner. Thank you very much. I really appreciate this opportunity. I think it's extremely important that we have this development of the so-called "economic basket" in the OSCE context. We have worked very closely with our colleagues in the congressional branch to develop a strategy toward expanding the competence of the economic basket. It

is our view that if you are going to have an impact on human rights and national security, it is critical that you also have an effective economic foundation upon which you can build those relationships. Thus economics and economic development become a necessary but not sufficient condition, in our view, for human rights to be effectively observed and for the development of national security in the entire Central and Eastern European region.

What we are trying to do in developing the basket on the economic side is to develop institutional networks between the Central and Eastern European countries and the OSCE and the Western European multilateral structures. We have, of course, a very large group of countries—26 basically on the Western side and 26 on the Eastern side. The levels of economic development on the Eastern side are quite diverse. It is a large group to deal with, and yet it is a problem and an institutional structure that we have to evolve and develop.

The OSCE Economic Forum met recently in Prague for its third meeting. The first two meetings were considered, let's say, to be introductory—they were not perceived as overly successful. I think it was the general opinion that the meeting in Prague, held June 7-9, was an important step forward. Part of that important step was actually bringing business delegations to the conference. Ms. Peterson was the head of the U.S. business delegation, and we are very pleased that she is here.

The chairman's summary, which is really the outcome of the 3 days of meetings, recognized the necessity for the development of a relationship between the private sector and the public sector. What we hope to do, obviously, is to encourage trade, encourage investment flows, and also have adequate legal protections for intellectual property and for contractual rights. There is in the packet that you will find outside something called the chairman's summary, which really pulls together what was agreed upon in the 3 days of meetings. I think the Prague meeting was very effective.

There was also independently, but parallel to the conference, the beginnings, let's say, of a business association. The roughly 10 delegations that had brought business delegates as part of their own delegation—those delegates met independently, drafted their own resolution. That resolution was recognized, and I think is going to be the beginning of a parallel business association that we hope will be sanctioned by the OSCE at the December summit meeting, which is in Budapest this year—I think around December 10.

Mr. Price. Seventh and eighth.

Mr. Meissner. December 7-8.

So in my view we are effectively bringing public-private sector coordination, a public-private sector partnership. The private sector brings money, which is extremely important to this process. But it also brings technology and market access and management skills which are necessary for the economic development of all of the Eastern European countries.

At present I think that the countries that have made the most progress are those countries developing association agreements with the European Union—Poland, the Czech Republic, the Slovak Republic, and Hungary—and in three out of four of those cases we are beginning to get economic growth. Three out of four. Basically the Slovak Republic still is going through some more adjustment problems. But we are see economic growth

and transition structures that have basically worked through most of the problems. Obviously key to the evolution is that we see a similar type of economic integration, or the beginnings of economic integration, of the private sector within Russia, the Ukraine, Belarus, and Kazakhstan, as the major countries associated with the former NIS.

We have certain regional issues that are associated with the four other “Stans” in terms of Central Asia. We have regional issues in the Caspian area, in the Black Sea area. As I was saying earlier, we have a lot of disparities in the level of economic support that will, I think, have to be worked out on a regional basis. But the OSCE provides us with one of the few regional structures that effectively ties together the issues of human rights, national security and economics.

In the economic area we would like to work specifically on regional issues associated with infrastructure, environment, energy, and the fourth area that we suggested were actual border procedures—immigration issues, customs issues—so that you have a smoother flow of goods from an economic perspective.

I think a very important part of the OSCE’s economic forum are the individual seminars that take place. The forum actually meets once a year, but the seminars which will focus on these issues will be, I think, the critical way that we can engage not only the government discussions, but also the government and private sector discussions.

I will be glad to open the presentation to questions and answers—maybe after my counterparts speak. I unfortunately have another obligation at 3 p.m. with another congressional concern, which deals with the survival of my office and the Department of Commerce. And I need to give a briefing to Mr. Chrysler, who has introduced a bill that has a significant impact on my office: It disappears if the bill passes. So that I hope that you will understand the priorities. If I can call on Mr. Keynes, “If you don’t survive the short run, you don’t have to worry about the long run.” So I will have to leave a little bit before 3 p.m., but hopefully I will have an opportunity for plenty of questions and answers before that time. Thank you.

