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ADDRESS BY ALLEN W. DULLES
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TO THE
FORTY-SIXTH ANNUAL MEETING
OF THE
CHAMBER OF COMMERCE OF THE UNITED STATES
WASHINGTON, D. C.
12:30 P.M., DST, APRIL 28, 1958

KHRUSHCHEV'S CHALLENGE

The subject for your meeting today, "Dimensions of the International Peril Facing Us," is a particularly appropriate one for the Chamber of Commerce of the United States. With its membership of two and a half million businessmen, your organization occupies a key position of influence in our nation's approach to international as well as domestic problems.

It is also a timely subject for you to be considering. Today the Soviet Union, through its very vocal leader, Khrushchev, is directly challenging the United States in the fields of industrial development and foreign trade and aid as well as in military matters. The other day he remarked, "To the slogan that says, 'let us arm', we reply with the slogan, 'let us trade'."

The economic challenge is a dual one. They are setting goals for their own domestic production to compete directly with our own and to quote their words, "to get ahead of us in the economic race." The other phase of their challenge is through their foreign economic penetration program.

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I shall discuss both of these challenges. But before doing so, I shall analyze briefly the development of Soviet policy over recent years, as this, I feel, helps to explain why they have turned to the economic and industrial fields to promote their long range international policies.

In the immediate post-war period, Stalin relied on military and para-military action and the military threat as the chief weapons for the advancement of Soviet aims.

It was with military force that the Soviet took over and established their control in the European Satellites and repressed the democratic forms of government which tried to find root immediately after the war. It is with military occupation force and the threat of force that they still hold their position in Central Europe.

Then in Iran, in Greece, and at Berlin in the early postwar years, it was force and the threat of force that was used in the attempt to break down the free world defenses. Through the Marshall Plan and our growing military preparedness following Korea, this threat was contained in the West; but China was overrun by the Communists and Northern Vietnam taken.

These and other military and subversive maneuvers alerted the free world to the dangers of Stalin's policies. Our countermeasures tended to make them counter-productive. Stalin was posthumously discredited by Khrushchev. Stalin's programs were generally repudiated by his successors

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who literally trembled at the risks he had taken at a time when the Soviet had no atomic capability to match our own. It is well, however, that Khrushchev's ruthless repression of liberty in Hungary with Soviet troops should stand as a reminder to us that Stalinist tactics may at any time be revived if the Soviet Union feels its vital interests are affected.

Today we face the subtler policies of Nikita Khrushchev. Will they be more or less effective than the Stalin policies in achieving the over-all aims of international Communism?

Of course, I do not mean to discount the seriousness of the Soviet military threat or its challenge in the scientific and technical fields on which advanced weapons systems depend. But as I see it, under its present policies, the USSR does not intend to use its military power in such a way as to risk general war. They have a healthy respect for our retaliatory capability.

Furthermore, the Soviet success with Sputniks and in the field of ballistic missiles has well alerted us to the military danger and our missile and other programs are receiving top priorities. We must, however, be ever watchful of the Soviet emphasis on the military applications of science and technology in order to anticipate any attempts at a breakthrough which would change the balance of military power.

Barring such a possibility, it is most probable that the fateful battles of the cold war will, in the foreseeable future, be fought in the economic and subversive arenas.

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To understand the seriousness of the Soviet economic threat, it is essential to understand the Soviet economic and industrial base on which they are developing their economic penetration program.

Since 1928 the Soviet Union has developed rapidly from a predominantly agricultural and industrially underdeveloped country to the second largest economy in the world. Forced draft industrialization, emphasizing heavy industry, was carried out by Stalin to prevent, to quote his words, another beating of backward Russia by the more economically advanced capitalist countries. Forced draft industrialization continues in Russia today, and now the emphasis is more positive: namely, to meet Khrushchev's goal of, "catching up and surpassing the United States in per capita production within the shortest possible historical period of time." This theme is being used not only as internal propaganda but also to propagate the Soviet faith abroad.

Comparison of the economies of the US and the USSR in terms of total production of goods and services indicates the USSR's rapid progress.

Whereas Soviet gross national product was about 33 percent that of the US in 1950, by 1956 it had increased to about 40 percent, and by 1962 it may be about 50 percent of our own. This means that the Soviet economy has been growing, and is expected to continue to grow through 1962, at a rate roughly twice that of the economy of the United States. Annual growth over-all has been running between six and seven percent, annual growth of industry between 10 and 12 percent.

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These rates of growth are exceedingly high. They have rarely been matched in other states except during limited periods of postwar rebuilding.

