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Washington, D.C.

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McNamara files

Contracts
Japan (1971)

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President's papers - Robert S. McNamara Contacts with member countries: Japan -
Correspondence 02


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OFFICE MEMORANDUM

TO: For the Record

DATE: July 1, 1971

FROM: S. Aldewereld SUBJECT: Visit of Mr. Miyazaki, Long Term Credit Bank of Japan

On March 10, 1971, Mr. Miyazaki and three of his associates paid a visit to Mr. McNamara. I was present at the meeting.

The nature of the meeting was a courtesy call. Mr. Miyazaki, however, mentioned that he had heard that the Bank might enter the Japanese capital market and expressed the hope that his Bank might play a role in the Japanese marketing operation. Mr. McNamara thanked Mr. Miyazaki for his visit.

SA:mc

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: A. Soejima

SUBJECT: Your Meeting with Mr. Miyazaki

DATE: March 9, 1971

I heard from Mr. Aldewereld that you will see Mr. Miyazaki, President of the Japan Long-term Credit Bank at 4:00 p.m. Wednesday, March 10. He suggested that I give you some background information on his visit and also that I attend the meeting. The Long-term Credit Bank is the second largest bank of its kind in Japan. The Bank has been playing an increasingly important role in the capital market of Japan for the last few years. Although I understand Mr. Miyazaki's visit to you is a courtesy call, he may raise the question of the timing of our bond issue in the Japanese market and, specifically, the selection of underwriters. His Bank failed to become the managing underwriter for the ADB bond issue last December. As I indicated to you yesterday, Mr. Kashiwagi is of the opinion that the World Bank should not have contacts with any financial institution for the time being. After your meeting with Finance Minister Fukuda in September we can consider the need, if any, of approaching underwriters.

AS/lcv

cc: Mr. Aldewereld
Sir Denis Rickett

President has seen

Mr McNamara

Mr Alderwade

Strongly recommended

See 2/29

OFFICE MEMORANDUM

DATE: February 26, 1971

TO: Mr. Robert S. McNamara

FROM: Seitaro Hattori *S.H.*

SUBJECT: Request for Appointment

I would be grateful if you could receive, anytime at your convenience on March 10, Wednesday, Mr. Kazuo MIYAZAKI, President of The Long-Term Credit Bank of Japan, Ltd. (semi-official long-term bank), who wishes to pay you a courtesy call while he is in Washington.

Mr. Miyazaki has long been with Nippon Kangyo Bank and joined the LTCBJ since its establishment in 1962.

*3/1,
4 PM Wed
Shaw*

See also

Note:

The Long-Term Credit Bank of Japan, Ltd.:

Head Office: 1 (3) Otemachi 1-chome
Chiyoda-ku, Tokyo

New York Office: 20 Exchange Place
New York, New York
Tel: 269 - 7166

Established in 1962 under the Long-Term
Credit Bank Law.

Capital: \$55.6M (March 1968)

Activities: Long-term industrial financing
issuance of bank debentures
and other general banking
business.

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March 31, 1971

From: Denis Rickett

Subject: Discussion with Mr. Kashiwagi

Mr. Kashiwagi, Vice Minister for International Affairs in the Ministry of Finance, Japan, called on Mr. McNamara on Monday, 29th March, at 5 p.m. He was accompanied by Mr. Hattori, Japanese Executive Director. Mr. Aldewereld and Sir Denis Rickett were also present.

Mr. Kashiwagi raised, first, the subject of Bank borrowing in Japan. This should be discussed by Mr. McNamara with Mr. Fukuda at the Annual Meeting. The object should be to reach agreement on the amount to be borrowed; on its relation to the general funding program for the Bank; and the Bank's medium-term prospects. The Bank of Japan, as a source of funds for the World Bank, must now be considered as being more or less exhausted. In future it would be necessary to go to the commercial sector or to think of some other way of raising money.

Mr. McNamara said that the Bank was trying to develop a program, covering five years at a time, based on projections of Bank lending commitments and disbursements, on the one hand, the required cash position, on the other, and, hence, the world-wide borrowing requirements. It should be completed within two or three months. The first stage dealing with liquidity was already finished though, admittedly, in a somewhat primitive form which he hoped to refine and develop later. Originally it had been the Bank's policy to keep liquid assets equal to the whole of the undisbursed commitments on loans. Since 1963, however, the liquid assets had been drawn down and it was now proposed that they should be maintained at about 50 per cent of undisbursed commitments (\$2.4 billion liquid assets as compared with \$4.7 billion undisbursed commitments). An attempt had been made in the paper to analyze the reasons for which liquidity was needed. By early May he hoped to have worked out a lending program as well as a forecast of income up to 1978. The Bank's present borrowing operations were based on the idea that as much as possible should be done to forestall the sharp rise in borrowing requirements which would be needed in later years.

Mr. Kashiwagi said that the balance of payments prospects for Japan looked good for the next few years. They would give preference in the export of capital to the multilateral institutions. There were, however, other claimants such as the Asian Development Bank and it was, therefore, necessary to work out a program.

Mr. McNamara said that net borrowing in FY 1972, 1973, and 1974 would be approximately \$800 million a year of which, say, 75 per cent might be obtained from other markets than Japan. Thus, the Bank hoped to raise \$200 million in the Japanese market. This would continue the experience of FY 1969 and 1970.

Mr. Kashiwagi said that the private market in Japan was, as yet, largely unexplored and was very limited. They would have to consider what other sources might be available. Mr. McNamara said that he was content to leave it in the hands of the Japanese Government. The information for which Mr. Kashiwagi had asked would be contained in papers circulated by June 1st next.

President has seen

Mr. Kashiwagi said that it might be useful for the Bank to have some further discussion with the Ministry of Finance before Mr. McNamara met the Minister at the Annual Meeting. He then turned to the date of a possible visit by Mr. McNamara to Japan and said that any time would be convenient to the Japanese Government. There would, however, be a Cabinet reshuffle at the end of June or beginning of July. They would be delighted to arrange for a visit by Mr. McNamara at any time that fitted in with his other travel plans.

Mr. McNamara said that he was, of course, in their hands but it might be best to think of a visit shortly after the Annual Meeting. He added how delighted we were by the work being done by Mr. Soejima as head of the Tokyo office.

Mr. Kashiwagi then asked about the prospects for Congressional action in the United States on the Third Replenishment of IDA.

Mr. McNamara said that ultimately the prospects were good but the timing was bad. There seemed to be no possibility that the U.S. would deposit its notification by July 1st. They had given priority to the legislation to provide additional funds for International Financial Institutions, including the Asian Development Bank, and the IDA legislation had not yet been submitted to Congress. From his discussions, however, with the Secretary of the Treasury, he felt confident that the legislation would be passed. The problem remained of providing IDA with additional commitment authority after June 30th next by which time the present funds would be fully committed.

Mr. Kashiwagi said that the Japanese Diet had approved the legislation for Japanese participation in the Third Replenishment. There might be difficulty for them in making an advance contribution since no mention of this possibility had been made to Parliament on this occasion.

Mr. McNamara said that his objective had been to get a firm commitment from the U.S. Administration first. He would discuss the matter with other governments later. The World Bank was most grateful to Japan for all the co-operation which it had received.

Mr. Kashiwagi said that Japan was also grateful to the World Bank since, in their time, they had been the Bank's largest borrower.

cc: Mr. Aldewereld

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For
WED 6pm

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 25, 1971

FROM: William Clark *WDC*SUBJECT: Mr. Yasuo Takeyama

Mr. Takeyama is an extremely important Japanese editor. His paper, the Nihon Keizai, has a circulation of nearly two million, and yet is a serious paper somewhat like the Financial Times. Takeyama made his reputation in the early fifties when he sought and obtained an exclusive interview with Gene Black, at a time when Japan was borrowing very heavily from the World Bank. He does not wish to repeat this coup, he is now an established character who would like to discuss problems with you, and would be flattered by the assumption that it was a two-way conversation.

I suggest therefore that you think of one or two questions about Japanese economic policies to which you really would like to get an answer, and begin by asking his opinion. You might also ask him what he thinks will be the best form of relationship (economically) between the Bank and Japan, and then go on in that discussion to try and put some of the points you may wish to about what the Bank expects of Japan.

I really think, after my lunch of yesterday, that this conversation could be useful to both parties, and quite pleasant.

I think, by the way, (although he has not mentioned it to me directly) that Mr. Takeyama has put off his trip up to New York by a few hours in order to see you at six, and you may care to say (a) how glad you are to see him; (b) how sorry you are that you have been so pressed for time but you're between trips.

Takeyama's official designations are Director of the Board of Directors - Editor-in-Chief - Chief Editorial Writer. He is also on several governmental committees.

WDC:Clark:sf

President has seen

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MEMORANDUM FOR THE RECORD

July 16, 1971

From: Denis Rickett

Subject: Japan

Mr. Kashiwagi and Mr. Hosomi, accompanied by Mr. Hattori and Mr. Gyoten, were entertained at luncheon today by Mr. McNamara.

There was a brief discussion in Mr. McNamara's room beforehand at which Mr. Soejima and I were present. Mr. McNamara said how much we had appreciated the help and cooperation which Mr. Kashiwagi had given us during his period of service in the Japanese Government and how much we looked forward to working with his successor, Mr. Hosomi. Reference was made to a possible further bond issue in Japan at the beginning of September and to the discussion which Mr. McNamara would be having with Mr. Mizuta, the Finance Minister, at the time of the Annual Meeting. There was also some discussion about the political implications of the announcement that the President of the United States would pay a visit to Communist China in the coming year.

Somewhat to our surprise neither Mr. Kashiwagi nor Mr. Hosomi made any reference to the Third Replenishment of IDA. We were told privately on our way to luncheon that they were expecting us to raise the matter and Mr. McNamara, therefore, asked them about it in the course of luncheon. What they told us (confirmed subsequently in a conversation which Mr. Soejima had with Mr. Kashiwagi) was as follows. The Japanese Government intended to give us authority to commit the whole of the Japanese contribution to the Third Replenishment of IDA amounting to \$144 million. This would be paid by the deposit of notes in three instalments of \$48 million each on November 8th, 1972, 1973, and 1974. We were at liberty now to tell any other government that this was their intention. Before, however, a Draft Resolution could be submitted to the Board, a formal decision by the Japanese Cabinet would be necessary. It was agreed that we would prepare a Draft Resolution for action by the Board if possible on July 27th. If, as seemed likely, the United Kingdom were now prepared to make the balance of their first instalment available (amounting to a further \$53.68 million), it would be possible to deal with this in the same Resolution.

Mr. McNamara made it clear to our visitors at luncheon how greatly the World Bank appreciated this action by the Japanese Government which was a striking demonstration of their support for the International Development Association.

cc: Messrs. Knapp
Aldewereld
Broches
Shoaib
Nurick
Adler
Gabriel
William Clark
Fowler
Soejima
Christoffersen

President has seen

For FRIDAY
Lunch
see 7/15

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 14, 1971

FROM: Aritoshi Soejima

SUBJECT: Personal Resumes: Mr. Takashi Hosomi and Mr. Toyoo Gyohten

Mr. Takashi Hosomi, the newly appointed Vice Minister of Finance for International Affairs, age 51, joined the Ministry of Finance in 1942, two years after Mr. Kashiwagi joined, and served within the Ministry in the Bureau of Taxation, the Securities Bureau, and the Customs Bureau before he was appointed as Director General of the Bureau of Taxation two years ago. He is regarded as one of the most expert on tax policy matters in the Ministry of Finance.

His overseas experience is as follows. More than ten years ago he spent a year at Harvard University Law School studying taxation problems. He subsequently served as one of the Directors in the Customs Bureau of the Ministry of Finance and was sent by the Ministry to various international meetings, especially GATT. As Director General of the Taxation Bureau, Mr. Hosomi negotiated with a number of countries for double taxation treaties.

He speaks fairly good English although, needless to say, his English is not as good as that of Mr. Kashiwagi.

Mr. Toyoo Gyohten, Special Assistant to Vice Minister Hosomi, age 39, is one of very few experts on international affairs in the Ministry of Finance. He studied at Yale University and was also a Trainee in the International Monetary Fund for one year before he joined the Fund as an Economist in 1964. With the establishment of the Asian Development Bank, Mr. Gyohten was appointed as Special Assistant to the President, Mr. Watanabe. In this capacity Mr. Gyohten served for three years until August of last year.

~~IDA advisory - favorable
v. A. Business - m.a. before
Visit - vor best (Q. paper middle) - v. 1/2 day min
Recruit - not a single 1 of 15 by Tomin 40 by 5 at 7220 - only 23 per 100
Progs Dept not int. enough
off space -~~

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 25, 1971

FROM: Denis Rickett

SUBJECT: IDA Third Replenishment - Discussion with Mr. Kashiwagi

When you see Mr. Kashiwagi on Monday next, March 29th, at 5 p.m., you may wish to mention to him the present position on the U.S. legislation to give effect to the Third Replenishment of IDA, and you may wish to enquire about the possible Japanese attitude to a request for an advance contribution. I have had a message from Mr. Soejima suggesting that this should be done and saying that, at present, the Japanese view is somewhat negative. This was, of course, also true in the case of the Second Replenishment. The Japanese Government agreed to make an advance contribution only after it became apparent that the great majority of Part I Governments would do so. It is, however, encouraging that Mr. Soejima also reported that the Japanese legislation has now passed the Diet.

