

Comments on Draft of
Secretary Bilion's 27 January Speech
"Realities of Soviet Foreign Economic Policies"

Page 4, final paragraph. Suggest rephrasing as follows,

"trade with the free world is an expedient and must be conducted within the traditional framework of self-sufficiency for the Communist Bloc."

Reason: Do not believe facts justify conclusion that Russians conduct foreign trade to achieve, "the maximum degree of Bloc self-sufficiency." Doctrine of self-sufficiency undoubtedly imposes a strong restraint on trade, however.

Page 5, paragraph 3. Suggest modifying to read,

"The large volume of capital construction projected under the plan would be greatly assisted by purchaser of foreign equipment," etc.

Reason: Believe statement that plan can only be achieved by vast purchase of foreign equipment is too strong.

Page 10, paragraph 2. Suggest deletion of sentence reading,

"While most-favored nation treatment with regard to customs duties has no meaning under conditions of state monopoly, in our country, the meaning goes considerably beyond customs matters."

Reason: Most-favored nation tariff treatment would substantially increase Soviet dollar earnings from exports. Thus, MFN treatment has a very real meaning even under conditions of state monopoly.

Page 15, paragraph 1. We have written in the figure, \$1.8 billion for total USSR trade with underdeveloped areas. This is 1957 over 1954. The technician figure has now risen to 2,800 from 2,600.

Page 16, paragraph 3. You may wish to add that Khrushchev is now in Leningrad with his trade ministers, discussing with the Finnish president, the political concessions which that country must make in order to continue to do business with the Soviets.

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS

WASHINGTON

January 22, 1959

Dear Allen:

preliminary draft

Here is a ~~copy~~ of the speech I plan to deliver before the Mississippi Valley World Trade Council in New Orleans on January 27.

The Secretary feels this is an important opportunity to explain our views before the Russians distort Mikoyan's talks with us in the course of the Communist Party Congress.

We would all very much appreciate any comments you or any of your staff may have on this draft.

Best wishes.

Sincerely yours,



Douglas Dillon

The Honorable
Allen W. Dulles,
Director,
Central Intelligence Agency.

DRAFT

Address of
Under Secretary C. Douglas Dillon
Before the
Mississippi Valley World Trade Council
New Orleans, January 27, 1959

REALITIES OF SOVIET FOREIGN ECONOMIC POLICIES

It is a genuine pleasure to return to this gracious city, where you have always excelled in establishing close, personal ~~relationships~~ relations with the peoples of other lands. Your business community, in particular, has amply demonstrated how much an alert and internationally-minded group of private citizens can accomplish in strengthening ties with the rest of the Free World. The projected new building to house the International Trade Mart, now celebrating its tenth anniversary, will stand as a monument to New Orleans's energetic efforts to promote world trade and friendship.

Although your attentions are principally directed toward Latin America, Western Europe and Japan, I am sure that you have been keenly aware of the recent flurry of interest throughout our country in the question of trade with the Soviet Union.

Considerable public attention has been focussed on this complex subject as a result of the adroit declarations of

Deputy Soviet Premier Mikoyan during his well-publicized excursions to some of our major industrial and business centers.

Mr. Mikoyan's glowing generalities were only the most recent moves in the latest Soviet campaign for U. S. trade, which began with Soviet Premier Khrushchev's letter to President Eisenhower last June. In that letter, you will recall, Khrushchev proposed a significant expansion of United States-Soviet trade, claiming it could amount to "several billion dollars over the next several years."

What lies behind this renewed talk of trade by the Soviet leaders?

I propose today to examine the hard realities of Soviet foreign economic policies -- both with the industrialized West and the newly-developing areas of Asia, Africa and Latin America -- and then outline your Government's position regarding trade with the Soviet Union. I shall also discuss the mutually-beneficial trade and other programs we are pressing forward to help the newly-emerging countries achieve a satisfactory rate of material growth under freedom.

It is axiomatic that a nation's foreign policy, including its economic component, is a projection of domestic policies and institutions. The Soviet Union is a totalitarian

dictatorship, firmly ruled by a small elite in the Communist Party, which is dedicated to eventual Communist world domination. Economically, the Soviet Union is characterized by state ownership of land and the means of production, state control of the labor force, and subordination of the consumer's interest to the rigid demands of overall state planning.