Ms. Kaufmann. Thank you, Mr. Meissner.

Harriet would like to make a few brief remarks, and then we will open it up to a question and answer period.

Ms. Peterson. Thank you. Good afternoon. I started working in the former Soviet Union 5 years ago and am now expanding into Central and Eastern Europe. And so when I had an opportunity to participate in both the Muenster conference in Warsaw, which included representatives from the business and the government sector, and also in the OSCE Economic Forum in Prague, the economic forum, I was very open to the opportunity and welcomed it, because I believe strongly that business and government need to work together in order to stabilize economies and ultimately to stabilize our world.

People asked me when I started working in Russia why I was there, and I told them I had two teenage kids, and the more stable that economy was the less likely that they would ever be fighting the wars that we all went through in the cold war era. I believe that strongly. I believe strongly that our government dollars directed toward stabilizing an economy will ultimately make us a much more free world.

At present I am working in that area. That’s part of the reason that I am sitting here

in front of you today, to tell you that business and government work hand in hand in Washington, in Prague, in Warsaw, and in other regions of Central and Eastern Europe and the NIS. And that is how we are able to do business.

What we need to do business in emerging nations are pretty basic things that we need in business in America: We need stability. We need no surprises. We need national treatment—I need to be treated the same way everyone else is treated. We need the opportunity to make a fair profit. And when you think about it, every one of those needs is dependent upon the laws that the government officials are making. When the business delegates in Prague met, we talked about what we need from the OSCE, and why we even need a business delegation. The reality is we can't do business by ourselves. We are dependent on the laws. We are dependent on what our congressional delegates decide, and if they decide to put a priority on customs—borders being opened, for example—it eases my ability to work in a marketplace.

That's why we said it is so important for the business sector to work hand in hand with government in emerging economies—because we need each other. Government representatives need to listen to business and find out what our problems are, so that they can pass laws accordingly. And, similarly, we need them to look out for our welfare and be able to create an environment in which we will be free to do fair business.

The presence of business delegates at Prague was an outgrowth of a meeting in Budapest last December, when the heads of 52 nations came together and said we need public-private cooperation to build economic stability of the countries in transition in Central and Eastern Europe. We convened in Prague, a group of the 10 nations that had business delegates present. The 25 business delegates presented a statement to the OSCE recognizing the interdependence of the private sector and the public sector in building a stable economy.

The outgrowth of the Prague Forum is that we will be establishing a business organization that we trust will be sanctioned by the OSCE. This will be a private sector enterprise of the nations involved with OSCE, chartered to find ways to better cooperate with government to fully develop the economic potential of all member countries. We have already started communications with the attendees at Prague with the goal of having a concrete charter in place for the December OSCE meeting that will create a multinational business organization, sanctioned by the 52 nations in OSCE, to develop solutions to the question, "How can we, the public and private sector, best work together to make sure that we maximize the economic impact to these nations and the stability of the region?"

As a private business person, and representing small business, I am very dependent on the stability of a region in order to be able to do business there. If there is a major crisis—and as I've seen in Russia, the Chechnya crisis has caused investors to get wary of putting money in—I look very closely at the security of a region before I go into it. I look very closely at the political ramifications of upcoming elections. I spent the morning talking to State Department people to say, "What is happening?" These are resources that I don't have access to sitting in California. People here have that information, and as a business person I am very dependent on it and the dissemination of that information, which is also part of the goal of the business organization: To become an organization that can disseminate timely crucial information for making business decisions.

That about summarizes what I wanted to say. We really need to look at investment

income in countries. We need to look at trading rules. We need to look at the protection of intellectual property rights. And if we address those three issues, the world will open up to business, and we will all be stronger. Small businesses grow into big businesses, and that's what will stabilize the U.S. economy and what will stabilize the world. Thank you.

Ms. Kaufmann. Thank you very much, Harriet.

Tom, would you like to make any comments at this point? I didn't mean to cut you off if you have any comments on the forum. Otherwise we'll just open it up to questions so that Mr. Meissner can make his meeting.

Mr. Price. I think that, given the fact that Mr. Meissner has to leave soon, we'll do questions and answers.

Ms. Kaufmann. We will take questions and answers from the audience now. I would ask you, in view of Mr. Meissner's time constraints, to address questions to him first; the remaining panelists can stay for a greater length of time. Please identify yourself when you ask a question. The proceedings are being transcribed, and the Commission will be issuing a report some time within the next couple of weeks following this presentation.