2. In this connection, you may like to look at the attached note of a meeting which I held some little while ago to follow up what you had told me of your ideas about possible courses of action. I think you may find the figures given in the Annexes of some interest. You will see (a) that the volume of IDA commitments likely to be ready for Board approval during the first half of FY1972 (assuming that all IDA's present resources will be exhausted by the end of FY1971) is \$340 million; (b) that if advance contributions were obtained from eight countries and, in addition, the Swiss loan of \$30 million became effective, we should be able to commit \$303 million or \$333 million including the Swiss loan. A contribution from Japan would add a substantial amount to this total, namely \$48 million.

3. I should add that Mr. Isbister told me yesterday that he had discussed in Ottawa, both with the Department of Finance and with other departments, the idea that the Canadian Government might give a lead in the matter of advance contributions. This had been quite favourably received but he had found that it would have a better reception if the proposal was that Canada should pay its first instalment only. He had said that what mattered most was the taking of some initiative and that the difference between one and two contributions did not seem to him important. He also told me that the British had shown some interest in the matter and had put it on the agenda of some talks taking place during the next few days in London between Canadian and British officials. He promised to give me further information as soon as the result of these talks was known.

4. I suggest that when we have heard further from Mr. Isbister you may wish to consider making a definite approach to some of the other governments, e.g. the British, the Netherlanders, the Scandinavians, and the Germans. Annex 3 to the note below shows that, in the case of the Swedes, the amount involved is quite significant (\$34 million).

Attachment (as stated)

President has seen

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. McNamara
 FROM: S. Aldewereld
 SUBJECT: Visit of Mr. Kashiwagi

DECLASSIFIED DATE: March 24, 1971

MAR 23 2013

WBG ARCHIVES

You will be seeing Mr. Kashiwagi on Monday, March 29,
 at 5 o'clock.

Last week in Tokyo I had a long conversation with
 Mr. Kashiwagi about the possibility of raising funds in Japan.
 No doubt he would wish to discuss this subject with you.

As you know, Mr. Kashiwagi is Vice Minister of Finance.
 I understand that, next to Minister Fukuda, he is the most important
 man in the Ministry. Whereas some time ago it was rumored that
 Kashiwagi would leave the Ministry, Soejima told me last week that
 the latest indication is that he would stay for at least another
 year.

I am attaching hereto for background information a
 memorandum to the files prepared by Mr. Soejima which records
 the discussion I had with Mr. Kashiwagi last week. I suggest
 that before his visit to you we discuss amounts to be raised by
 us in Japan, in the event this subject were to come up.

cc: Sir Denis Rickett (with attachment)

(v52)
 app. ref. 200 m. of new money from Japan in 1971 net 203 m.
 out of total of 800 + had new money
 when done ans his 2 requests

SA:mc

DECLASSIFIED
OFFICE MEMORANDUM
MAR 23 2013STRICTLY CONFIDENTIAL

TO: Files
DATE: March 23, 1971
FROM: Aritoshi Soejima
WBG ARCHIVES
SUBJECT: Conversation between Aldewereld and Kashiwagi regarding future Bank borrowing in Japan, dinner, March 19, 1971

Aldewereld explained that the Board would meet on April 13, 1971, to consider the report on the Bank's liquidity problem. In his personal opinion, the present approximately \$2-1/2 billion liquidity was about the correct amount. Assuming this figure as a base and the current level of lending activities, and despite current borrowing, the Bank would need \$700 million per annum in new money in FY1972 and FY1973. Aldewereld emphasized that the IBRD would continue to try to borrow in Holland, Switzerland, Belgium, and possibly Canada, but that the Bank would have to depend overwhelmingly on the three biggest capital markets, the U.S., Germany, and Japan.

Kashiwagi said that there was little doubt that Japan's reserves would continue to climb. And therefore the Japanese Government would have to consider various possibilities of capital export. Primary consideration would be given to those possibilities which were considered sound investment, and the IBRD was so considered in Japanese circles.

However, he explained that the borrowings up to this point by the Bank had been decided relatively easily by the Government of Japan. Minister of Finance Fukuda had said that since the Japanese had borrowed heavily from the IBRD in the 1950s, Japan would loan the Bank money. The first \$200 million was agreed to at the Annual Meeting in 1969, the second \$200 million at the Annual Meeting in Copenhagen last year. Since these borrowings could be arranged through the Bank of Japan, it was a relatively easy matter. Now that BOJ borrowing is ended, the Ministry of Finance assumes the responsibility for the whole matter and it is up to the MOF to judge future amounts and to devise a system for the borrowing. There are three criteria for these decisions: 1) Japan's relations with the IBRD; 2) the Japanese aid program -- into which any lending to the IBRD would be fitted; and 3) the state of Japanese balance of payments.

In the case of the Asian Development Bank, Kashiwagi said, since Japan is the largest stockholder, the Japanese Government feels it can take the initiative in proposing a borrowing program. However, in regard to the IBRD, that is not the case. Although the Japanese Government is favorably disposed to continue lending to the Bank, it needs a justification for any lending program for the various agencies of the Japanese Government and the general public.

March 23, 1971

For this purpose, he (Kashiwagi) would like to have from the IBRD two sets of information:

- 1) The borrowing requirements resulting from the lending program for the next few years. He would be particularly interested in having estimates of what the Bank intends to try to raise from the other major sources of capital.
- 2) A proposal from McNamara to Fukuda at the time of the Annual Meeting this fall with a specific request for what the IBRD expects from Japan as a lending program. This proposal should be made available to Kashiwagi some weeks before the actual meeting so that it can be studied at the working level of the Ministry of Finance.

There is a problem of timing: Because the Emperor will make a series of state visits to Europe in September, it is expected that the Okinawa Reversion Treaty will be presented to the Diet either before or after the Emperor's trip. (The Diet will not sit when the Emperor is out of the country.) This will make for a "crush" before the IBRD's Annual Meeting. Therefore, it may not be possible for Kashiwagi to talk personally with Aldewereld on this problem in Tokyo, and in such case, he would like to have the materials requested above passed to him through Soejima in the Tokyo Office of the Bank.

Kashiwagi emphasized that the decision on how to proceed with the IBRD lies with the Ministry of Finance and it is therefore important that the working echelons there receive this material in as concrete a form as possible before the Fukuda-McNamara meeting. He also expressed interest in the possibility of Japan following the pattern of one of the IBRD issues in Holland which was intended for non-residents. (This question was also briefly taken up with Aldewereld by Inoue of the Bank of Japan during a courtesy call on March 19, 1971, and Inoue also expressed considerable interest.)

AS/lcv

TO: Mr. Robert S. McNamara
FROM: Denis Rickett
SUBJECT: IDA Third Replenishment

1. I held a meeting on March 5 to discuss alternative courses of action facing IDA if the Third Replenishment did not become effective before the beginning of FY1972. Mr. Broches, Mr. Cope, Mr. Nurick, Mr. Blaxall and Mr. Dumoulin attended.

2. It was agreed that P & B would deduce from the lending program what volume of IDA commitments was likely to be ready for Board approval during the first half of FY1972, assuming that all IDA's present resources would be exhausted by the end of FY1971. The figure arrived at is \$340 million, as detailed in Annex 1 attached.

3. The meeting then discussed a number of alternative ways in which some or all of the requirement might be made up by interim arrangements until the Third Replenishment became effective.

(a) IDA lending to some countries might be temporarily switched to Bank financing to the extent that there was within the FY1972 lending program for particular countries a mix of both Bank and IDA lending. It was agreed that P & B would provide information on this matter, which is attached in Annex 2. The conclusion is that on present schedules about \$100 million of IDA commitments could be "saved" during the first half of the fiscal year in this way.

- (b) The transfer of part of the Bank's net income to IDA is usually discussed by Executive Directors in late July, after the accounts have been closed, but before the audit is completed early in August. The transfer has to be formally approved by the Governors, and this is normally done at the Annual Meeting, so that the resources are available for commitment by IDA about September 30. It would be possible to accelerate the procedure so that Executive Directors would discuss the matter on the basis of preliminary figures at the beginning of July and Governors would then be polled by mail vote, making the resources available for commitment early in August.
- (c) The amount of the transfer might be increased above the "accepted" level of about half the Bank's net income to most or all net income in FY'71. This proposal might raise the question of a change in the policy that the amount transferred to IDA was only the amount not needed for the Bank's business, particularly if at the same time we were arguing that such transfers should be "drawn last" in order to provide

additional needed cash resources at no cost to the Bank.

These complications might lead to extensive discussion by the Board, and make difficult any acceleration of the transfer as discussed above.

- (d) Advance contributions might be arranged from some of the Part I countries, as happened with the Second Replenishment. The Swiss Loan of \$30 million will be available regardless of effectiveness once it has completed the legislative process in Switzerland. A tentative count of countries which might agree to make advance contributions includes Canada, Germany, Netherlands, U.K., and the Scandinavian countries. As shown in Annex 3, one-third of their pledges to the Third Replenishment (or one year's contribution) would total \$303 million. If Japan also agreed to make an advance contribution that would add a further \$48 million, and conceivably Australia, Austria, and Belgium might agree to put up another \$35 million by way of advance contributions, bringing the potential total to \$386 million, or \$416 million with the Swiss Loan.
- (e) There was some discussion of a scheme whereby the Resolution would be changed to eliminate the qualifications on effectiveness as to amount and number of participants. Instead, members would simply deposit notice of ratification, and thereupon be accorded the additional voting power to which they were entitled. It was agreed subsequently that for the present this proposal would not be explored further.

- (f) In the event that insufficient resources could be obtained through interim arrangements, it would presumably be possible for IDA credits to be processed normally and approved by the Board, subject to signature (or effectiveness) only when the resources became available.

IDA LENDING, FIRST HALF FY'72

Detailed examination of the particular IDA projects now scheduled for Board presentation between July and December 1971 does not provide a very useful basis for predicting the total volume of IDA lending that will materialize in the period. The calculation that follows is therefore based on "slippage" factors which are in a sense arbitrary but nevertheless reflect past experience.

Current IDA projects in FY'71 program		\$764 m.
Available IDA resources in FY'71		<u>584</u>
Apparent Slippage to FY'72		180
Less: Allowance for Long Delays		<u>30</u>
Adjusted Slippage to FY'72		<u>\$150 m.</u>

Current IDA Projects scheduled for Board Presentation July-December:		
"High Probability"	240	
Less: Allowance for Delay <u>a/</u>	<u>60</u>	180
"Medium Probability"	20	
Less: Allowance for Delay <u>a/</u>	<u>10</u>	
		<u>10</u>
		<u>190</u>

Total Likely IDA Lending, First Half FY'72		<u>\$340 m.</u>
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a/ It is assumed that there is a 25% chance of "high probability" projects slipping beyond December, and a 50% chance of "medium probability" projects. These weights are arbitrary; but an alternative calculation weighting projects now scheduled for July by 90%, those scheduled for August by 80%, and so on, leads to a very similar result.

IDA FY'72 LENDING PROGRAM - OPPORTUNITIES
FOR SWITCHING FROM IDA TO IBRD FINANCING

On the basis of IDA operations currently scheduled for the first half of FY'72, possibilities for switching are limited to the following cases:

Kenya	\$10 million
Ghana	8
Senegal	6
Papua & N.G.	5
India	40
Pakistan	30
Morocco	<u>10</u>

\$109 million

The switch in India would involve making an IDA credit to ICICI and IBRD loans for agricultural credit and public fertilizer projects. In some of the other countries there would be similar anomalies, but they would presumably not pose insurmountable problems. The figure of about \$100 million calculated above should be treated with some caution, since delays in projects could affect it substantially.

POTENTIAL ADVANCE CONTRIBUTIONS TO
THE THIRD IDA REPLENISHMENT 1/

	<u>"Probable"</u>	<u>"Possible"</u>
Canada	50.00	
Denmark	8.80	
Finland	4.08	
Germany	72.40 ^{2/}	
Netherlands	22.52	
Norway	8.00	
Sweden	34.00	
United Kingdom	103.68	
Australia		16.00
Austria		5.44
Belgium		13.60
Japan		<u>48.00</u>
Total	<u>303.48</u>	<u>83.04</u>

1/ Assumes that no country would contribute more than one year's instalment of the replenishment in advance of its effectiveness. Before the Second Replenishment became effective, however, Australia advanced its full three-year contribution, and Canada paid two of its instalments.

2/ Germany proposes to pay its contribution in three unequal instalments, the first of which will be \$72.4 million.