A dollar comparison of USSR and US gross national product in 1956 reveals that consumption -- or what the Soviet consumer received -- was less than half of total production. It was over two-thirds of the total in the U.S. Investment, on the other hand, as a proportion of GNP in the USSR, was significantly higher than in the US. Furthermore, investment funds in the USSR were plowed back primarily into expansion of electric power, the metallurgical base, and into the producer goods industries. In these fields, it was over 80 percent of actual US investment in 1956, and in 1958, will probably exceed our own. Defense expenditures, as a proportion of GNP in the USSR, were significantly higher than in the US; in fact about double.

Soviet industrial production in 1956 was about 40 percent as large as that of the US. However, Soviet heavy industry was proportionately larger than this over-all average, and in some instances the output of specific industries already approached that of the US. Output of coal in the USSR was about 70 percent of that of the US, output of machine tools about double our own and steel output about half.

Since 1956, Soviet output has continued its rapid expansion. In the first quarter of 1958, Soviet industrial production was 11 percent higher

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than a year ago. In comparison, the Federal Reserve Board index shows a decline of 11 percent in the United States.

According to available statistics, in the first quarter of 1958, the Sino-Soviet Bloc has for the first time surpassed the United States in steel production. The three months figures show that the USSR alone turned out over 75 percent of the steel tonnage of the US.

A recession is an expensive luxury. Its effects are not confined to our own shores. Soviet propagandists have had a field day in recent months, pounding away at American free enterprise.

Every Soviet speech, magazine article, or radio broadcast beamed to the underdeveloped nations plays up and exaggerates our economic difficulties. The uncommitted millions are being told by the Communists -- "see, we told you so. Crises and unemployment are inevitable under capitalism. Communism is the only true road to social progress." Our economy is giving the Communists a propaganda target as damaging, and I trust, as transitory as their own Sputniks.

Continued Soviet industrial growth has had a counterpart in increased trade with the free world. Over the past two years, their trade with the West has been moving ahead far more rapidly than it has within the Bloc itself. About 70 percent of the USSR's increase in non-Bloc trade in 1957 was with the industrial nations of Western Europe and, under agreements such as that just concluded with Germany, will expand still more.

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Recent speeches by Soviet leaders -- Khrushchev, Mikoyan, and Deputy Foreign Minister Zahkarov -- stress the USSR's desire to expand trade with the Free World. Mikoyan, for example, said that the USSR is "confident that with the establishment of normal trade relations a significant forward step will be taken along the road leading to the establishment of cooperative relations between the Soviet Union and the United States." This month, Zahkarov told the United Nations' Economic Commission for Europe that Western trade ministers should devote their energies to bringing about a long-run increase in East-West trade.

Soviet capabilities to export petroleum and metals - aluminum, tin, zinc, and ferro-alloys - is increasing. The USSR is already a supplier in a few traditional Western metal markets. Over the years, the USSR may well become a major source of many such industrial necessities to Western Europe.

This seems particularly likely if Khrushchev's 1972 commodity goals prove to be realistic.

Take, for example, petroleum. By 1972, the Soviets plan to produce as much crude oil as we in the United States do today. Even allowing for substantial increases in domestic consumption, they could export about 2 million barrels a day. Today, all of Western Europe consumes about 3 million barrels a day.

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A start has already been made on the pipeline needed to bring the crude oil from the Ural-Volga basin to the Baltic.

Soviet ability to use trade as a weapon to advance its political aims will increase in a direct ratio to their success in realizing their economic goals.

For example, once they have penetrated Western European markets to the extent that these markets become substantially dependent on Soviet industrial raw materials, they will have available a new and formidable weapon of economic warfare. By withholding supplies, by capriciously raising prices, or by dumping commodities, the Soviets in effect will have a seat at the council table of the great industrial nations of Europe.

During the Suez Canal crisis, we saw a brief glimpse of Soviet capabilities to grant or withhold economic favors through the forms of its own petroleum exports. The increase in sales of metals and petroleum to Free World countries, which moved sharply upward in 1958, is not an economic flash in the pan. It is a reflection of growing Soviet industrial capacity.

Further, their governmental set up is well adapted to waging economic as well as political warfare. They have no budgetary controls when it comes to diverting funds to particularly urgent national policies. There need be no prior consultations with parliaments or the people.

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This, briefly described, is the Soviet economic base and foreign trade program, as we analyze it today. It is to this base that Moscow is adding its foreign economic penetration deals designed to wean to its camp the uncommitted and newly developing areas of the world.

It is important at the outset to note that Soviet credits and grants are not limited to those countries where there is an early prospect of acceptance of Communist doctrine.

Of the $2 billions of development and military aid extended by the Sino-Soviet Bloc over the past three years - and this is exclusive of intra-Bloc aid which is a substantial drain on Soviet economy - large sums have gone to countries which are not now in the Soviet camp.

Let us get down to cases: In Egypt the communist party was outlawed at the time of the Bloc's original military aid offers in 1955. Despite repeated crackdowns on communist elements within the country since that time the USSR concluded a major $175,000,000 economic aid program with Egypt in 1957.