As an integral part of Communist strategy, the men in the Kremlin manipulate the Soviet economy to achieve maximum growth of heavy industry under forced draft. Their objective is starkly simple: the achievement of industrial as well as military world supremacy. Their method: investment in heavy industry at the expense of the Soviet consumer. Despite some recent ~~improvement~~ improvement in living standards, relatively small doses of the benefits of increased capacity have been doled out to the Soviet citizen. Purpose: to maintain incentives in the labor force to make further efforts under forced draft.

Now, what role does foreign trade play in the Soviet scheme of things?

In keeping with the totalitarian nature of the Soviet regime,

- 4 -

One of the Communist leaders' first moves was to establish a state monopoly over foreign trade. This was done deliberately to insulate the Soviet economy from world market forces and allow Soviet planners to exercise full control over the domestic economy. Equally important was the fact that the monopoly permitted the Soviets considerable latitude for opportunistic dealing with the Western world, to their own economic and political advantage.

From the very beginning of the Soviet industrialization drive, foreign trade was bent to the task of importing heavy machinery and equipment incorporating the latest technological advances developed in other countries. Consumer goods were virtually eliminated in favor of basic industrial equipment. These imports of the means of production have enabled the Soviet Union to launch new industries at levels of development which took the West years to achieve through costly research and development.

Thus, by tapping the advanced technology of the West in the early Thirties, the Soviet Union was able to gain years in terms of economic development. Soviet leaders, including Mr. Mikoyan on his recent visit to Detroit, have publicly recognized this historic fact.

The West should recognize another, equally historic fact: to Soviet planners, trade with the free world is an expedient and must be conducted so as to achieve the maximum degree of Communist bloc self-sufficiency. Let me remind you that once the Soviet planners completed their procurement program from the West in the early Thirties, trade with the outside world fell off drastically. In a single year, 1932, our own sales to the Soviet Union dropped from \$100 million to

- 5 -

\$12 million. They have never regained a comparable level, except during World War II and the immediate post-war years, when, as you will recall, this country shipped some \$10 billion worth of Lend-Lease and UNRRA goods to the Soviet Union.

It seems clear that what Messrs. Khrushchev and Mikoyan propose today is a repetition of the pattern of the Thirties. The basic economic reason behind their apparent seriousness of purpose in talking of increased trade lies in the new Seven Year Plan which is being unveiled -- and has been heralded by Soviet leaders as a major step toward accomplishment of their announced goal of over-taking and surpassing the United States.

From what we know of the plan so far, it appears that the Soviet consumer will continue to be short-changed in favor of another major industrial leap forward. The large volume of capital construction projected under the plan will require vastly increased purchases of foreign equipment and technology for such industries as petro-chemicals, which are being given fresh emphasis. Soviet leaders are once again counting on appeals to the profit motive inherent in our Free Enterprise system to enable them to obtain a large stock of technology and equipment -- and preferably on credit.

Khrushchev himself has made this abundantly clear:

In May 1958, he stated that it would be "expedient" to purchase plant and equipment for the chemical industry from the "capitalist" countries to avoid wasting time on "the creation of plans and mastering the production of new types of equipment." Then, in his letter to

- 6 -

President Eisenhower, he suggested the possibility of long-term credits from this country. This suggestion was echoed by his Deputy, Mr. Mikoyan, during the latter's official conversations in Washington.

Now, goods purchased by a country must be paid for either by exports or with foreign credits. Soviet Russia's exports today -- as in the Thirties, when the Communists sold grain at prices below an already depressed world market,

-7-

despite the fact that millions of Russian and Ukrainian peasants were dying of starvation -- consist mainly of raw material sold in bulk. Thus, because of its economic system, the world's second largest industrial nation has the commodity export pattern of an underdeveloped country. To such traditional exports as wood products and manganese, have recently been added tin, aluminum and benzine. The expansion of these sales in the Western World to earn needed foreign exchange has already proved injurious to such traditional Free World exporters as Bolivia, Malaya, Indonesia and Canada. Manufactured goods have thus far been offered sparingly outside the bloc and mainly in politically motivated trade with selected target countries of the free world. With the growth of Soviet industrial capacity, this component of their exports to the free world may be expected to increase.

In view, therefore, of the Soviet state trading monopoly's ability to sell commodities at below world prices, further expansion of Soviet exports to the Free World is fraught with serious danger to our normal trading partners.

But, quite apart from Soviet pricing techniques, the raw materials which constitute the bulk of Soviet exports are largely competitive with Free World producers. Therefore, Soviet prospects of selling enough raw materials to pay for the large

-8-

amount of equipment the Communist leaders evidently contemplate are, at best, dim.