Sam?

Questioner. Sam Wise from the Helsinki Commission. Ms. Peterson described, I think, quite well what the private sector people came up with out of the meeting, and how it will play out—although I was a little disappointed to hear that there weren't more from the private side. ??????????But I wondered if you could tell us, Mr. Meissner, on the government side whether—a result that will have specific follow-up features that we can look forward to in the future?????????

Mr. Meissner. Yes, I think probably the most important part of the forum was a commitment by all the countries to review what is known as the Bonn document of 1990. It has an economic focus in terms of the general principles of operating under a market economy, in an open economy where foreign investment and trade are being encouraged. But there has never been any formal review of the implied commitments in that document. And OSCE, or CSCE prior to it, has no true enforcement mechanism on human rights and national security, except for periodic reviews of commitments of individual governments to general principles and actions. And I think it's really quite important that for the first time we have a commitment to have that type of review on economic issues and economic organization in terms of the evolution and structure of what were originally centrally planned economies to market economies.

Tom, having more experience on this, might want to comment also.

Mr. Price. I would add only that the economic dimension as such didn't really exist in any clear way in the first 15 years of the CSCE's history. This basket was basically empty. And one of the reasons for that was that CSCE countries were divided into two blocs, with such radically different economies that the founders of the CSCE felt there wasn't enough common ground to build clear commitments the way there was in the so-called human dimension, which is all the human rights commitments in the Helsinki Final Act, and in all the various arms control agreements that have been spawned over the years by this organization.

With the fall of communism in 1989, it was clear that there was common ground and

a concern for helping countries move from a centrally managed economy to a market economy. A body of commitments began to be generated. Most of them are in the document to which Mr. Meissner referred. The Bonn document probably contains 98 percent of all the commitments in this dimension. But we have never systematically reviewed the implementation of those commitments. So getting this agreement to review implementation is one of several signs that came out of Prague that we will finally take the economic dimension seriously.

There were other signs in certain ongoing projects, such as a discussion on a common and comprehensive concept of security for the 21st century. It was agreed that an experts group should meet and work on the economic and environmental building blocks. It was agreed that the OSCE secretariat should publish a monthly calendar of conferences, seminars, and other events planned by all the relevant international organizations in the economic sphere, with an eye toward a more efficient utilization of resources—by avoiding duplication, by avoiding three different seminars within a 6-month period on the same subject, et cetera. There's a whole list of agreements which were reached in Prague, which look all the more impressive given the background to the meeting, through which many of our Western European allies basically wanted to limit the economic dimension to one meeting of the forum per year, or see it wither altogether. Against that background, the achievements at Prague were quite impressive.

Ms. Kaufmann. I'd like to jump in and ask Mr. Meissner a question, since he is here wearing two hats. Could you comment briefly on the Muenster process, or other G-24 activities in which you are involved through the Department of Commerce, in terms of efforts to develop trade and investment in the region, and how that might or might not dovetail with the economic forum?

Mr. Meissner. Yes, thank you. There are a number of initiatives that have been taken on the economic side where we are trying, in what I would say is the world of commercial diplomacy, to effectively develop networks of economic relationships, both public and private, to support the general foreign policy of the United States. The Muenster process was first held in the town of Muenster. We're into our fourth conference. It is a G-7 economic forum, which includes the G-7 countries, plus 10 Central Europeans and the four large members of the NIS—Belarus, Ukraine, Russia and Kazakhstan. The purpose of the Muenster process is to focus on microeconomic issues: what are the necessary conditions to do business. There is also a business working group that is working with the Muenster group. Ms. Peterson was part of that last meeting, which was in Warsaw. And there is a business declaration from Warsaw, which was drafted by the businessmen and women who were present and is in the packet outside on the table.

This has a very similar orientation, but has fewer members than the OSCE. I think that in time there will be some evolution of these two institutional forums. The G-7 is more ad hoc and less of a direct institutional link to the goals of human rights and national security than OSCE. Both of these forums are, I think, extremely important. Both are relatively new. But the Department of Commerce is involved in this. There are other initiatives in terms of South Africa, Haiti, Northern Ireland, Palestine, where we are trying to use a public-private sector partnership to effectively reinforce economic stability for broader national security reasons.