OFFICE MEMORANDUM

TO: Files

DATE: October 22, 1971

FROM: Raymond J. Goodman *RJG*SUBJECT: Visit of Mr. Maseo Sawaki, Director-General of the Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan.

Mr. Sawaki called on Mr. McNamara on Thursday, September 16. He was accompanied by Mr. Hattori, and by Mr. Nomura (Counselor) and Mr. Yushita (Second Secretary) of the Japanese Embassy. Mr. Knapp and I were also present. This being the day after Mr. Nixon's announcement of his new economic policy, the discussion centered around the impact this policy would have upon Japan. Mr. Sawaki referred to it as the "second Nixon shock" (the first being the announcement of his forthcoming visit to Peking). These changes came at a particularly unfortunate time, so far as Japan's aid policy was concerned, since the Government had only recently drawn up its "Eight-point Program", which included such important objectives as the untying of aid and the decision to move towards the Pearson target of 0.7% of GNP for official development assistance.

In the circumstances, Mr. Sawaki doubted that the Eight-point Program, and particularly the untying provision, could be implemented. As far as the target for ODA was concerned, 0.7% was obviously very ambitious, but he nevertheless hoped that Japan could move by the mid-seventies from the present level of 0.25% to the average of the DAC countries which he put at approximately 0.5% of GNP.

Mr. McNamara agreed that the NEP did have serious consequences for the developing countries and for development aid. He hoped nevertheless that Japan would not be too discouraged. He felt that Japan did not appreciate the impression its actions had on United States opinion. Japanese policies were therefore important, not only in themselves because of the new weight of Japan in world affairs, but because of their impact upon the U.S.

Mr. McNamara
cc: Sir Denis Rickett
Mr. Knapp
Mr. Cope

President has seen

RJGoodman/am

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Raymond J. Goodman *RJS*
SUBJECT: Visit of Mr. Masao Sawaki.

DATE: September 14, 1971

Mr. Sawaki, Director of the Economic Cooperation Bureau in the Japanese Ministry of Foreign Affairs, is visiting the Bank on Thursday, September 16th. At his request I have set up separate meetings with Gerry Alter, Peter Cargill and myself to discuss topics of common interest in our three areas; I am also giving a lunch for him on that day. He will be seeing Mr. Knapp at 3 p.m. after his meetings with us and has asked whether he may make a brief call upon you.

Mr. Sawaki is the senior official of the Foreign Ministry dealing with aid matters and normally leads the Japanese delegation to meetings of the two Consortia, the IGGI and various consultative groups. He is reasonably fluent in English, does not hesitate to express his opinions freely and is generally "on the side of the angels" in aid matters. If you can conveniently do so, I recommend that you see him for 10-15 minutes, preferably at 3.15 p.m. on Thursday, immediately after his call on Mr. Knapp.

I have discussed these arrangements with Mr. Hattori, who would join the meetings with Mr. Knapp and yourself.

*9/15
OK
RJS*

*Direct Development
Office 9/15*

RJG/am

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MEMORANDUM FOR THE RECORD

SUBJECT: Japan

The Japanese Finance Minister, Mr. Mizuta, called on Mr. McNamara at the Sheraton Park Hotel on Monday, September 27, 1971, at 4:00 p.m. He was accompanied by Mr. Tadashi Sasaki, Governor of the Bank of Japan, and by Mr. Inamura, Mr. Inoue, Mr. Yoshida, Mr. Akita, Mr. Hattori, and Mr. Sugisaki. Mr. Knapp, Mr. Aldewereld, Sir Denis Rickett, Mr. Goodman, and Mr. Soejima were also present.

Mr. Mizuta said that he had served as Minister of Finance ten years ago and remembered the help and cooperation which Japan had received at that time from the World Bank. He was glad that Japan was now, in turn, able to help the World Bank.

Mr. McNamara said that this help had been of the utmost value both for the Bank, to which Japan had made an increased capital subscription, and for IDA. Japan had not only increased its share in the Third Replenishment but had also agreed to make an advance contribution. Finally, the Japanese capital market had been open to the Bank which had been able to borrow from the Bank of Japan and from the Japanese public some \$500 million since February 1970. In all these ways Japan's cooperation with the World Bank Group had been of the greatest value and he hoped that it would continue in the future.

In reply to a question from Governor Sasaki, Mr. McNamara outlined recent and prospective borrowing operations by the World Bank. A £10 million sterling loan had been issued in the London market in August, the first since 1959. This had been extremely successful, subscriptions having exceeded the amount offered by 70%. The German capital market had also been an important source of funds, particularly since 1968. These had been obtained through public issues, through private placements, and through the issue of World Bank bonds to the Bundesbank. The German Government had just approved a further substantial issue in the German market. Other countries, in whose markets the Bank had borrowed, were The Netherlands, Canada, Austria, Belgium, and Switzerland. Appreciable amounts had also been raised in the oil-producing states of the Middle East. An issue of 25 year bonds in the amount of \$175 million had recently been made in the U.S. market and he hoped that the Bank would be able to borrow again in that market early next year. He had every confidence that the Bank would be able to meet its borrowing program which provided for gross borrowings of \$1.4 billion in the fourteen months, May 1, 1971 to June 30, 1972.

Mr. McNamara asked whether it was true that the Japanese Government was examining the possibility of increasing its official development assistance to .5% of GNP.

Mr. Mizuta said that the Government did not intend to set a specific target but hoped to conform to the average of advanced countries. Japanese official development assistance was of the order of 0.23% as compared with the average for advanced countries of .33%. Mr. McNamara thought that this latter figure was, in fact, nearer to .4%. He welcomed the Minister's statement and said that such action by Japan would give other governments an incentive to increase their official development assistance.

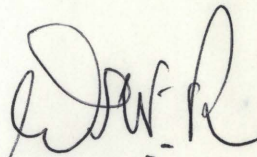
President has seen

Mr. Mizuta said that if Japan were to achieve the target of 1% of GNP for its total flow of funds to developing countries, this would require a total of \$2.3 billion. This, in turn, implied a comparable surplus on current account. Other countries in the Group of Ten did not appear to welcome this prospect. Japan would not be able to achieve the 1% target if they were pressed to agree to an excessive revaluation of the yen.

Mr. McNamara said that he felt sure that the Minister knew how much the World Bank admired Japan's achievement in economic growth which set an example to the whole world and had given them the capacity to fulfill the role of a world power. This they were doing through their support not only for multilateral, but also for bilateral, aid.

In reply to a question, Mr. McNamara said that he was most grateful for the invitation of the Japanese Government to visit Japan at the beginning of November. He accepted this invitation with pleasure but would quite understand if the Japanese Government wished to postpone the visit and would be ready to adjust his schedule accordingly.

Mr. Mizuta said that he thought that it was probable that no difficulty would arise. It was agreed to work on that assumption unless and until it proved necessary to change it.



D. H. F. Rickett
September 28, 1971

9/27
September 22, 1971

MEMORANDUM

Japanese Borrowings September 1971: Signing Arrangements

The following arrangements have been worked out for the signing on Monday, September 27, 1971 of the agreements for the loan from The Bank of Japan and for the public bond issue in Japan.

BOJ Loan

Mr. McNamara will meet with Mr. Mizuta, the Minister of Finance, and Mr. Tadashi Sasaki, the Governor of The Bank of Japan, at 4:00 p.m. on September 27 at Mr. McNamara's office at the Sheraton Park. The discussion should last about 30 minutes.

Immediately following the discussion, at approximately 4:30, Mr. McNamara and Mr. Sasaki will sign the letter agreement for the BOJ loan (2 copies of the Japanese version and 2 copies of the English version). At the same time Mr. Aldewereld will sign the Interim Certificate (1 copy in Japanese and 1 copy in English) for the Bank, and Mr. Aldewereld and Mr. Shiro Inoue, Executive Director of BOJ, will sign two copies of the escrow letter (in English only).

The signing will take place in Mr. McNamara's office, and no press representatives will be present. The World Bank's photographer will take a picture for record purposes.

Public Bond Issue

The signing of the Underwriting Agreement and the Agreement with Commissioned Banks will take place in Meeting Room 2 (Delaware Suite) at the Sheraton Park beginning at 4:15 p.m. on September 27.

At 4:15 p.m., with Mr. Rotberg present, the 4 chief executives of the Managing Underwriters will affix their signatures in Japanese characters to 4 of the 5 copies of the Underwriting Agreement which will be executed. These 4 chief executives are:

Mr. Shogo Watanabe, President, The Nikko Securities Co., Ltd.
Mr. Kiichiro Kitaura, President, The Nomura Securities Co., Ltd.
Mr. Yukio Abe, Chairman, The Daiwa Securities Co., Ltd.
Mr. Teru Hidaka, President, Yamaichi Securities Co., Ltd.

At the same time the 4 chief executives of the Commissioned Banks will affix their signatures in Japanese characters to 4 of the 5 copies

of the Agreement with Commissioned Banks which will be executed. These 4 chief executives are:

Mr. Isao Masamune, President, The Industrial Bank of Japan, Limited
Mr. Sumio Hara, President, The Bank of Tokto, Ltd.
Mr. Goro Koyama, President, The Mitsui Bank, Limited
Mr. Kazuo Miyazaki, Chairman, The Long-Term Credit Bank of Japan, Limited

The Underwriting Agreement and Agreement with Commissioned Banks are executed in Japanese only (non-binding English translations are attached).

At approximately 4:35 p.m., after signing the BOJ loan agreement, Mr. McNamara will arrive and will proceed to sign the 5 copies of the Underwriting Agreement and the 5 copies of the Agreement with Commissioned Banks for the World Bank. The chief executives of the Managing Underwriters and Commissioned Banks will then sign the fifth copy of each of the Agreements, completing the execution procedure. Remarks by Mr. McNamara, Mr. Masamune of IBJ and Mr. Watanabe of Nikko will follow.

The Paying Agents Agreement and the Recording Agency Agreement (2 copies of each) will be signed separately by Mr. Aldewereld and Mr. Masamune immediately following the remarks by Messrs. McNamara, Masamune and Watanabe.

Representatives of the press, including the Japanese national TV networks, will be present for the signing of these agreements. Messrs. Aldewereld, Rotberg and Soejima will hold a short press conference after the signing of the Paying Agents Agreement and Recording Agency Agreement.

Thomas M. Clyde

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McNamara

*Please advise
llc 9/15*

OFFICE MEMORANDUM

TO: Mr. Leif E. Christoffersen

DATE: September 14, 1971

FROM: Seitaro Hattori *S-H*

SUBJECT: Appointment for Mr. Sumio Hara (President, the Bank of Tokyo, Ltd.)

This is to request you to arrange an appointment with President McNamara for Mr. Sumio Hara, President, the Bank of Tokyo, Ltd., on Tuesday, October 5, 1971, sometime after 3 p.m.

The Bank of Tokyo is one of the permanent members of a group of Commissioned Banks on the occasion of the Bank's Bond Issues in Tokyo Market, and is the only specialized bank in foreign exchange dealings in Japan. The Bank of Tokyo is now going to set up its representative office in Washington in early October this year.

Mr. Hara retired from the Ministry of Finance as Commissioner, National Tax Administration Agency, before joining the Bank of Tokyo.

Mr. Hara will be accompanied by Mr. Yoshizawa, new representative of the Bank of Tokyo in Washington.

*9/15
OK-
15 min
bank-t-
bank
Loren*

*5:10
Just
start
9/16*

5:10

For 4.40 only

SUMIO HARA

President
The Bank of Tokyo, Ltd.

Born: 1911, Kanagawa Prefecture

Graduated: Tokyo Imperial University, Faculty of Law - 1934

Employment: 1934 - Joined Ministry of Finance

Deputy Director-General of Budget Bureau

Director-General of Tax Bureau

Commissioner - The National Tax Administration Agency

1962 - Joined The Bank of Tokyo as Vice President

1965 - President, The Bank of Tokyo

President has seen

NYT 10/5/71

U.S. Aide Asserts Japan Has Payments Obligation



The New York Times/Jack Manning

Sumio Hara, president of the Bank of Tokyo, as he spoke at Far East-America Council lunch at the Plaza.

Asks Steps Be Taken to Bring Global Surplus Into Equilibrium

By GERD WILCKE

A high-ranking State Department official asserted here yesterday that Japan had an obligation, as any other country with a consistent surplus in its international balance of payments, to help the United States improve its payments situation.

"In the case of the surplus country this means increasing imports, eliminating export incentives, stimulating capital outflow and upvaluing its exchange rates to bring its global balance of payments into equilibrium," Marshall Green, Assistant Secretary of State for East Asian and Pacific Affairs, said at a meeting of the Far East-America Council.

The diplomat, who was opening speaker at a day-long seminar at the Plaza Hotel, said that by adopting a new economic policy the United States had taken "strong economic medicine to cure" its own economy.

Bank President Replies

"We would like to see Japan eliminate its remaining import restrictions, especially on items of trade interest to the United States, and we hope for a substantial increase in Japanese official development assistance to developing countries," Mr. Green said.