Hence, Kruschchev in his letter, and Mikoyan during his visit, have, in effect, invited us to finance the continuing rapid expansion of the Soviet economy.

This is the essence of the current Soviet drive to increase trade with our country. Despite his disarming statements in public appearances on his tour, it was clearly apparent during my private conversations in Washington with Mr. Mikoyan that no change has occurred in the Soviet approach to trade with the West. His purpose was to secure concessions from our Government to facilitate the current Soviet procurement campaign.

Mr. Mikoyan was assured by every official he spoke with, from the President on down, that this country has always favored an expansion of peaceful trade between our two countries.

We spoke in the deepest sincerity.

But we pointed out that trade is the result of mutually advantageous agreements between willing buyers and willing sellers.

In this country, the conduct of our commerce is in the hands of private firms and private individuals.

82

The Soviet state trading monopoly is at liberty under our laws to enter our free market and to buy and sell. Its American outpost AMTORG is established in New York and has wide commercial contacts.

However, we cannot be expected as a country or as a people to provide the Soviet Union with the sinews of war.

- 9 -

We have only recently completed our second major revision of the list of strategic materials. As a result, the list of goods which your Government will not license for export to the Soviet bloc has been pared down to an absolute minimum. Actually, only about 10 percent of all our products moving in international commerce are subject to embargo.

In this connection, I noted that Mr. Mikoyan complained of our system of strategic controls -- which is part of our defensive framework with our allies. In Detroit, he said in effect that only such items as chewing gum, firewood, and laxatives are not classified as strategic goods whose export from the United States to the USSR is banned. Mr. Mikoyan, a highly knowledgeable man, well knows that this is deliberately misleading. I suppose the real significance of his remark can be seen when I tell you that it was given wide dissemination by the Soviet news agency, TASS.

Neither can we be expected to extend credits to the Soviet Union while that country is in default to us on its past debts.

~~Private~~ long-term private credits to a defaulting country are prohibited by the Johnson Act, which was enacted as long ago as 1934. There are, however, ample short-term credits available to the Soviet state trading agency on normal commercial terms.

I should like to add that the demands for expanded financing from both public and private institutions arising out of our efforts to assist the newly-developing countries of the Free World

- 10 -

are far greater than available funds. Therefore, the extension by the United States Government or its citizens of credits which would be utilized to finance the growth of a hostile Communist state whose Premier has threatened to "bury" us, would have understandably low priority.

Mr. Mikoyan has also alleged that we discriminate against Soviet exports as a result of the withdrawal of most-favored-nation treatment in 1951. This, he claims, has served to place higher tariff duties on Soviet exports to this country. In fact, only a small proportion of Soviet exports are affected. More important, as I reminded Mr. Mikoyan, this action was taken by the United States Congress in the year following the outbreak of the Korean war. [While most-favored-nation treatment with regard to customs duties has no meaning under conditions of state monopoly, in our country, the meaning goes considerably beyond customs matters.] The American people, acting through their Congress, would find it hard to again contemplate the extension of most-favored-nation treatment to a country which continues to demonstrate its hostility and to threaten our national security.

- 11 -

Any change in this legislation ^{will} would have to await a definite improvement in the international political climate.

I should like to emphasize that these issues together with certain minor technical impediments affecting the importation of furs and crabmeat, do not constitute serious obstacles to trade if -- as the Soviet leaders allege -- they truly desire to expand ^{commerce} ~~trade~~ with the United States.

A broad range of peaceful goods is freely available through normal trade channels to the Soviet Union, just as these goods are readily available to our partners in the Free World.

The first thing the Soviet Union should do if it wishes to expand its trade with us is, quite simply, to ~~get~~ begin trading.

I will admit that establishing ~~close~~ ^{and dependable} firm commercial relations with private firms ^{abroad} does not come easily to a state trading monopoly. The Soviet leaders may wish to give some serious thought to taking steps designed to create confidence in the American business community. Among them, I would suggest:

First, settling ^{its} outstanding debts with both private firms and the Government.

Second, permit a greater degree of access by private

12
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American firms to both producing and consuming units in the Soviet Union.

Third, introduce a ~~control~~ measure of predictability in Soviet foreign trade relations, by making public their intentions with respect to specific goods which they intend to buy and sell under foreign trade plans.