There's also a very real issue here in terms of Central Europe and Eastern Europe

evolving as emerging markets. I think Ms. Peterson spoke to her interest in emerging markets. At present we export about \$5 billion to the OSCE Eastern bloc group. This is relatively small when you talk about \$500 billion merchandise exports in 1994. But these markets need infrastructure—aircraft and transportation, tourism, electrical power, telecommunications—and in essence that translates back into jobs in the United States. We are competing in many cases with our European counterparts. It is very important that we have vehicles by which we can introduce U.S. businessmen and women to Eastern Europe and Central Europe, and also for them to voice, as Ms. Peterson has here this afternoon, what are the important issues that business people have to have in place before they can start moving money and technology and market access.

Questioner. My name is Dan Luskin, and I've recently done some work on elections in Central Asia. And I wanted to see what any of you think really about what is the relationship between political reform and the type of work that you're doing.

Mr. Meissner. I can try to take that, and you know Tom might also want to wish to comment from the State Department point of view, or Marlene from the Hill. But I think there's a very important linkage between the freedom that you need in terms of doing business and the contractual relationships, the respect for individuals and minorities in that context, and political pluralism, and that you need societies that are built on laws, respect for laws, consistency in contracts, and institutional stability. I think there's a very strong integration between what we would consider principles of democratic pluralism and those principles also necessary to have an open economy, and to effectively develop the private sector. I don't know if Tom wants to add to that.

Mr. Price. Only to say that I agree with everything Mr. Meissner said. And I would urge you, if you haven't done so, to take a look at this Bonn document. It's a very interesting document. The negotiating history of it began in late 1989, and it was concluded and published in April 1990. It reflects the optimism of that period—about how quickly all these new democracies would make a transition and accomplish political reform, economic restructuring, how quickly they would establish stable multi-party democracies and democratic habits of thought and political behavior.

In the interim we've seen, I think, that in many countries the process is much harder than we thought it would be, requires much more time than we thought it would, and it is clearly all linked. In other words, if we're talking from my point of view about the OSCE as an organization that promotes stability, creates confidence, promotes respect for basic human rights within countries, between countries and among countries, part of what enables people to respect each other's rights is a certain basic level of prosperity, a certain amount of food on the table, if you will. And we believe that it's important to work in all of the dimensions of the OSCE in order to make progress in any of them.

Ms. Kaufmann. I would just agree with all that. The Commission—you may be more familiar with the Commission's election monitoring activities—has a staff person in Central Asia now for the Armenian elections. Obviously without being too repetitious, that's the whole point of combining the three baskets: these issues are all interrelated.

Questioner. If I could just follow up on that. For instance, in some places, such as Uzbekistan, there were elections in December. And subsequent to that there was supposed to be elections for president the next year, and then there was a referendum that was held, and the referendum extended the term. That also happened, I believe, in

Kazakhstan. I'm wondering to what extent any of these developments affect the type of assistance that we might be providing any of these countries.

Mr. Meissner. In terms of the assistance, I'm going to have to turn that to Tom. I don't know if there is anybody from State that's involved in the assistance packages for these countries. But from the Commerce point of view, we are not directly involved in the assistance packages, except that through AID we are receiving funds to run business information centers for the NIS countries. But we are not ourselves involved in providing direct technical assistance, nor has Congress provided us money for that assistance.

Tom?

Mr. Price. Unfortunately, ditto. I mean, it's not only that it's another office, it's another bureau. [Laughter.] What I would say is that many people—and in fact many other countries, including OSCE members—tend to think of the economic dimension of the OSCE as a form of giving assistance. That's not our concept of it at all. Our concept of it is ways of establishing and building patterns of cooperation, of making explicit the common values and common rules by which we operate, making it easier for our business people to deal with each other, and for countries to work toward prosperous free-market economies. It is not a system of hand-outs or any kind of assistance program beyond occasionally sponsoring how-to seminars that teach people how to fish.

But, I'm sorry, I just can't answer your question about assistance. It's way beyond my purview.