The only Japanese speaker during the day, Sumio Hara, president of the Bank of Tokyo, replied indirectly to Mr. Green by saying that Japan could now afford to extend, and should extend, development aid to developing countries.

But, in contrast to many other Japanese visitors, Mr. Hara did not comment on Mr. Nixon's economic programs, nor on the Administration's efforts to make relations with Communist China normal.

Mr. Green, whose audience included numerous representatives of other Far Eastern nations, said that Mr. Nixon's measures, including the import surcharge, were nondiscriminatory.

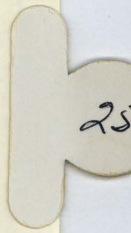
"To modify these measures toward any particular country or group of countries," he said, "would not be fair to other trading partners, nor would it accomplish the purpose for which these temporary measures have been designed."



Marshall Green



STANDARD BOND



25

OFFICE MEMORANDUM

10/8
Return
and Tada (10/12)
Manning
Dunn

TO: Mr. William Clark
DATE: October 7, 1971

FROM: S. Sankaran *b*

SUBJECT: A Background Note - Interview with Mr. McNamara by the Japan Broadcasting Corporation -- 8 AM Wednesday, October 13, 1971

The Japan Broadcasting Corporation (NHK) is producing an hour-long television program "Aid for Developing Countries" in color. The program will be telecast on November 24 (8 PM). NHK is producing the program on its own. The Bank's offer to cooperate with NHK, particularly in informing the NHK team of the Bank Group's worldwide activities, was conveyed to Mr. Yoshimori Maeda, President of NHK, by Mr. McNamara (telex of July 13, 1971).

An NHK team consisting of Messrs. Hatsuhisa Takashima (Producer), Yutaka Aida (Director), and Kenji Yoshino (Camera man) left Tokyo on September 10 to cover a number of projects financed by the Bank Group and a project financed by bilateral donors. The following is a list of projects to be covered by NHK:

- Papua and New Guinea -- Small holders settlement project (Sept 10-21)
- Mauritania -- Iron ore and copper mining (Sept 29 - Oct 6)
- Jamaica -- Education and Family Planning (Oct 18 - 21)

The one bilateral project to be covered is the Philippines -- Japan Friendship Highway (Oct 25-28).

Prior to the field trip, Mr. Takashima visited the Bank in July for a week-long orientation and he met a number of people including Sir Denis Rickett and Messrs. Shoaib, Aldewereld, Rotberg, William Clark, John Adler, Votaw, Cheek and Kuczynski.

President has seen

For the program, Mr. Takashima is interviewing the following development experts (outside the Bank); Messrs. Edwin Martin, Tinbergen, Watanabe (AsDB) and Lester Pearson. In the Bank, Mr. Takashima may see Mr. Gaud.

Here is an outline of the TV Program

1. Orientation of the South-North problem
2. Development efforts in Mauritania -- an answer to the question "Why Aid?" and the effect of the development
3. History of aid in Japan and her present status
4. Analysis of Japan's aid programme -- necessity of increasing official development assistance
5. Introduction of the World Bank Group -- significance of the multi-lateral aid
6. Interview with President McNamara
7. World Bank's activities in Jamaica -- they are aiding even for education and family planning to which bilateral aid pays little attention
8. Proposals by men of intelligence, Messrs. Pearson and Tinbergen
9. Youth Movement of the world -- moral revolution
10. World Bank's smallholders settlement project in Papua-New Guinea -- expectation for 21st century when every human being will be able to enjoy "affluent life"

Mr. Takashima had indicated to us five of the topics that he would like to pursue with Mr. McNamara. These are

1. His (Mr. McNamara's) Analysis of the present situation of the global effort for promoting Development in the less developed countries;
2. His philosophy of Development and "Why Aid"
3. His proposals for the people in the Advanced countries on the problem of aid;
4. His outlook on the future situation of the world in the next century
5. His advice to the Japanese on their aid program.

Since the Bank will be providing a film of Mr. McNamara's speech at the Annual Meeting with the permission to use clips from it in the NHK program, we should concentrate on two or three questions within the 30 minutes.

- a) Why aid? -- the moral and social justification for aid and the need to increase it; How the Bank Group is increasing the range and scope of its operations;
- b) aid has worked; the need to look beyond gross measures of growth;
- c) attitude of youth to aid (Mr. Takashima is concentrating on the youth movement in Europe and America)-- youth as a constituency looking for goals beyond their own personal affluence;
- d) a bow to Japan for providing funds, skills and goods and services to carry out Bank Group projects and for supporting IDA replenishment and the indication to increase foreign assistance (Japan Finance Minister's statement at the Annual Meeting).

was characterized by a basic development staff. Development programs had not yet adjusted to this but must do so. death rate 40 cases. in both rates requires great efforts on help that before but equal access can be made. applying money can become effective help. J-DC's still look expanded several fold + devel programs must be added to deal with such a world. This is a real but from this time and of change - decision in 52-52 very well. DDB is 62 goal for DDB can be achieved but will require both effort. Jaid. ✓ DE's have come themselves to 502 after 9 months and 70% 75 - Japan - achieving that goal - a major source of funds. moved effort during last years + Japan has given

OFFICE MEMORANDUM

TO: Messrs. Clark and Lind

DATE: July 30, 1971

FROM: S. Sankaran *b.*SUBJECT: Mr. Takashima's visit to the Bank

H.
Mr. Takashima appeared to be happy with the program that we arranged for him at the Bank. He has now come out with a tentative list of projects that he and his crew should be visiting in September-October.

- (a) Papua and New Guinea -- Agriculture with emphasis on smallholder farming.
- (b) Ivory Coast -- Education (TV).
- (c) Mauritania -- Iron Ore Mining.
- (d) Malaysia -- Agriculture (Muda).
- (e) Honduras -- Roads (Mr. Bravo suggested Port as well).
- (f) Jamaica -- Education.
- (g) Brazil -- Steel (He is not very sure of this project).

In addition, Mr. Takashima wants to "shoot" the Board in session. After discussing with Mr. Lightowler, he felt that he could (if allowed) do it with available light.

Besides an interview with Mr. McNamara, Mr. Takashima wants to cover a "normal" day of Mr. McNamara. Mr. Lightowler informed him that covering Mr. McNamara's "normal" day will be most difficult to arrange.

Documents

Mr. Takashima wants to have access to project appraisal reports on the selected candidates. This, I think, we should provide as we have done in the past (e.g. Stanley Johnson). The appraisal reports with the usual disclaimer should be forwarded to our Tokyo office. Mr. Takashima can have access to these documents in our Tokyo office. I have already received some "restricted" documents from Agriculture Projects for Mr. Takashima. I want to have your approval for this arrangement. I am preparing a set of published documents to be forwarded to Mr. Takashima.

In regard to Mauritania and Ivory Coast, Mr. Kochman has promised to provide all the documentation including an earlier film made by the mining company. Mr. Kochman has also agreed to provide all the facilities to Mr. Takashima and his crew. Mr. Kochman has invited Mr. Takashima to join him and the Mauritanian Planning Minister for lunch on Tuesday.

July 30, 1971

Mr. Takashima feels that he can do justice to the subject in an hour-long TV program. He indicated that he might extend the program to an hour and 30 minutes if he felt it necessary.

Mr. Takashima is coming to the Bank on Monday to make the final selection and to work out his schedule. After working out the tentative schedule, perhaps we should alert the Executive Directors concerned (besides the Area Departments) for cooperation and help.

Although we have described Mr. Takashima as the writer-camera team manager, he is really the Producer of NHK's special program called "Our World 1970s". He is a very bright and capable young man (about 30) who is committed to the task.

SS:mmh

cc: Mr. Bahl
Mr. Lightowler

WORLD BANK AND IDA DISBURSEMENTS IN JAPAN

(As of June 30, 1971)

Japan has lent great strength to the World Bank and its affiliate, the International Development Association (IDA), and at the same time derived significant benefits from its membership in the two international institutions. Between 1953 and 1966, Japan received 31 World Bank loans totaling \$857 million. A substantial part of the disbursements under the Bank loans in Japan has also gone to Japanese suppliers. Another material benefit by Japan from its membership of the World Bank and IDA has been the orders obtained by Japanese industry for the supply of goods and services for projects being assisted by World Bank loans and IDA credits.

The following tables summarize Japanese contributions to the Bank and IDA and the disbursements in Japan under Bank loans and IDA credits as of June 30, 1971.

<u>World Bank</u>	<u>Amount in US\$ Millions</u>	
Japanese paid-in subscriptions to the Bank	102.3	
Bank of Japan loans to the World Bank	419.4	
World Bank public bond offering in Japan	30.6	
Purchase of portions of World Bank loans by Japanese institutions	<u>202.2</u>	754.50
Cumulative total of disbursements in Japan under Bank loans to countries other than Japan	587.16	
Cumulative total of disbursements in Japan under Bank loans to Japan (estimate)	<u>722.22</u>	1,309.38

President has seen

<u>IDA</u>	<u>Amount in US\$ Millions</u>	
*Japanese contributions to IDA		
In subscriptions	33.59	
First Replenishment	41.25	
Second Replenishment	<u>66.48</u>	141.32
Cumulative total of disbursements in Japan under IDA credits		
	180.90	

It is the policy of the World Bank and IDA to require their borrowers to obtain goods and services required for projects on an international competitive basis, unless special circumstances apply. In recent years, Japanese industry has been increasingly successful in obtaining orders for exports of goods and services to carry out projects financed by the Bank and IDA.

*About 70 countries
370 projects*
World Bank Disbursements

Total identifiable expenditures in Japan by Bank borrowers to June 30, 1971 was \$587.2 million -- well over 5 times the Japanese paid-in subscriptions of \$102.3 million to the Bank. In addition, Japanese industry is estimated to have received orders worth \$722.2 million under Bank loans in Japan.

* Soon after the end of the fiscal year 1970, the Executive Directors of IDA recommended and transmitted to member governments for approval of a proposal for a replenishment of the Association's resources for a three-year period. Twenty-one member countries plus Switzerland propose making available to IDA for lending on development projects in the poorer countries of the world approximately \$813 million per year. The first payment by the contributing countries is scheduled for November 8, 1971. Under the terms of the proposal, Japan would make an annual contribution of \$48 million. Agreements were also reached dealing with member countries' voting rights.

*BR 587
IDA/80
767
60% funded
on staff*

*187
900 TR = IDA*

Recorded Bank Disbursements in Japan^{1/}

	<u>Amount in US\$ Millions</u>	
Cumulative total through June 30, 1963		133.58
Fiscal Years ending June 30:		
1965	36.21	
1966	43.27	
1967	54.07	
1968	56.55	
1969	79.32	
1970	72.85	
1971	<u>111.31</u>	<u>453.58</u>
Cumulative total as of June 30, 1971		<u>587.16</u>

Japanese Goods and Services for Bank-financed Projects

By June 30, 1971, the Bank had made 782 loans in 89 member countries. Japanese companies have supplied goods and services from projects in 61 countries under ⁴⁰²299 of these loans.

Disbursements in Japan under Bank loans have covered a wide range of goods and services. The following tables give the cumulative total of disbursements to Japanese suppliers of equipment and services:

1/ Disbursements under Bank loans to Japan are not included.

World Bank Disbursements in Japan and
the Purpose of Bank-financed Projects

(Amount in U.S. Dollars as of June 30, 1971)

Electric Power	223,405,734
Transportation	201,501,587
Telecommunications	15,481,395
Agriculture	30,419,725
Industry (Manufacturing)	16,793,014
Development Finance Companies	78,755,430
Water Supply	11,509,005
Education	443,670
Multipurpose	6,217,541
Miscellaneous	2,638,748
TOTAL	<u>\$587,165,849</u>

World Bank Disbursements in Japan by
Category of Goods and Services
FY 1967-FY 1971

(Amount in U.S. Dollars)

Disbursements prior to July 1, 1966	\$213,057,992
Chemicals	46,322
Construction Materials	17,434,696
Construction Equipment	5,982,941
Mechanical Equipment	58,980,816
Textile Machinery	21,269,282
Agricultural Machinery	655,962
Electrical Equipment	148,003,029
Automotive Machinery and Equipment	4,015,277
Vessels and Floating Equipment	13,887,650
Materials and Equipment for Railways	72,671,799
School Equipment and Supplies	429,027
Civil Works	16,926,023
Consultants' Services	2,781,579
Freight and Insurance	5,488,672
Loan Charges	5,130,525
Miscellaneous	404,257
TOTAL	<u>\$587,165,849</u>

IDA Disbursements in Japan

The cumulative total of IDA disbursements as of June 30, 1971 was \$1,976.7 million. Of this amount, disbursements totaling \$357.2 million had gone to finance local expenditures or imports for broad development programs where the source of the items was not specified. The balance of \$1,619.5 million represented disbursements for imports from abroad by IDA borrowers. Japan's share in this total was \$180.9 million or about 11%. IDA disbursements in Japan at the end of June 30, 1971 were about \$40 million higher than Japan's contributions totaling \$141.3 million to IDA resources in the form of initial subscriptions and contributions under the first and second replenishments of the Association's resources.