Fourth, revamp Soviet patent and copyright legislation to provide ^{genuine} ~~genuine~~ protection for private industrial property rights as well as authors' rights.

~~Finally, demonstrate firmer adherence to basic business principles in the Soviet Union.~~

Finally, demonstrate firmer adherence to ~~basic~~ business principles ~~in the Soviet Union~~ -- instead of directing trade, as Soviet leaders so frequently do, in the interest of political expediency.

I have said before that the United States welcomes the possibility of increased trade with the Soviet Union. To that end, your Government is prepared at this time to discuss with Soviet representatives certain measures which could be adopted with a minimum of delay. For example:

The exchange of trade delegations which would among other

- 13 -

things, serve to acquaint the American business community with items the Soviet trading agency would like to buy and ~~to~~ sell, and to acquaint the people of the Soviet Union with our own products and market potential.

If the activities of these trade delegations prove to be of mutual advantage, we could then consider the exchange of trade exhibits on a more or less regular basis and, perhaps, the establishment of permanent trade centers. / Such measures should go far toward creating that feeling of mutual confidence which is so important in international commerce.

Before I leave the subject of United States-Soviet trade, I should like to emphasize what should be obvious from my earlier discussion of the nature of Soviet foreign trade:

The major obstacle to an expansion of trade on a mutually-beneficial and lasting basis is the whole orientation of Soviet economic policy with regard to foreign trade. It is the deliberate Soviet policy of striving for self-sufficiency and development in isolation from foreign trade which is ~~xxxxxx~~ responsible for the fact that the second largest economy in the world exports to the Free World at the level of a country ~~xxxxxx~~ ^{the size of} Denmark.

When Soviet leaders talk of increasing trade with us, they mean trade on their terms. In ~~xxxxxxx~~ reality, expanded trade

- 14 -

with the Soviet Union would be trade on a one-way street -- with all the signposts pointing toward Moscow.

I should like to ask this:

Has not the Soviet Union reached a degree of development in which it can accept the challenge of the marketplace?

I recognize that for the Soviet Union to accept such a challenge would require a massive revamping of its domestic economy, including its price system.

Speaking for the United States, we welcome peaceful competition and stand ready to match the efficiency and the excellence of our Free Enterprise production with that of the Soviet Union.

I have been discussing Soviet foreign economic policies as they relate to the United States and other Western industrialized nations. I now turn to the newest aspect of Soviet foreign economic policies: The ~~firm~~ Soviet Union's massive and resourceful drive to ~~penetrate~~ penetrate, and eventually capture, the newly-developing countries of Asia, Africa and Latin America, through trade and aid techniques.

The political uses of foreign economic relations, for which the totalitarian Soviet monopoly is so well equipped, is of serious concern.

15

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Since 1954, the number of European satellites and Communist China, has extended some \$2.4 billion in credits. Total trade with the aspiring nations has doubled to a level of \$1.7 billion. The number of Soviet technicians operating in Asia and Africa is now ^{7,800} 2000, and it is growing at a faster rate than the number of Americans. Skillful propaganda, highly publicized bilateral trade agreements, and the exchange of trade delegations, have all been used to support the Sino-Soviet economic offensive.

The predominately political motivation of this new activity is obvious and has been freely admitted by Soviet leaders. They have candidly said that the export of capital equipment is not mutually profitable. Khrushchev himself told a group of American Congressmen in 1955, and I quote:

"We value trade least for economic reasons and most for political purposes."

It is clearly apparent that the Soviet trade-aid drive represents an expedient departure from usual Kremlin practices --

- 16 -

a departure undertaken for purely political purposes.

Economic weapons have been skillfully blended with military assistance and with propaganda activity and diplomatic moves designed to inflame local passions and to create and aggravate situations of crisis. The short-term objective is to provoke and capitalize on tensions between the less-developed and the industrialized nations of the Free World. The long range aim is to create a climate and attitudes in the newly-emerging areas which will be conducive to eventual Communist take-over.

The ultimate demonstration of the use of economic power to consolidate Soviet domination was apparent in the case of the Eastern European nations which were brought into the Soviet orbit since World War II.

How the Soviet leaders can exert their economic influence once it has been established in a free world country has been demonstrated most recently in Finland. There, the Soviets used economic leverage to bring down a government which they opposed.