Ms. Kaufmann. Well, we do have a report from our earlier briefing on U.S. assistance programs to Central and Eastern Europe and NIS. If there aren't any copies on the table, I can get one to you. And just a quick note from the congressional perspective. Again, the OSCE, as Tom has explained, and our Commission, are not in the business of providing assistance. That does come under AID. But obviously, if you followed the debate on the foreign operations appropriations a few weeks ago, the Congress looked very carefully at these issues. I can't speak directly to Kazakhstan and the Central Asian republics, but in terms of the overall picture, there were some restrictions put on aid to Russia, to Turkey, and a number of other areas. So this issue is something, from the congressional viewpoint, that is looked at very carefully.

As a Congressional Commission, we review election processes and democratization efforts in OSCE countries. Our Commission raises concerns with governmental representatives of those countries. And I know in the OSCE process the State Department raises issues both in the group meetings that we have, the regular meetings in Vienna, and on a bilateral basis if the U.S. has particular concerns about activities in those areas.

Mr. Meissner. I don't want to leave the impression that there was an overwhelming wave of support for the ideas that we are putting out here today. There is a lot of resistance to development of the economic basket and bringing economics in a full-fledged equal membership into the OSCE. At the moment I think that there's only one staff member in terms of the secretariat that is committed to economics—I'm not even sure if that staff member has been appointed yet—which was agreed at the last ministerial. There is a view held that the OECD worked on Eastern Europe and Central European economics, the ECE works on this, and we now have the EBRD. Why do you need another forum?

My view is this is the only forum that effectively integrates these areas, the only

forum where you have a full membership of the Central and Eastern European countries. These objections are raised primarily by our colleagues from the European Union. And under the same reasoning I have told them you would not have a European Union, because we had the OECD and we had the ECE—why did you need this regional forum for reasons of economic integration and economic growth? And I think there is a very important aspect in terms of having bilateral economic relationships, having regional economic relationships, and if you might say have more global economic relationships through the U.N. and other structures. But having the common ground of regional problems becomes extremely important in terms of binding and building relationships in terms of an economic community with common issues that you may not have on a global basis, but are much too broad to deal with just on a bilateral basis.

Questioner. Miles Cochran from Legislative Newsday. Could you give us more of a sense of what the trends are in the area in terms of how people react to these ideas, of any kind of political backlash in terms of [inaudible] trading, and how you feel about it?

Mr. Meissner. Maybe I will let Ms. Peterson represent the private sector—But there is a great diversity in Central Europe and Eastern Europe in terms of institutional structures and levels of economic development. I would say certainly most of the foreign investment flows, in most of the trade that are associated with the European Union members or with the U.S., are in what we would now call Central Europe—primarily Poland, Czech Republic, some in Slovakia, Hungary. There is not much direct investment flows in Bulgaria or Romania. You have, in terms of the size of the economy, relatively small flows associated with Russia.

And what we see in terms of Central Europe is that the U.S. private sector is actually the largest investor, with the Germans being second. But the distribution is different, in the sense that U.S. investment is primarily in Poland and in Hungary, with some in the Czech Republic, and the Germans are very heavy in the Czech Republic and in Poland.

While we may have 40 percent of the investment in the Central European countries, we only have 5 percent of the trade, which leads you to believe that the American firms are investing in this area for the market in the region and also to export back into the European Union itself. All four of the Visegrad countries have association agreements with the community. By, I believe, 1998 there are only going to be sensitive materials outside of agriculture, which is always sensitive in terms of the community. But I think there may still be some restrictions on steel and textiles and other types of apparel. But basically they will enter into an open trading system on manufactured products. And many of the firms that are in the European Union and producing there are moving production facilities into Eastern Europe so that they can effectively compete with each other.

I don't know if that's helpful. I mean, in terms of Asia, or the Asian part of the NIS, we're in a situation where I think it's still very scattered, and there's a much greater focus on the development of energy than on other areas.

Ms. Kaufmann. I would just add one comment to that. You asked if there is any backlash. I can't cite specific polls, but in reading on economic development in the area as I do, I frequently see reference to surveys or polls taken in Central and Eastern Europe and the former Soviet Union. It appears from these polls that people in the region overwhelmingly state that they don't want to go back to the old political system. They don't want to go back to the way they were, but at the same time they almost unanimously also feel they

were better off economically. This goes to the point that I think we have all made repeatedly up here: the connection between the economic and the security dimensions.

I can't give you specific breakdowns by country. Obviously, as Mr. Meissner has said, Poland, Hungary and Czechoslovakia are at a different stage than Romania, and those countries are at a different stage than Uzbekistan, Ukraine and Kazakhstan.