Communist influence in Syria has been reduced following its membership in the United Arab Republic in February of this year -- even to the point where Khalid Bakdash, the leading Arab communist, fled the country. But the USSR is going ahead with its $170,000,000 economic aid program and continues to supply arms under agreements worth $100,000,000. The magnitude of this and other military programs raises the question as to who may be the eventual user of these arms.

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The list of examples can be extended. Afghanistan is a monarchy. The Imam of Yemen is an absolute ruler. Both are recipients of large Soviet aid programs.

Soviet Bloc economic penetration of Yemen provides a striking instance of the use of trade and aid as an investment in disorder.

Yemen is strategically located at the entrance to the Red Sea from the Gulf of Aden. It commands one entrance to all Suez Canal traffic; the oil moving westward as well as goods moving from Europe to the East.

Soviet overtures were appealing to the Imam because the Bloc was willing to supply him with arms, while the West would not. Arms in Yemini hands on the scale contemplated can only create more trouble in the Middle East. They will fan the Imam's dispute with the British and with local Sultanates over the borders of the Aden Protectorate.

The Soviets were quick to sense the opportunity to create disorder by giving aid to Yemen. They moved quickly. In less than two years, this small country of some four millions of people has been granted $80 millions in credits. Additional offers of over $20 millions are currently outstanding. Arms valued at $30 millions have been delivered. A Soviet and Czech military mission of some 65 advisors is currently in Yemen for training assistance.

Even the Red Chinese have joined in with an offer of a loan of $15 millions. If all proposed projects are carried out, the Communists will play a key role in Yemen's economic as well as military development.

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The Communists have no interest rate problems. They have no legislative restrictions. The USSR has developed an attractive package credit deal -- long term loans, generally for 12 years; 2 1/2 percent interest rates; repayment in surplus commodities, and room for bargaining on prices. They have devoted much effort to the native language training of the technicians they send with their aid to the newly developing nations.

Though the Communists eschew capitalist types of business organizations in their own country, they make liberal use of them abroad.

One of the most important of these is the Bank of China. It is a primary source of funds to the 12,000,000 Chinese in Southeast Asia. These loans, controlled from Peiping, often require appropriate gestures of support to the Communist regime in China.

Branches of the Bank throughout the East promote the export and sale of Chinese Communist goods in the area. They also collect a vast store of economic and political information, both openly and by clandestine means.

In Paris, for its European business, the Soviet use a commercial bank called the Banque Commerciale pour l' Europe du Nord. It often serves as agent for effecting sales of Soviet gold in London and on the Continent and is the means through which Soviet credits are transferred to the Satellites. It also maintains a widespread system of correspondent

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relationships with banking institutions throughout Europe and in this Hemisphere and is one of the chief instruments for the financing of Soviet trade with the West and for obtaining information on trade opportunities.

In Latin America, there are a number of communist front or Bloc associated organizations actively campaigning for closer commercial ties with the Bloc. In Brazil, one of these has been offering to import and sell Russian automobiles at ridiculously low prices. When this fell through, it offered to import a complete auto factory from the USSR. While neither offer may have been serious, they had considerable propaganda value.

On a world-wide basis, the Soviet Union presents itself as eager to do business on terms attractive to the customer.

Moscow's foreign aid program has particular appeal in the undeveloped countries because Russia until so recently was an undeveloped country itself. For some reason the recently liberated countries seem to feel that the Kremlin has found a new and magic formula for quick industrialization which is the hallmark of becoming a modern state to many of these countries. They recognize American economic and industrial leadership in the world but they feel that the democratic process of economic development may be too slow.

Soviet propaganda charges that it took the West 150 years to achieve industrially what the Soviets have built in a generation. In the newly developing countries, the drive for economic betterment has become a crusade, not always logical

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Also these countries feel that we in the United States are far ahead of them and that while they may aspire eventually to an economy something like that of the Soviet Union, they cannot, in the foreseeable future, hope to reach the high standards of living of this country.

Factors such as these give a particular appeal to overtures from the Soviet Union. They are not able to see the invisible strings which are tied in with Soviet offers nor do they understand the subtle implications of Soviet subversive penetration which is a part of every economic package.

Each time that I prepare a summary of any phase of Soviet activities, whether it be in their domestic industrial development, their foreign economic exploitation activities, or their military defense preparations, I am impressed by the efforts which the Soviet make to keep secret the details of their operations.

If their motives in the military, industrial and economic fields, are, as they claim, peaceful and defensive, why should this be the case? Why are we not entitled, before we accept their protestations regarding peaceful coexistence, to ask that there should be a franker disclosure of their activities -- something comparable to the disclosure made by the free countries of the world?