IDA Disbursements in Japan

	<u>Amount in US\$ Millions</u>	
Cumulative total to June 30, 1964		39.09
Fiscal years ending June 30:		
1965	26.74	
1966	21.84	
1967	20.02	
1968	25.56	
1969	15.02	
1970	7.18	
1971	<u>25.43</u>	<u>141.79</u>
Cumulative total to June 30, 1971		<u>180.88</u>

By June 30, 1971, IDA had made 274 credits in 58 countries. Japanese firms have supplied goods and services to 19 of these countries under 69 credits.

IDA Disbursements in Japan and the
Purpose of IDA-financed Projects

(Amount in U.S. Dollars as of June 30, 1971)

Electric Power	\$17,471,032
Transportation	91,101,706
Telecommunications	18,070,997
Agriculture	7,985,656
Industry (Manufacturing)	36,871,036
Development Finance Companies	2,336,215
Water Supply	4,623,955
Education	991,394
Multipurpose	1,121,483
Engineering Surveys	319,827
TOTAL	<u>\$180,898,301</u>

IDA Disbursements in Japan by
Category of Goods and Services
FY 1967-FY 1971

(Amount in U.S. Dollars)

Disbursements prior to July 1, 1966	\$87,673,283
Chemicals	860,052
Construction Materials	2,213,371
Construction Equipment	2,241,135
Mechanical Equipment	10,440,932
Textile Machinery	1,448,219
Agricultural Machinery	5,617,220
Electrical Equipment	21,909,080
Automotive Machinery and Equipment	14,590,085
Vessels and Floating Equipment	1,498,358
Materials and Equipment for Railways	29,439,258
School Equipment and Supplies	457,823
Civil Works	502,941
Consultants' Services	818,821
Freight and Insurance	1,065,651
Miscellaneous	122,072
TOTAL	<u>\$180,898,301</u>

Bank Borrowings

The Bank augments its capital by selling its own bonds in the world's capital markets. It also sells loans from its portfolio to other investors, as a means of promoting international investment and of recovering its own capital. By June 30, 1971, the Bank had outstanding borrowings of \$5,424 million in the form of bond issues denominated in U.S. dollars, Canadian dollars, Deutsche mark, Italian lire, Japanese yen, Kuwaiti dinars, Libyan pounds, Netherlands guilders, pounds sterling, Swedish kronor, and Swiss francs.

The Bank of Japan has made five loans totaling ¥ 151,000,000,000 (\$419.4 million) to the World Bank. In addition, the Bank made its first public offering on the Japanese market, a 7-3/4% issue of ¥ 11,000,000,000 (\$30.6 million), payment for which was scheduled for after June 30, 1971.

Japanese institutions have also purchased portions of World Bank loans totaling \$202.2 million. Of this amount, \$162.2 million of World Bank loans to Japan was purchased by The Bank of Japan.

Japanese Contribution in Skills

There are about 60 Japanese on the staff of the World Bank Group. Three years ago there were only 10 Japanese working with the World Bank.

MEMORANDUM FOR THE RECORD

November 1, 1971

The Ambassador of Japan, Nobuhiko Ushiba, accompanied by Mr. Micho Kondo, Financial Counsellor of the Japanese Embassy, and Mr. Sumi, Alternate Executive Director for Japan, visited Mr. McNamara on November 1 at 5:00 p.m. The Ambassador said he came to extend orally the Government's best wishes for a pleasant journey to Japan.

The Ambassador then briefly touched upon the problems of China's membership in the UN, its implications on the World Bank, the Okinawa Treaty, the demise of the U.S. Foreign Aid Bill in the Senate last week, the World Bank's policy on expropriations and the recent U.S./Japanese textile agreement. Mr. McNamara told the Ambassador that it would take some time before the intricate legal difficulties surrounding China's membership in the Bank would be solved. The Bank's Legal Department was actively working on these issues but it would take many weeks before they could finalize the report. Mr. McNamara then went on to say that he was quite anxious to find out, during his visit in Japan, what position the Japanese Government would take with respect to World Bank policy regarding lending to countries which had expropriated foreign investments. The Ambassador said that the Foreign Minister, Mr. Fukuda, would be most interested in discussing this issue with him. Both the Ambassador and Mr. McNamara agreed that the developed countries had to assume an increased burden for development assistance to the developing countries and that the interests of the developing countries must figure prominently in future international trade agreements on textiles and the exports of other manufactured products.

LEC

President has seen

RECORD OF THE BREAKFAST MEETING WITH THE KANSAI BUSINESS LEADERS

November 5, 1971, 8:00 - 10:00

Osaka Royal Hotel, Osaka, Japan

After exchange of solicitations and appreciations, Mr. Yamamoto opened the discussion by briefly explaining the present economic situation of Japan.

Mr. McNamara inquired what GNP growth rate would be anticipated for the next 10 years, for which the consensus was that it would be less than 5% for the next 12 months but after that it should improve, though it would largely depend on the economic conditions of the U. S.

He then inquired what shifts of the product line and what market did the Japanese business expect to support the higher GNP growth rate in the future.

Opinions were expressed on trade problems and difficulties which had been aggravated by the measures of the Nixon Administration.

Mr. McNamara stressed that although he was connected with an international organization and not with the U.S. Government, his personal opinion was that the Nixon policies were economically irrational but politically rational. He regretted that these had affected the relationship between the U.S. and Japan, though they were not aimed at Japan.

Mr. Izaki commented that the recovery of the Japanese economy depended on that of the U.S. economy and questioned when Mr. McNamara thought the US economy would recover.

Mr. McNamara replied that he viewed a gradual return to the normalcy and that he was optimistic that the U.S. economy would improve in the next year or two.

Mr. Hasegawa commented that the recovery of the Japanese economy would be delayed due to the recent Nixon shock. As to the re-valuation of the yen, he expressed that it would be sooner the better but not higher. He further stressed that rather than aiming for the export-oriented economic growth, more emphasis should be placed on domestic issues.

Mr. Nagata commented that the problems of the US-Japan relations could not be solved by revaluing the yen and stressed that more basic problems must be solved first. He explained the effect of the yen revaluation would have on the shipping industry whose total export amounted to \$5.5 billion a year. A 10% revaluation, for example, would mean a loss of \$550 million which is equivalent to 2 year's profit.

Mr. Saeki spoke on China which he had recently led a delegation to. He said the group was deeply impressed with China which was building up a new socialist state with confidence and expressed his wish that Japan should resume diplomatic relations with the People's Republic now that she is a member of the international society and will have a great influence throughout the world.

Mr. McNamara queried what the estimate for Japanese investment in China and the trade volume between Japan and China would be.

Mr. Saeki replied that since trade is a part of the total Chinese economic picture, he did not expect too large a growth but a stable one, something in the order of doubling the present \$800 million in 5 years.

Mr. Saji added that since China had built up her economy with her own natural and capital resources and her own manpower, they had a strong suspicion of economic assistance from outside, though there is a sign that the door is being opened and that trade is becoming increased. He inquired what the Bank's attitude was towards China.

Mr. McNamara replied that the Bank's policy is to welcome any new membership since it does not loan to non-members but he refrained from making any comments on the China issue.

Mr. Nakatsukasa commented that the political problem with China was graver than that of economics and that unless there is some understanding with her, even our economic assistance to Southeast Asia would not work out in the future.

Mr. Soejima questioned whether or not there is a sign of stopping Japanese investment in Taiwan.

Mr. Shibayama replied that in order to improve business relationship with the People's Republic, Japanese businessmen are giving second thoughts to both the existing and new investments in Taiwan.

Mr. McNamara then spoke on the population problems of developing nations. Two conditions were pointed out to achieve the economic

growth for developing countries to catch up with the problem: (1) each nation must be willing to take actions necessary to advance, (2) they get external assistance both in trade and more aid. He pointed out that the Japanese overseas development assistance term is harder than most of the developed nations and that the 0.23% of the GNP allocated for ODA is much smaller than the others.

Mr. McNamara then explained that the current 5-year plan, with the cooperation of the Japanese Government, had enabled the Bank to double the volume of its loans to assist and supply capitals required for developing countries.

Mr. Ashihara thanked Mr. McNamara for the cooperation of the World Bank to the economic rehabilitation of Japan which became strong, though there are weaknesses in the Japanese economy, i.e., very poor social overhead capital, pollution problems, etc. and expressed his hope that the Bank would continue to extend its cooperation to the Japanese economy.

RECORD OF THE MEETING WITH MR. MATSUSHITA

November 5, 1971, 11:15 - 11:50

Shin-shin-an, Kyoto, Japan

Mr. Matsushita began by saying that Japan is a very remote country on the periphery of the American world. It is now in considerable difficulties. In his opinion, the weakness was primarily political rather than economic. This was true in Japan and elsewhere in the world, for instance, in the United States.

He continued that Mr. Nixon's new economic policy had upset Japan particularly strongly. The Japanese politics had been upset well before that.

Mr. McNamara explained that the U.S. Government was not acting from foreign but from domestic motives, for instance, over China, textiles and the 10% surcharge.

Mr. Matsushita agreed that the U.S. was under very great compulsion but queried what should be done. Politicians today lack confidence and principle both in Japan and in the United States. The United States has been looked on as a leader of the free world. What is it now going to base its actions?

Mr. Matsushita continued that the U.S. is in a very important, critical period; because the U.S. must base its action on justice and wisdom and not on ways of public opinion but did not seem to be doing so. He stated that he was in favor of the United States and that he would like to see it healthy and strong to maintain peace around the world.

He requested that far more explanation of what the Nixon's policies mean would be a help. Policies which seemed to be selfish can perhaps be explained otherwise, as there was very little explanation of the Nixon's policies. As the result, there was considerable misunderstanding and distrust in Japan.

Mr. McNamara gave an explanation again of the basis of U.S. policies in domestic needs.

Mr. Matsushita repeated that the best people and the leaders in Japan did desire to see a strong US and he accepted Mr. McNamara's assurance that the US wished to see a strong and closely allied Japan.

Mr. Matsushita was very worried, though, by the lack of any spiritual base for American policy, and he was particularly worried by what he heard of the breakdown of law and order in the U.S. and the consequent absence of an honorable base of policy.

MEETING WITH GOVERNOR SASAKI OF BANK OF JAPAN

November 6, 1971, 10:00 - 10:30

Bank of Japan, Tokyo

Mr. McNamara first expressed his appreciation for the financial support of the Japanese Government & particularly of the Bank of Japan for the Bank operations during the past 21 months. He stated that not only the financial support itself was important for the Bank operations but the active support of the Japanese Government played a large role in instigating other countries (namely, U.S., Canada, and U.K.) to make loans to the Bank. He cited an example of England from which the Bank recently borrowed after 13 years of interval.

Mr. Sasaki appreciated the remark and promised the continuing financial support for the Bank's operation. He stressed that public issues should be the main source of the Bank's borrowing in Japan but that the BOJ is now prepared to extend a new formula of lending to the Bank. He explained that although the original concept of BOJ's lending was to match the outstanding amount of Japan's past borrowing, since this ceiling had been reached, BOJ's future lending should be in a more flexible manner.

He then asked for an explanation of the Bank's borrowing plans.

Mr. McNamara replied that during the period of 1964 and 1968, the Bank borrowed the total of \$1 billion (\$200 million annually on net borrowing basis). During the present 5-year plan, the Bank is expecting to borrow \$3 billion (\$600 million annually) and for the next 5-year plan ('74 - '78), the proposed borrowing needs will probably be \$6 billion (\$1.2 billion annually), although it is not firm yet.

He continued to explain that as for the Bank's borrowing from Japan, \$86 million have been borrowed during the first few months of the fiscal '72 and that the Bank hoped to place 2 more public issues before June of the next year. It was further explained that during the '73 fiscal year they would be happy if the Bank could borrow a minimum of \$250, including a roll-over of \$40 million (that is \$210 million on net basis). He added that the Bank can use more than that amount, if it were available.

Mr. Sasaki stated that the government is now planning to float unprecedentedly large amount of national government bonds to finance the supplementary budget as well as the next year's budget and that he is paying a close attention to the importance of this issue on the capital market.

Mr. McNamara then asked for Mr. Sasaki's forecast on the development of the Japanese capital market. He pointed out that the huge increase in the personal savings had been channelled mainly to the banking sector in the past but that he expected there would be some shift of the saving to the bond market in the future.

Mr. Sasaki commented that he expected the gradual expansion of the secondary market in Japan which will benefit the future issues of IBRD bonds.

Then he congratulated the World Bank for the great success of the public bond issues in Japan.

After giving a brief explanation on the prospect of the US economy, Mr. McNamara queried what Mr. Sasaki thought about the trend of interests in Japan.

Mr. Sasaki replied that both long and short term interests in Japan had gone down considerably during the past one year and that because of the expected stagnation of the Japanese economy, interest rates in Japan will remain at the present low level for sometime.

Mr. McNamara inquired whether or not the bond market in Japan would be less controlled in the future.