Mr. Meissner. The little note that was passed to me said that Representative Chrysler will be glad to see me tomorrow. So we have more time.

Questioner. John Schaeffer, USIA. You mentioned that barriers to the merchandise trade are not great. But Ms. Peterson mentioned intellectual property and the financial services area. What has been the state of progress in these? [Inaudible]

Mr. Meissner. Why don't you try from the business side?

Ms. Peterson. Well, from the financial services side, I can tell you (and this is somewhat in follow-up to the previous question as well): The farther west you go the easier it gets. Trying to find banks to put up money for expansion of a business into Russia at the present time is extremely difficult. And to find any money for Russia at the present time is extremely difficult as a small business. Now, I'm speaking as a small business person. As you move further west, banks are now calling me, saying, "When are you going to build your plant? We're interested in talking to you when you start looking at Central Europe." So there are some real parallels between the political stability, the level of economic growth and economic stability, and the ability to bring in financial resources.

Somewhat similarly, I think the intellectual property—and I think Mr. Meissner probably is in a better position to talk about that—but we really as a business person see them going hand in hand. If I don't have any guarantees of law, if there is no commercial code, if I don't have national treatment, my likelihood of protecting my trademark is similarly about as high as my likelihood of protecting my plant. And that's why the banks tell me, "Go West, young woman, go West"—or old woman, as the case may be. [Laughter.]

Ms. Kaufmann. Stick with the former. [Laughter.]

Mr. Meissner. I think that the protection of intellectual property rights is much greater now than it was 5 years ago. Part of this is just setting up the institutional and enforcement structures that were necessary but also part of this is the negotiation of the WTO and the general agreements within the WTO that are associated with intellectual property and investment or what are known as TRIPs and TRIMs—Trade-Related Investment Measures and Trade-Related Intellectual Property Measures. And that has put a common ground of acceptability across these issues, but then enforcement in commercial law is the most important part of whether one can make those international commitments functional on a state-by-state basis.

Ms. Kaufmann. The gentleman in the back.

Questioner. Ken Berger from Washington Trade Daily. [Off mike]—still exists, that—[off mike]—agreement with the European Union, a lot of these agreements would suggest that import tariffs be introduced over time for EU products—[off mike]. Is that still a concern?

Mr. Meissner. That is still a concern. We've raised it with the European Union, and we've raised it with the individual countries. This is primarily the four Visegrad countries. On specific products where we have U.S. investors that find themselves at a disad-

vantage, we actually have a review—certainly in Czechoslovakia, or, excuse me, the Czech Republic—associated with trying to work out individual problems of individual tariffs. ??????The background of this is that in an association agreement with the community there's a commitment to lower tariffs—but it is not done on an MFN basis if—on the view that under the GATT and the WTO, if you are at looking toward joining a customs union, you then do not have to provide MFN status and this causes—until they actually become members of the European Union causes them problems.??????

Ms. Kaufmann. Did you have a question.?

Questioner. How much interest does the U.S. have in the small and medium business sector? [Inaudible.] Can you break down what that interest, other than security interest?

Ms. Peterson. A breakdown in terms of what? What type of—

Questioner. [Off mike.]

Ms. Peterson. I'm really glad you asked that question. As a small business person—and the people of this panel have heard me wax less than eloquent on this subject—we struggle as strong small business people. We rely on government resources because we are not large enough to have the full infrastructure to know every political nuance ourselves. So, yeah, I spend a lot of time talking to Washington. We are extremely fortunate as small business people that there are resources available. In my business, I deal in Russia and Central Europe, and we have desks in Commerce, business in CBIC. I pick up the phone or I dial my flash fax number and—whammo—I get information. I mean like that! It's quicker than my research assistant. It is my research assistant, in effect.

And when you think about it, it's very cost effective. Of the 21 million businesses in this nation, 99.7 percent are considered “small businesses” and many of them are one or two people who are trading, and we are all able to access this information. It is now online on the Internet, and you can sit on the weekends and get Commerce Department information. So there is a lot of data that is out there, a lot of information that's available.

In fact, just in the last week and a half a small business resource center began which came out of the White House conference for Central and Eastern Europe in January, and I am meeting with them this week to say, “OK, how do we use your services? How do we work together to help make my small business a bigger business and to help me find partners to put the business together that will accomplish our mutual goal?”