As all of you are well aware, the United States has, for some years, been building a firm framework of economic relations designed to help ~~their~~ peoples of the newly-developing nations help themselves in their struggle to achieve material progress as free citizens of truly independent nations. The Soviet offensive in the underdeveloped countries has served to impart a greater sense of urgency in our own relations with them.

- 17 -

It is now an accepted imperative of our national policy that their aspirations confront us with a huge and open-ended task -- one that calls for our best minds and resources. In approaching this task, we

can make no greater contribution than the maintenance of a high rate of growth in our own country. For, as our economy grows and prospers, its benefits are transmitted to all nations which participate with us in the Free World multi-lateral system.

However, these benefits of the Free World economic system are not yet flowing to them automatically and in sufficient amounts to meet their urgent and pressing needs. Government measures are required to supplement and accelerate the contributions being made by the normal flow of private trade and investment. These are some of the immediate steps your Government must take to bolster the efforts of the newly-emerging peoples are making in their own behalf:

First, we must take a leading part in reducing barriers to world trade through our own practices and through the General Agreement on Tariffs and Trade. This will increase the ability of less-developed countries to pay for their own economic development through sales of their products.

Second, we must be sympathetic and open-minded regarding the problems which the less-developed nations face as a result of severe price fluctuations of their raw material exports. Such price fluctuations can, and have, wiped out many of the benefits to the less-developed countries from Western

- 18 a -

economic assistance.

Third, we must increase the resources of the International Monetary Fund to assist Free World countries in meeting temporary drains on their reserves arising out of fluctuations in a free system of trade.

Fourth, we must increase the lending resources of the International Bank of Reconstruction and Development, which has accomplished so much in promoting sound economic programs in many of the less-developed countries.

-19-

Fifth, we must strengthen the role of our new Development Loan Fund to provide an adequate source of development financing on flexible terms of repayment. The Development Loan Fund must be enabled to take a more active part with the World Bank and our Export-Import Bank in stimulating an increase flow of capital for development programs.

Sixth, we must intensify technical assistance to the underdeveloped nations through our long-established program of bilateral technical cooperation, and we must participate more actively in multilateral programs of cooperation through the United Nations and the Organization of American States.

ON AN AREA BASIS, seventh, we must join in regional efforts to solve economic problems. ^{MKE} The United States is now considering the practicality of establishing a new affiliate of the World Bank — the proposed Inter-American Development Association. If it receives broad support from other countries ~~in the Western Hemisphere~~, the IDA would provide a means whereby other countries could unite with us in offering capital for development repayable in local currencies. Another attack on problems of mutual free world concern has special interest all of you, in view of your close ties with Latin America. For many years, our sister republics to the South have urged the establishment of a special lending institution. We have now agreed to participate in such a bank and our representatives are currently meeting in Washington with officials of the other American States to draw up the bank's charter. I consider the creation of the new institution to be a sound and forward-looking step which holds great promise for the future development of all the Americas, for it will enlist the resources and talents of the entire Hemisphere in a joint program for economic development.

Finally, I cannot stress too strongly the urgent need to call upon the vast human and financial resources of the private sector of our economy to work with Government in pressing back the endless frontier of world economic development. Government alone cannot do the job. Increased private investment abroad and increased export of private managerial and technical talents are urgently in demand.

When the Soviet government engages in economic assistance, it can use the resources of its entire economy because there is complete identity between the economy and the Government. We have no wish to emulate Soviet patterns of organization or behavior. However, during times of crisis in our past, private enterprise has formed an effective working partnership with government to meet the demands of the times. We are now living in a time of continuing crisis. We must re-institute that effective working partnership to meet the occasion.

President Eisenhower will shortly present a new Mutual Security Program and related legislation to the Congress which will encourage greater participation by private enterprise in economic development abroad. I urge you to study it and to give it your active support.

An increased flow of United States private investment into underdeveloped countries, accompanied by the ingenuity and dynamism that has always characterized our private enterprise, could help to vitalize the underdeveloped countries and set off an unparalleled process of economic growth. It is an exciting prospect. It is one which should capture your interest and enlist our talents, our resources and our energies. I am confident that you and other members of the American business community will not be found wanting.

ILLEGIB



23 January 1959

MEMORANDUM FOR:

Hon. Douglas Dillon
Under Secretary of State
for Economic Affairs

Mr. Dulles asked me to forward
the attached comments ~~for the~~
speech you plan to give before the
Mississippi Valley World Trade
Council on 27 January.

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Executive Officer

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- 1 - JSE ✓
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