Mr. Sasaki replied that he hoped so. At this moment the Japanese private enterprises are proposing a postponement of their bonds, because they can borrow money from commercial banks very easily and they are deferring their plant and equipment investment programs because of the recession.

Mr. McNamara queried in what magnitude the Bank can expect to borrow for the third and fourth issues.

Mr. Sasaki replied that it would be up to the market but more in the same magnitude as the first and second issues.

Mr. McNamara inquired if Mr. Sasaki thought the present Bank arrangement with the underwriters is satisfactory, for which Mr. Sasaki gave an affirmative reply.

RECORD OF THE KEIDANREN (FEDERATION OF ECONOMIC ORGANIZATIONS)
LUNCHEON MEETING

November 6, 1971, 13:00 - 15:00

Keidanren Building, Tokyo, Japan

CHAIRMAN (Mr. Uemura) thanked Mr. McNamara and the accompanying Bank officials for their visit to Japan and particularly to Keidanren. He commented on the 20 years of a close relationship between Japan and the World Bank and explained that during the '50s, Japan was the largest borrower and the Bank played an important role in rehabilitation of the Japanese economy. He noted that this relationship had changed and it is now time for the Japanese to extend cooperation to the World Bank. He stated that the Japanese business and industry are planning to increase its private investment in developing countries in order to be of assistance to them. But in this connection, safeguarding of investment is an important issue and he hoped that the World Bank would extend safeguarding to ensure such investment.

He asked Mr. McNamara to feel free to ask any questions or make any demands on the leading members of the Japanese business.

Mr. McNamara thanked for the hospitality of the Keidanren and spoke on the subject of the needs of developing countries and what the Bank is doing to meet those needs. He pointed out that the basic trouble of the developing countries is characterized by the demographic shift, that the population is increasing at the explosive rate, and that these countries have not adjusted to that condition. It was pointed out that a recent demographic study showed the present 2.6 billion in the developing countries would quadruple before the growth rate stabilizes. It was also pointed out that the world must assist these nations in expanding their rate of economic growth by 20% with the means of (1) expansion of exports and (2) expansion of aids. It was further explained that for this reason the World Bank's present 5-year plan doubled the volume of its lending and nearly doubled its borrowing. Mr. McNamara continued that the Bank borrowed \$1.4 billion last year and that it could not have achieved either the lending or borrowing program, had it not been for the assistance of the Government of Japan and many (underwriters and bankers) present in the meeting.

Mr. Doko questioned Mr. McNamara if he thought the growth of economy would take care of the growth of population.

Mr. McNamara replied that perhaps much later in the future but that we could not wait. It was required to take actions now towards a more effective population program. He cited an example of India where population would not stabilize in less than 60 - 70 years, even if the birth rate dropped. He stressed that we must make the planning program more effective and prepare ourselves prepare India for much larger population to survive.

Mr. Doko queried about the population growth of People's Republic of China, for which Mr. McNamara replied that he had heard two stories; one, they had controlled it down to 1% and the other that they hadn't.

Mr. Doi suggested the population movement of the people around the world as a possible solution to the population problem.

Mr. McNamara replied that although there are some movements of population in Europe and in some parts of Africa, these are marginal movements of the labor population and could not be a solution to problems.

Mr. Nagano expressed a growing concern among the Pacific basin developed nations in safeguarding the investment to the development of the region and that if expropriations continued, it would discourage the interests in investing.

Mr. McNamara agreed that this is a serious problem and explained the Bank's policy on this matter. He stated that the Bank recognized the international law and the right of a nation to expropriate properties but in the event of expropriation, the expropriating power should provide adequate compensation to the loser. He also pointed out that the Bank makes it a rule not to lend to countries which have expropriated, unless they show their will to negotiate with a reasonable effort for adequate settlement. Mr. McNamara regretted that the Bank policy is not universally accepted in the world and that individual nations or industries are investing in the areas that the Bank stopped making loans to. He admitted that these cast doubts to the Bank's policy.

He continued, however, to explain the measures to reduce the risk in event of expropriation. A Center for International Disputes was established a few years ago by the member countries of the Bank which reduces the risk. He urged the Japanese business to incorporate a clause of agreement with the concerned government with the assistance of the Center. He also mentioned an international investment insurance scheme (now being under study by the Bank group) in which a larger group bears the risk in case there is a loss.

Mr. Nagano queried whether or not the Center for International Dispute is related to any international organization.

Mr. McNamara replied that it is an organization specially related to the World Bank and promised to send an information material to Mr. Nagano and others through IBRD Tokyo Office.

Mr. Horikoshi remarked that the World Bank is contemplating to make loans to three steel mill projects in Brazil and expressed his hope that the Bank would expedite its loan to Japan Usiminas, one of the three projects, with first priority.

Mr. McNamara replied that the Bank cannot lend without the guarantee of the government involved but thought that the loans will be coming from the Bank as a package deal within the next 6 to 9 months.

Mr. McNamara thanked each attendant for the hospitable lunch and for taking time out of their busy schedule to meet him.

OFFICE MEMORANDUM

TO: Files

DATE: November 22, 1971

FROM: Raymond J. Goodman *RJG*SUBJECT: Record of Meeting with President of Ex-Im Bank of Japan

November 6, 1971, 15:15 - 15:45

Okura Hotel, Tokyo Japan

Present, Mr. McNamara, Mr. Ishida and Mr. Goodman

Mr. Ishida started by talking about Pakistan and the problem created for his agency by Pakistan's failure to pay capital and interest on its debt to Ex-Im Bank. The failure to pay maturities when due was not too much of a problem, since these could always be deferred, but interest income was taken into account annually in determining the budget of Ex-Im, and the failure of debtors to pay interest had to be explained both to the Government and the Diet and this created problems.

He had explained this to Mr. Cargill. He had asked why the World Bank had insisted that Pakistan continue to pay capital and interest charges due on its own loans. The normal practice was for the syndicate leader to be the first to assume responsibility in a default situation, but in this case the syndicate leader, namely the World Bank, had insisted on different treatment for itself. This seemed to Mr. Ishida to be unfair.

Mr. McNamara said that he had to disagree. He thought that the Bank's situation was not analogous to that of commercial practice. The World Bank had frequently, in fact usually, to go into risky situations whereas commercial banks typically had only, say, 10% of their funds in such situations. In the event of a default in one of these situations, it could be carried by the normal business, but this was not the case with the World Bank. We had to maintain our ability to borrow in capital markets and for this reason we would definitely not take part in any rescheduling exercises. Creditor governments would have to understand that the ability of the Bank to go on financing development depended on this and if the Bank proved unable to raise enough funds, it would simply increase the burden on those countries.

As far as the Pakistan situation was concerned, he thought that a solution to the problem, at least the interest part of the problem, would be forthcoming in the not too distant future. In that connection, Mr. McNamara referred to the growing problem of indebtedness among the developing countries arising specially from export or supplier credit financing. He felt that the less developed countries would have to limit their borrowing in this form and that creditor countries also should restrict their lending on hard terms. Otherwise, the debtor countries would default and exports would end up being given away free. The Bank was working on this problem from both ends.

We would, for example, have to make it a condition of continued Bank lending that the developing countries limit the amount of supplier credits they took. On the other side, we would continue to stress to the creditor countries the importance of limiting this form of financing.

Mr. Ishida agreed that this was a problem but it was extremely difficult to control, especially for an agency like his own. He felt that the responsibility would have to lie largely on the borrowing countries. At the same time, he appeared to say that his own government, for example, was at fault also, because ministries such as MITI would sanction a particular export and then turn around to the Ex-Im Bank and ask them to guarantee the credit made for that export.

Mr. Ishida said that if there were an international agreement to limit the amount of export financing, for example, under the auspices of the World Bank, then it would be easy for his own agency to go along with it. He gave as examples the limitation on supplier credits imposed on Korea by the Bank and also in the case of the Philippines under the IMF Standby Agreement. Short of some such international agreement, he thought that this form of financing was extremely difficult to control.

At this point Mr. Ishida said that he was skeptical about the value of planning; it had not been particularly successful even in Japan. Planners invariably made projections on low side and if one couldn't rely on it in Japan, how could one do so in the developing countries.

To this Mr. McNamara replied that if the rest of the developing countries were not to undertake planning, how could one put on them the responsibility for limiting their indebtedness.

Mr. Ishida referred also to the difficulty of an agency such as his being sure that the projects it was financing were sound economically as well as technically. He found he could not rely on feasibility studies undertaken even by his own staff, and therefore he was much less inclined to accept those undertaken in the LDC. His own feeling was that the carrying out of the feasibility studies should be concentrated in one place, say in the World Bank, and that was one reason why he was in favor of multilateral rather than bilateral aid.

Mr. Ishida went on to say that he was very much in favor of aid untying but that his own government was slow in moving. He felt it was obviously good for the less developed countries to have untied aid and again this was an argument in favor of multilateral rather than bilateral assistance.

Mr. McNamara said he agreed with this but he thought that a shift from bilateral to multilateral aid would be slow and that for the foreseeable future the bulk of aid would continue to be given through bilateral channels. He mentioned that the Pearson Commission had estimated that about 25% of official development assistance might be given multilaterally by the mid-seventies; he felt that this estimate was about right.

Mr. Ishida then referred to joint and parallel financing. He said that Japan, particularly the Ex-Im Bank, was in favor of joint financing for some of the reasons he had already mentioned but that he understood the Bank and possibly the U.S. Ex-Im Bank were more inclined to go for parallel

November 22, 1971

financing which he thought generally less desirable. He asked whether or not the Bank's attitude in this connection was as reported to him.

Mr. McNamara said that he personally also preferred joint to parallel financing but that it had been difficult to get the agreement of financial agencies either in the U.S. or in Europe to go along.

Mr. Goodman mentioned that there were techniques for associating bilateral aid with Bank financing, some of which had been used in some of the Southeast Asian countries. We would study the question and see what suggestions we could put forward.

Finally, Mr. McNamara asked what Mr. Ishida foresaw as the rate of Ex-Im commitments. Mr. Ishida replied that they did not make estimates of their commitments beyond one year and that it was extremely difficult to do so since the Government provided funds on an annual basis in the budget. Moreover borrowers, often with the agreement of his government, tended to bypass Ex-Im Bank and finance projects not with commercial type credits by his own agency but by official yen loans extended by his government. This was obviously to the immediate advantage of the borrowing country since the terms were better both as to interest rate and maturity. But he wondered whether in the long run this would be in the interest of the borrowing countries as it might lead to the financing of unsound projects.

cc: Messrs. McNamara ✓
Knapp
Rickett
Cargill
W.D. Clark

RJGoodman:pq

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OFFICE MEMORANDUM

TO: Files

DATE: November 23, 1971

FROM: Raymond J. Goodman *RJG*

SUBJECT: Meeting between Mr. McNamara and Mr. Sinichi Takasugi, President of the Overseas Economic Cooperation Fund (OECF).

The meeting took place in the morning of November 6 at the Tokyo Office of the Bank. Mr. Hattori, Mr. Ukawa (Foreign Office) and I were also present.

Mr. Takasugi: OECF was established ten years ago and has had a rapid increase in the last two years. I took over 2-1/2 years ago. About two thirds of OECF's business is government to government and the balance to private borrowers.

RSM: What is the difference between OECF and Eximbank?

Mr. Takasugi: Eximbank was established earlier and its operations are in some respects similar to those of OECF except that the former deals more with private parties. OECF will gradually take over the government to government business. The basic difference is in the type of venture financed by the two institutions. OECF takes on the more risky ventures at somewhat lower interest rates. The average Eximbank rate is 6.5% whilst the highest OECF rate is 5.5%.

RSM: What is the nature of the government funds in OECF?

Mr. Takasugi: From the budget. Financing by OECF is mainly for infrastructure and the social sector. Indonesian non-project assistance, that is for commodities, is an exception to this, as also is the new commodity loan to the Philippines.

RSM: What is the interest rate on government to government loans?

Mr. Takasugi: It depends on the country. The best rate, that is the one used for Indonesia, is 3% interest for a term of 25 years including 7 years of grace. This is now becoming the norm. OECF operates within the context of the 1% target of GNP for external assistance of which 70% will be in the form of official development assistance. There has been a lot of criticism in Japan, for example that there aren't enough grants, or government to government aid and that the interest rate is too high. OECF is trying to improve in all these respects.

RSM: How will the target for aid be divided between OECF and Eximbank?

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Mr. Takasugi: If you include the flow to private parties, Eximbank will continue to be the larger of the two, but I expect that OECF will take over a larger share of government to government aid. The latter is now about 50% by each institution on a disbursement basis.

RSM: So the trends are a) towards more government to government aid within the total and b) more OECF aid of this type than Eximbank. If this is a correct interpretation, who will monitor these trends?