The frustration for me has been looking at some of the funding programs as a small business. I go to the SBA, and they say, “Your assets are in Central and Eastern Europe and Russia; we don't want to talk to you. Will you pledge your firstborn child and your home and everything else? Then we'll start talking.” You talk to OPIC, and they say, “If you want \$2 million we'd love to talk to you; if you want \$500,000, sorry.” You know, I'm going to borrow \$2 million and prepay \$1.5 million in my first payment.

You talk to Eximbank, and they say, “If you're under \$2 million, we don't want to talk to you.” There is a gaping hole in terms of any kind of assistance program for businesses that have a track record and are established, but yet are not looking for a lot of money by government standards. If you're looking for \$200,000 to \$500,000, there is a gaping hole. And I speak for many, many small businesses that have spent time and personally invested. And I'm not asking for a handout. I mean, I have more money personally invested

then I would ever ask for. But at the same time, there are funds going through a number of sources, and the government agencies tell me, "You fall through the cracks, there is nothing in that range."

Why is that? Why is that, Chuck? I've asked you and the State Department. Why is that?

Probably the primary reason that I hear is it's administratively too expensive to administer the small programs, and if they have \$20 million to disseminate and they do it all in \$200,000 increments, it takes longer and more people than if they do two \$10 million dollar grants or loans or guarantees or whatever it may be.

Ms. Kaufmann. I see a representative from AID here who might want to address that.  
Ms. Peterson. Oh, good!

Questioner. Yes. I just wanted to point out that AID, through other intermediaries, has an enterprise fund—

Ms. Peterson. Right.

Questioner. Q—which is dedicated to small- and medium-sized businesses.

Ms. Peterson. Right. I did apply—and this is speaking a little out of school—I did apply for AID money in 1993 under the food systems restructuring program, was approved by AID in Moscow. I have waited 3 years to make this speech. It was approved by AID in Moscow—

Ms. Kaufmann. The cameras are rolling.

Ms. Peterson [continuing]. Was approved by the contractor AID, and was told by AID in Washington that I was too small, that they did not know how to work with small businesses. And that, as a business person who was really committed to what I was doing, had made substantial personal commitments, that was a real frustration. And then you see some of the \$20 million grants that are going out the door. I had a call 2 weeks after that from a large conglomerate that had received a \$1.3 million grant. They were calling me to see if I could help them with their project because they were struggling, and they knew that I probably was farther along in my process than they were.

The enterprise funds are a group that I have talked with, and generally they're available. However, they do require the involvement of a foreign partner as a potential owner, and not every small business wants to do that; some businesses want to register a 100 percent foreign-owned company in-country, and then the enterprise funds, as I understand it, generally don't apply.

Ms. Kaufmann. Thank you.

Harriet, I'd like to ask you a question. You've talked about financial aspects of your business. Infrastructure, as you know, was one of the topics at the economic forum. In your business now, in addition to exporting, you're also growing crops in Russia. Can you comment briefly on your experiences, pro or con, with infrastructure both in Russia and in Central Asia—

Ms. Peterson. This is where the issue of stability comes in. First, I have to go on

record that I don't think popcorn is the world's greatest need. What we are really doing is building business and teaching entrepreneurial marketing to people. We have established private distributors throughout the NIS. And popcorn happens to be the product that we're using to build these businesses. I also happen to like popcorn. But we are—

Mr. Meissner. It's also good popcorn.

Ms. Peterson. [Laughs.] We are using U.S. hybrid seed. We are using U.S. equipment. So we're contributing to U.S. exports. We are taking technical assistance over to the improve the skills of the farmers within the region. We are teaching them the best of Western farming. So please don't think as I sit up here that I think I have the answer to the world's ills in popcorn. But do eat lots of popcorn please.

Back to the question of infrastructure: We started shipping our seeds this spring, and they were enroute when I received word that the Russian government had changed its law and was instituting an old law from the Communist era that banned the import of U.S. corn seed into Russia. So I again called my government contacts.

Mr. Meissner. That was us.

Ms. Peterson. Yes. Called Commerce, and asked, "Who do I talk to?" I talked with Commerce, the Department of Agriculture and the Foreign Ag Service, who went to bat for us in Moscow. When I went to Moscow, FAS arranged a meeting for me with the Russian officials for plant quarantine and for the approval of imports of agricultural products.