For example, before their recent offer of a suspension of nuclear testing, they themselves had just completed a series of nuclear tests, concentrating a great number of tests in a short period of time. For

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example, three tests occurred within a single two-day period in an unprecedented burst of activity. This was done behind a cover of secrecy except for announcements that our Government itself made of the Soviet tests. But, by and large, their activities in nuclear testing remain quite unknown particularly in those countries which are being filled with Soviet propaganda against testing.

The nature of their military aid programs such as I have described above have, by and large, been kept as secret as the Soviet could manage. An even tighter veil of secrecy is kept around almost all phases of their military establishment.

The details of our own aid programs as well as of defense expenditures and military production, with few exceptions, are available to the world through our newspapers. In contrast, the Soviets release only the annual ruble total of what they call defense spending.

It is our best estimate that the announced Soviet defense budget as published to the world actually covers little more than half of the rubles they are now putting into military activities.

As long as this secrecy remains a cardinal tenet of Soviet practice it is extremely difficult to accept Soviet protestations of a desire for peaceful relations as expressing their real intentions.

It is true, and it is an encouraging sign, that exchanges of visits are being arranged, particularly in the cultural, technical and academic fields. This may well help to a better mutual understanding but that

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understanding will be very incomplete until it is broadened to a point where the barriers of secrecy are removed. It is this very secrecy which makes meaningful agreements so difficult to reach.

One answer to Khrushchev's challenge to us should be a renewed challenge to them, as in the President's open sky proposal, to put an end to secrecy which breeds suspicion and doubt.

Undoubtedly one of the reasons for secrecy is to hide from the world some of the problems which the Soviet Union faces.

In the analysis I have given above, I have stressed their very real achievements, their growing power, and their rapid rate of progress. These factors we must not underestimate. However, the realization of many of the goals they have set depends on resolving some very real obstacles to success.

For example, Khrushchev has repeatedly promised his people startling improvements in the quality of their diet. The realization of these dreams rests on a precarious agricultural base, whose crops over large areas, as we saw in 1957, are vulnerable to serious drought. Further, Khrushchev has brought the anti-geneticist Lysenko back into favor, a theorist whose plant and animal breeding ideas are regarded as nonsense by all competent Western scientists.

They are now engaged in a massive reorganization of the control of their industry and this move toward decentralization has built-in, long-run dangers for any dictatorship such as that of the Kremlin today.

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The myth of collective leadership has been abandoned and there are signs today of a reversal to a harsher line with consequences of a far-reaching nature. Khrushchev, despite his gregarious characteristics, as he assumes new positions of power and eliminates his rivals, becomes more and more an isolated and lonely figure.

As they enter into the field of international trade on a major scale they lack a convertible currency. They must rely on the device of settling international balances in sterling or dollars. In essence, most of their trade must remain on something approaching a barter basis. The ruble is not an international currency and within wide ranges its value is a matter of speculation, varying from the official rate of around 20¢ to a purchasing value of around 10¢, to a quoted value for ruble notes in the Swiss market of only a few cents. But, of course, this latter rate is due to the fact that ruble currency can neither be legally imported into nor exported from the Soviet Union.

Possibly today the most acute problem facing Khrushchev is that of meeting the growing demands of the Russian consumer for a greater share in the over-all production of the Soviet Union. With a gross national product of around 40 percent of our own, they put into the military sector a national effort roughly comparable to our own, leaving only a modest share for consumer goods.

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If the Kremlin responds to popular pressures, they will be forced to give more and more to the consumer. This trend has already started. The Russians have somewhat improved living standards and the national output of such consumer goods as TV sets and washing machines has been stepped up. Some former armament plants are now producing civilian goods.

All this may help to develop a society where people will have more opportunity to satisfy the individual yearning for a fuller life. Economic betterment, added to the massive educational system they have already installed, may help to build up generations of people more and more inclined to question the basic tenets of a totalitarian philosophy and less willing to tolerate the autocratic forms of government under which they are living.

Under Khrushchev there has been, undoubtedly, some relaxations of the old Stalinist police system, but every two steps in advance seem to be followed by one step backward as they wrestle with the problem of reconciling a measure of freedom with the stern line of communist doctrine and discipline.

The fact that the leadership of the USSR faces these very real problems is, however, no excuse whatever for complacency on our part. During and since the war, their leadership has faced even more serious problems and has surmounted them. The economy of the Soviet Union has momentum

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and versatility and, while I predict that their people will undoubtedly press for an improvement of their lot, some real concessions can be made to them without fundamentally altering the general tempo of their present industrial and military programs.

Certainly here we have the most serious challenge this country has ever faced in time of peace. As this challenge is very largely based on the economic and industrial growth of the Soviet Union, it is one which concerns very directly the business leaders in our country.

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