Mr. Takasugi: This is the problem. There is no agency clearly responsible. For example, OECF comes under the Economic Planning Agency and Eximbank is under the Ministry of Finance. We are trying to bring these things together under the Advisory Council to the Prime Minister. Consideration is being given to forming one agency which will include technical assistance, for example, which would watch developments in the LDC's and co-ordinate Japan's approach.

cc: Mr. McNamara ✓
Mr. Knapp
Sir Denis Rickett
Mr. W. Clark
Mr. Soejima

RJGoodman/am

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December 3, 1971

Meeting with Advisory Council on Economic Cooperation to the Prime Minister, Japan

Mr. McNamara met with members of the above Advisory Council on November 6 at 6:00 p.m. at Hotel Okura. Present were: from the Advisory Council: Dr. Okita (acting Chairman) and Messrs. Hara, Hiyama, Takeuchi and Nakayama; from Foreign Office: Messrs. Sawaki and Ukawa; and from the Bank: Messrs. Hattori, Goodman, Clark, Soejima and myself.

Dr. Okita opened by offering apologies for the absence of the Chairman, Mr. Nagano. As acting Chairman Dr. Okita welcomed Mr. McNamara to the meeting and asked if there were any particular points of interest to Mr. McNamara. In response Mr. McNamara said he would like to acquaint himself with the organizational structure of Japan's aid program and with recent trends in Japan's aid policies. In particular he was interested to hear how they planned to tackle the difficult problem of unemployment in LDCs. He also would welcome any points of criticism against the way in which the World Bank conducted its business.

Dr. Okita mentioned that the Council, which had been activated two years earlier, had recommended that the Government adopt the 1% of GNP aid target. This the Prime Minister had done in the U.N. a year ago. However, there had been no quantitative recommendation on official development assistance (ODA). Instead it had recommended that the Government try to achieve as high a level of ODA as possible.

Another recommendation from the Council had been that Japan should broaden the scope of its technical assistance activities. In their view technical assistance should be considered and programmed in broad developmental terms, and should include research activities. Mr. McNamara wondered whether any thought had been given to setting up private technical assistance organizations, similar to the Ford Foundation. Dr. Okita answered that this idea had been much discussed within the Japanese Government and Mr. Nakayama added that there were limits to what Government assistance could do for developing countries. Private technical assistance could indeed play an important role in his opinion. A beginning in this direction had been made by private industry in Japan through the posting of management personnel in various Asian and Latin American countries. Mr. Sawaki mentioned that most of these private efforts received Government subsidies.

Dr. Okita also reported that the Advisory Council had recommended to the Government last year that it would agree to the DAC proposals on the untying of aid. This had been announced by the Japanese representative at the DAC meeting in Tokyo last year.

Mr. Hara said that it also had been recommended that Japan should be willing to commit itself to expand imports from LDCs and that private Japanese investments abroad should be accompanied by Government aid for complementary infrastructure facilities.

Mr. McNamara queried the role of export credits in Japan's aid program. He mentioned that the Bank was much concerned with the growing indebtedness of LDCs, which had grown particularly rapid in recent years. The Bank feared massive debt rescheduling problems in the future. An example was the present unilateral debt moratorium in Pakistan. He wondered whether in Japan any thought had been given to establishing specific ceilings on short-term suppliers' credits for individual countries. If so, who would be allocated the responsibility for setting up and controlling such ceilings? He had noted in a meeting with the President of the ExImBank of Japan that the latter was also worried about this problem, but apparently the ExImBank had little control on this point. Mr. Hara thought this was a difficult issue to solve. There was some virtue in trying to urge the LDCs themselves to do more

President has seen

about this problem. Mr. McNamara wondered whether the Council members thought that the Bank should stipulate ceilings for export credits to a particular country as a condition for further Bank lending. Mr. Hara did not think this was a commendable position for the Bank to take and reiterated that LDC governments should be encouraged to implement such controls themselves.

Mr. Hiyama referred to Japan's private foreign investments which almost always obtained central bank guarantees. He thought there was now a growing realization that broader consideration than purely project ones should be taken into account. The Ministry of Finance, which supervised such guarantees, should ensure that the broader developmental considerations were considered. He personally felt that competition among the various export agencies would help to lengthen the terms of such credits and that in general export credits ought not be extended to countries which were unable to use them effectively. Mr. Sawaki added that the Government was indeed worried about this point in the case of the Philippines.

Mr. McNamara pointed to the need for developed countries to increase imports from LDCs. He mentioned that in the U.S. the Government was ill-prepared to help industries which were hurt by such imports to adjust to other levels of industrial technology. Did Japan have such adjustment mechanism? Mr. Hara said that the Advisory Council had suggested subsidies to industries whose products were opened up to competition from imports into Japan. Dr. Okita mentioned that there had been a particularly rapid increase in textile imports, especially raw silk. The Council had also recommended increased imports of agricultural and light industry products. Taiwan was an interesting example in that it had adjusted its rice production so that it now was producing more corn which could be sold to Japan. Mr. Sawaki also mentioned successful imports of maize from Thailand. In that particular case Japanese capital assistance and technical assistance had worked hand-in-hand to help Thailand achieve this objective.

Mr. McNamara commented that there were two things which had particularly struck him with respect to Japan's economic development: first, already in the mid-19th Century it had achieved a very high literacy rate--above that in existence in most LDCs in Africa today. Was this a major reason for the rapid advancement of the Japanese economy? Second, he had noted the successful agricultural reforms which had been implemented in two major stages. At first there was a shift in the tax structure, in that farmers were required to pay these to the Government instead of to the feudal lords. Subsequently there had been a reduction of tenant farmers. Was this a pattern which should be stimulated in LDCs today?

Dr. Okita said that Japan traditionally had urged its people to pay their respect towards the society by: obtaining education, pay taxes and participate in military service. With respect to education this was essentially primary education which laid strong emphasis on practical aspects. Mr. Hara thought Japan's school enrolment had not been very high by the mid-1880s but that a marked acceleration had been achieved in the fourth quarter of the century, particularly in 1885 when compulsory education was started. By the turn of the century, school enrolment was above 80%. The lesson for LDCs was that Japan had proved that the school enrolments could quickly be accelerated.

Mr. Nagasama said that primary education was so different in various countries that it was hard to generalize.

Mr. Takeuchi said that the Council had tried to reorganize the organizational structure for Japan's aid program. The main problem was that at present the aid functions were too widely disbursed among a large number of Ministries. Mr. Nakayama suggested that the World Bank could perhaps give some assistance to Japan in helping it coordinate its aid efforts.

Dr. Okita thought that the Bank could put greater emphasis on the development of small-scale industries. Japan could make a particular contribution in this field where it had considerable knowledge. However, this knowledge should be tested more carefully, particularly with respect to the factors determining successful private entrepreneurship. Perhaps more research could be stimulated by the Bank in this field. Mr. Sawaki mentioned that Japan was already helping small industries through aid projects in Korea, Taiwan and Singapore.

Mr. McNamara responded that the Bank would be very willing to cooperate closely with Japan on this point. The Bank might be willing to finance research in Japan using Japan's brain power. He concluded by thanking the members of the Council for meeting with him. He had been most interested in what they had to say.

cc: Sir Denis Rickett
Mr. Soejima
Mr. Goodman
Mr. Wm. Clark

L.E. Christoffersen

LEC:ml

35

OFFICE MEMORANDUM

TO: Files

DATE: November 24, 1971

FROM: Raymond J. Goodman *RJG*SUBJECT: Japan-China Relations.

(Transcript of a discussion between Dr. Masao Kanazawa, Director General, Research and Analysis Bureau, Ministry of Foreign Affairs, and Mr. Goodman after Mr. McNamara had left.)

The discussion took place at the Hotel Okura, Tokyo, on November 7, 1971.

Mr. Kanazawa: The point I should like to make is that we shouldn't consider China as a big power just because it has a huge land and a huge population. Of course, China is a big country; we have to count them in international relations but we also have to remember that they have huge domestic problems which must be solved before they start to meddle in affairs with foreign countries. In the foreign policy field, their number one enemy is the Soviet Union. The main threat to China comes from the Soviet Union and the reason is because they share a long frontier and also a common ideology. At one time we thought that the common ideology makes them unite, but now it looks more like the same ideology makes them split rather than unites them, because Marxism and Leninism have become a tool of maintaining control over other Socialist countries, like Russian control of the Eastern European countries. As long as they believe in one ideology, somebody has to be the authority to interpret what is going on.

Mr. Goodman: Can we go back to the question of economic growth and the future of China. In the study I was telling you about, it seemed to us that with the enormous work they've done on irrigation systems in the last 20-25 years, they have a reasonable prospect of being able to feed themselves with a growth of population something less than 2%. The great problem I think you touched on earlier looks to be that of employment. In other words, they can probably feed themselves at a reasonable standard, but they will have increasing difficulty in finding jobs for the large numbers entering the labour market. Would you agree?

Mr. Kanazawa: Yes, I think so. They have been importing wheat from Canada and Australia for some years but they may become self-sufficient, at least in grain production. They may import some from Canada still but they explain that stocks are needed as a reserve for an emergency, like war or famine. But I believe they can be self-sufficient.

Mr. Goodman: Do you know what has been the level of their foodgrain imports in recent years? I mean within a total production of 230 million tons, I take it that these imports are marginal.

Mr. Kanazawa: Yes, the greatest amount of wheat imported from Canada and Australia was about 5-6 million tons in one year.

Mr. Goodman: So, it's only marginal but nevertheless represents a considerable expenditure of foreign exchange.

Mr. Kanazawa: Right. Coming back to Chinese-Soviet relations, not only the ideological differences but the fact that they share a long common frontier makes them always suspicious of the other party. I recall that in the early 1950's in America there were people who advocated a preventive war against the Soviet Union. I'm sure there is a similar school of thought in Moscow which advocates a preventive war against China and China must suspect that there is such a school of thought in Moscow. That will only deepen the mutual distrust and suspicion between the Russians and the Chinese. Hopefully the Russians will not attack China, but as in the case of the Salt negotiations, unless China acquires a sufficient nuclear stock-pile, it will not feel secure against the two super nuclear powers. In that respect, China will always have to be very careful and cautious towards the Soviet Union. As to the United States, they have attacked and criticized American policy, particularly on Vietnam. But on the other hand it would be safe to assume that they respect American power. Particularly now that you have been implementing the Nixon Doctrine and you have been reducing your military presence in Asia, there will be less and less cause for friction between the United States and China except for one very serious problem which is the problem of Taiwan. In this coming Presidential visit to Peking, I don't think the Taiwan problem will be solved in a clear-cut way. There may be some understanding between you and China on this point but no substantial progress was made on this issue, and on this account there won't be any recognition by your country of Communist China just because of the Presidential visit, although that will certainly be the American ultimate objective.

Mr. Goodman: Can we pause for a moment here. The advice we've been given here in discussing the problem, and it accords with Mr. McNamara's view and my own, is that it is most unlikely that the People's Republic will try and take over Taiwan by force, at least within the foreseeable future. I'd like to ask if you agree with that or not, and secondly, if you do, how do you see the relations between these two groups working out in the future. Is there a possibility of some kind of accommodation between the two countries?

Mr. Kanazawa: Yes. As to the first point, I don't think Communist China will be able to take over Taiwan by force for the immediately foreseeable future, because they lack naval vessels which will be necessary for an overseas military expedition and they may not have sufficient air cover to make any overseas expedition successful, so they will not find it proper or desirable to invade Taiwan at this time. I think basically the Communist tactic is to achieve their objectives by the least amount of sacrifice and if they can find a better way of taking over Taiwan than taking it by force, they will certainly pursue that path.

Secondly, whether Taiwan and Mainland China can solve the problem peacefully or not, I don't think anyone can say with any confidence. But

we cannot preclude the possibility that they will peacefully merge together. Although Taiwan has been in existence as a separate entity for the past 22 years, the people in Taiwan have been trained as Chinese. They have been in Chinese schools, they have been given Chinese textbooks and they have been brought up to be good Chinese rather than good Taiwanese. So, in the younger generation of Taiwan, I think there can be noticed the feeling that they should join together with the Mainland, because they are Chinese people. But, of course, we know that there are overseas Chinese in many Asian countries, e.g. in Indonesia, in the Philippines and in Malaysia. Although they too are Chinese people, they (adapt to ?) the local way of living.

Now, relations between Japan and Communist China, that is one of our biggest problems which we will have to solve in the near future. From the Chinese point of view, perhaps they have realized that Japan has grown so tremendously. During the Cultural Revolution they were too preoccupied with their domestic affairs, but when their Cultural Revolution was over and they looked to the outside world, one thing they must have realized is the tremendous growth Japan has made in the meantime. Just to give you an idea of this point, perhaps we can compare the GNP of China and Japan. In 1960 the Chinese GNP was \$58.8 billion whereas Japan's was \$43 billion. So, the Chinese GNP was 1.3 times, or something like that. In 1965 the Chinese GNP was \$60.8 billion whereas Japan's was \$88.3 billion. Now in 1970, the Chinese was \$75 billion, whereas Japan's was \$196 billion. These Chinese GNP figures will have to be treated rather cautiously and with some reserve, because they were obtained by converting the Chinese Yuan to American dollars at the rate of \$1.00 to 2.46 Yuans. But the Chinese have a quite different price structure and it will not be correct to use this uniform rate of exchange between Chinese Yuan and the American dollar. For example, in urban areas like Peking and Tientsin laborers are given an apartment house and the rent for these laborers houses costs only 2 Yuans a month, which is equivalent to less than \$1. A three-room flat is rented at 2.9 Yuan, which is \$1.20 or something like that, whereas a radio would cost 50 to 150 Yuan, which is about \$20 to \$60, and so their price structure is quite different from that of Japan, U.S. or other countries.