I need to know what the rules are going to be. Tell me what the rules are, and I'll tell you if I'm going to play the game.

I had been growing the same seeds in that country for the past 2 years. It was the same hybrid. And suddenly the rules changed. So I sat down with the people, and they agreed to let me grow for production, and they agreed to fit an existing business within their structure, and I now know what it will take for me to continue growing in Russia, assuming the laws don't change again.

This demonstrates the importance of stability. If a government is serious about foreign investment, it has to put procedures and laws in place that will allow companies that are there to continue to do good business. If the laws are ever-changing, I will take my business elsewhere. To be honest, I am looking at Bulgaria, Romania and Moldova right now and meeting with their embassies and asking people in State, Commerce, and Agriculture departments, "Are these countries conducive to growing popcorn, not only climate-wise but also the governmental climate? Because the import of seed and agribusiness is so closely tied to the governments of these countries, is it a climate in which I can grow long term?" So the infrastructure is vitally important to a small business.

Ms. Kaufmann. Thank you, Harriet. Any additional questions? Yes?

Questioner. [Off mike. ]

Mr. Meissner. I would say that most of the capital flows—I don't have the World Bank's report in front of me—but most of the capital flows from Europe, North America and Japan are going into Latin America, Southeast Asia, China, with the possible exception of the energy sector, which is obviously tied to the location of gas and oil. So that those countries that have really gone through transition, who have stabilized their insti-

tutional relationships, and who are involved in an open trading system with effective protection of intellectual property and national treatment and investment, are attracting those flows.

There has been, as we all know, an impact associated with the Mexican crisis which affected capital flows into Latin America and, to a certain degree, Southeast Asia. But they are still the primary recipients of foreign direct investment, portfolio investment, and loans.

Ms. Kaufmann. Would anyone else like to comment? Any other questions or comments from the floor? Would our panelists have any closing remarks?

Mr. Meissner. I want to, first of all, thank the OSCE staff on the Hill for putting together this briefing. We really work very closely together, I think very interdependently in terms of the congressional and executive branch, and that support, I think, is very important for the institutional role.

We also need to focus on the issues that Ms. Peterson has brought up. Most of the entrepreneurial talent in the United States is in small- and medium-sized business. ?????about 90 percent of the Commerce Department's flash fax system and information system.????? We receive and answer approximately 5,000 inquiries by electronic flash fax and send out approximately 8,500 documents a week. There's seven systems that are operating, only one of which deals with Central and Eastern Europe. The other are Latin America, WTO, Japan, et cetera.

But it's very critical that we have the opportunity to work with small- and medium-sized business. I think it's where the entrepreneurial talent of the United States is. It's been a pleasure working with Ms. Peterson, and I'm very pleased to have had the opportunity to try to assist through my part of the Commerce Department, which is the International Trade Administration and the Office of International Economic Policy. She has come here unprompted today, which is very pleasant, but it is a critical part of this development of the OSCE to have this type of business input to allow economic leadership from Central and Eastern Europe to come to appreciate the importance of their institutional infrastructure, as well as their physical economic infrastructure, to assure that business develops both from internal entrepreneurial sources and also from external sources.

When you bring in foreign capital, it increases in essence the savings rate. It means that you're bringing technology, management and product that does not have to be generated out of internal savings in the society and you bring a lot of experience that takes a lot of time. And I would like to congratulate you for your efforts in trying to make this work in a very, very difficult atmosphere.

Thank you very much.

Ms. Kaufmann. Thank you, Chuck. I want to thank you—our commissioner and our assistant secretary—for giving us your time today and providing a very insightful and interesting overview of the economic, trade and investment climate in the OSCE region.

And thank you again, Harriet. As Mr. Meissner said, Ms. Peterson's availability for the panel was fortuitous. Her visit to Washington happened to coincide with our rescheduled date for the briefing. We are delighted she could be with us, particularly since she was on the delegation in Prague.

Thank you also, Tom, for giving the State Department perspective.

And thank you all for coming. I will remind you that this has been transcribed and the Commission will be issuing a report hopefully within four to 5 weeks. Thank you. [Applause.]

[Whereupon at 3 p.m. the Commission was adjourned.]