Mr. Goodman: Under that price structure a significant amount of real production and services would not enter into the national income accounts. In the study that I mentioned that we put together in Washington the GNP of China is put at \$90 to \$100 billion reckoned on a realistic rate of exchange. But even so, it's only half the current GNP of Japan.

Mr. Kanazawa: So, the Chinese growth of GNP has been rather slow whereas Japan's GNP has grown tremendously, particularly during the cultural revolution period. China has recognized that Japan has far surpassed China in economic production and that is one reason, we believe, why China has started criticising the resurgence of Japanese militarism; they started it from the beginning of 1970. In Japan, nobody believes that we have any signs of a resurgence of militarism. Our defense spending is less than 1% of our GNP and as you may have noticed in your visit here, people have an aversion to military adventures and we are a very peaceful people, unlike in pre-war days.

Mr. Goodman: Yes, I've only been here for a few short days but all the demonstrations have been against rearmament and entirely in the opposite direction, but the Chinese have not seen these demonstrations.

Mr. Kanazawa: From the Chinese point of view their objective - their policy - is to have a weak, peaceful Japan which will never menace China as in the pre-war days. For that purpose they have to divide the Japanese people and also they have to divide Japan and the U.S. So, that makes us wonder whether China will really want better relations, or any official relations, with Japan and one could surmise that China for the time being may find it more convenient to divide the Japanese people and the Japanese parties so that there will be stronger and stronger anti-government feeling in Japan and ultimately there will be a pro-China government. If China takes that view, they would not want normalization of relations with us for some time to come. They would just want to play the game of divide and rule in the Japanese people. But I don't necessarily share that view. I rather think that China genuinely wants normalization of relations with Japan. In our country there has been a very very strong feeling about having better relations with China and that has been encouraged by the announcement of President Nixon's visit to Peking and it was still further encouraged by the Chinese entry into the UN in October.

Mr. Goodman: Going back to the point you made earlier about the division in China between those who have an ideological approach to the future and what you might call the technologists, I take it that the latter would want to draw on Japanese know-how and perhaps on Japanese investment in China in order to build up their economy. This presumably is also creating difficulties between the groups in China - these two opposite ways of looking at things.

Mr. Kanazawa: I don't know whether in China there are different views on this particular problem of whether or not they should have more economic and technological assistance from Japan, but of course in the late '50s, in the military field, there was a difference of view between the people who wanted to modernize the weapons system and to rely on the Soviet Union for that purpose and another school of people who wanted to emphasize self-help and the spiritual side rather than the technological side and weaponry. Well, if there is such a difference of view on the way of economic development in China, it would be only natural but still I don't know whether on the particular problem of closer economic association with Japan, there is any controversy of difference in views. Rather I think that they would take it up as part of the bigger problem of whether they want to continue their road to economic development with their own efforts or depending more on foreign assistance.

Mr. Goodman: On the specific matter of trade between the two countries, the present figure of two-way trade is in the order of \$800 million a year. The indications that we have are that this figure might perhaps double within the next 5 years. Is that the maximum amount of trade that could be expected? In other words, it's not likely to be an enormous factor in Japan's own external trade.

Mr. Kanazawa: I have brought these tables for your reference.

Mr. Goodman: May we keep these copies?

Mr. Kanazawa: Yes, the first table shows the trade balance. Now, No. 1 shows the total amount of trade. In 1970, the total trade was \$2.051 billion. The most interesting part of this list is paragraph 3, item 3. They have a favorable trade balance with Communist countries of 0.179 billion dollars, and with non-communist developing countries they have a favorable balance of \$0.630 billion. With advanced countries they have an adverse balance of \$0.874 billion. This shows that they have been covering their deficit with advanced countries with their favorable trade balance with developing countries and with Communist countries.

Now, if you turn to the next page, you'll see the main contents of their favorable trade balance with developing countries. They have with Hong Kong \$465 million worth of favorable trade balance; with Singapore \$105 million dollars.

Mr. Goodman: But you include these as trade between developing countries. It's true that Hong Kong and Singapore are developing, but surely some of their imports are reexported to advanced countries, for example Japan and Australia.

Mr. Kanazawa: No, we buy direct from them, not through Hong Kong. So, unless Communist China exports more to Hong Kong etc., or unless Japan, Canada and other advanced countries buy more from Communist China, we cannot export more to Communist China. As long as China maintains the policy of balancing exports and imports it will set a limit to the growth of our exports to Communist China. Now, is there anything we can buy from Communist China? That is the main point. Last year we bought soy beans, raw silk, frozen shrimp, raisins, chestnuts. They constitute the main items of our imports from Communist China, and as you know all these are marine products or agricultural products and this trade will not grow very much. If we can buy iron ore or coal in a great amount, then our import from China will grow in a very big way. But apparently, their iron ore is of inferior quality; the ferrous content is 30-40%, but the Japanese steel industry is constructed to use a higher ferrous content. So, we cannot buy a great amount of iron ore from China or coal. These materials they need themselves for their own economic and industrial construction.

Mr. Goodman: What about other metals?

Mr. Kanazawa: They have tungsten and antimony. They have the biggest reserves of tungsten and antimony in the whole world and other non-ferrous metals but these have not been developed yet and it will take some time before they can be developed.

Mr. Goodman: This presumably would mean a very large investment in mining enterprises.

Do you see any possibilities for growth of light-industrial manufactures, for example, in China which could serve as the basis for trade with Japan and other advanced countries in the way that Singapore has developed or Korea is now developing?

4.168 bill.

Mr. Kanazawa: Yes, I think they will develop light-industry and they will export the products of these light industries to the neighboring countries. But there will be much difficulty in producing heavy industrial products which will compete with ours or that of Western countries.

Mr. Goodman: I suppose they may produce textiles and then they will be more in competition with Korea and Taiwan than with the advanced countries.

Mr. Kanazawa: So, we don't think there will be any trade competition between us and China. Last year our total trade, including export and import, amounted to \$37 billion but for China it was only \$4 billion. They will be making progress but we are just not on equal terms, not now and not in the future.

Mr. Goodman: Why is it then that Japanese business seems to be so excited about the prospects of opening up trade and investment in China. Do you think they are mistaken?

Mr. Kanazawa: I believe that Japanese industrialists know that there is a limit to the possibility of expanding our trade with China, but even so, they have to export their own products to China in competition with their fellow companies. There are rivalries among the Japanese producers and that is one element which these industrialists consider, when they want to have better relations with Communist China.

Now, coming back to Japan's relations with China, all of us want to have better relations with China, except for the few die-hard anti-communists. That is shown in public opinion polls, which usually indicate that about 70% to 80% of Japanese people advocate or support early normalization of our relations with Mainland China. But the same opinion poll would perhaps indicate that about 60-70% of the Japanese people want to continue our relations with Taiwan. Now, obviously China puts a condition on the normalization of their relations with Japan and that is that we have to make clear our position on Taiwan. Their demand is that Japan recognizes that Communist China is the only legal government of China and Taiwan is an integral part of their territory. Now, that is the most difficult part in our dealings with Communist China. We certainly want to have official relations with Communist China, but how the Taiwan problem could be solved in this context is a very difficult question. There have been some people in Japan who advocate the normalization of our relations between the Mainland China and they have been talking as if recognition itself is an ultimate goal. We have to understand that recognition of Communist China is only a step in the normalization of our relations and we'll have to visualize what kind of relations we will be having in future between Japan and Mainland China. Even without recognition, our trade has been proceeding very well. We are the biggest trading partner for Communist China. Recognition itself will not increase our trade with Communist China as in the case of France or Britain who have recognized Communist China but whose trade with China has not increased. Japan and Germany who have not recognized China are the biggest trading partners with Communist China.

November 24, 1971

We also have the problem of the Chinese nuclear threat. I don't know whether China really wants in future to attack Japan with nuclear weapons or use the nuclear threat to force on Japan something, but there is this nuclear threat coming from China and we have to have some means to counter it. For that purpose I think, and many Japanese people seem to think, that the Japan-U.S. security treaty is very important. Our relationship with the U.S. is most important in this security field and also in the economic field as shown by the fact that Japan's trade with the U.S. takes about 1/3 of our whole trade. We don't want to make any deal with China which will affect our relations with the U.S. China may want us to renounce our security treaty with the U.S., but that's not what we can do. So, there are many conditions which China might propose to us in our talks whenever they start. But for us the thing of fundamental importance is Japan's relations with the U.S.

Mr. Goodman: I take it even China would recognize that if your treaty with the U.S. were abrogated, the alternative would simply be an increase in your own armed forces. There can't be any other choice and I don't think they would prefer that.

Mr. Kanazawa: So, although China makes it as one of their conditions, they may not be serious on this point, as in their claim on the Taiwan problem. But this certainly is a most difficult problem which we'll have to solve gradually.

Mr. Goodman: This has been a most valuable talk and I know that Mr. McNamara would want me to say that we are most grateful to you for giving us this amount of time. We in the Bank have not paid any attention to developments in Mainland China. Perhaps we have been too busy in the past with other things or maybe like everybody else have not given much thought to what's happening in that great country. Obviously, in the future we'll have to keep as careful a watch as we can, not so much for the sake of China itself but because of the effect of developments there on Japan and other countries of the area and indeed on countries in other parts of the world. All of this is a preface to saying that we want to keep in touch with scholars in various countries who are watching what's happening in China and I hope that we can do that. How can we best keep in touch with you and with information that you obtain?

Mr. Kanazawa: We have in the Foreign Ministry various sources of information and also we have reports from our Embassies or Consuls General in Hong Kong and from other sources. We have also contacts with our own academic people and Chinese specialists. We are, of course, given a lot of information and data on Communist affairs and Chinese affairs from your sources too. So, we are quite willing to share whatever we have with you, particularly because you are more interested in economic affairs.

cc: Mr. McNamara ✓
Mr. Knapp
Sir Denis Rickett
Mr. Chenery
Mr. W. Clark
Mr. Soejima

RJG/am

For Mr. McNamara

MEETING WITH PRIME MINISTER SATO

November 7, 1971, 9:25 - 10:05

Official Residence of the Prime Minister, Tokyo, Japan

After an exchange of personal ^{Be}solicitations, Mr. McNamara asked the Prime Minister whether he would comment on the problems of relations with China.

P.M.: Surely, you won't let Taiwan leave the Bank?

RSM: This is a legal, financial and human problem.

P.M.: UNESCO did expel Taiwan rather quickly. This is not likely to happen in the Bank?

RSM: This is typical of reactions to the Albanian Resolution and may spill over to the Bretton Woods Institution. There may be attempts to get Taiwan expelled.

P.M.: Is Russia in the Bank?

RSM: No.

P.M.: So, perhaps, you can keep Taiwan. The Asian Development Bank has Taiwan as a founder member, so, it would be very hard to expel her.

RSM: (indicated ascent.)

P.M.: The problem is getting very difficult and very complicated for us all. In the Normalization of our relations with Mainland China, we must find how we are going to deal with our treaty recognizing Taiwan as a state. What about your U.S. Treaty?

RSM: I don't want to speak for the U.S. but this was a treaty entered into in good faith by both parties and we will abide by it, I expect.

P.M.: What we shall be watching is whether Taiwan is an independent unit. We should not encourage this. I recently met Razak, the Prime Minister of Malaysia, who was in favor of an independent state of Taiwan. But

Thailand and the Philippines felt it would greatly increase tensions in Asia to have a fully independent Taiwan.

To change the subject, what do you think, Mr. McNamara, about the future of the UN where at present there is one nation one vote, but the financial difference of their contribution makes this an absurd situation.

RSM: It is indeed absurd and it must change in the long run. The entry of the People's Republic of China may delay this change.

*/ perhaps
one for Taiwan
one for Mainland.*
P.M.: At the moment Russia has 3 votes. So, perhaps the People's Republic of China should have at least 2/(jokingly) I'm not sure that Okinawa shouldn't be made a separate state in the U.N.

RSM: I have long been an advocate of the return of Okinawa to Japan and greatly admired the Prime Minister's brave approach towards this problem and Korea. We ought not try and hurry the US approach to the UN in its new attitudes or we will be liable to get a negative reaction in the U. S. public opinion.

P.M.: I'm disturbed that the U.S. which is really the founder of the UN system has begun recently to doubt the values of the UN. I agree that it is time to cool things in the UN.

What about the US economy?

RSM: The events of August 15 had to take place. It was essential to get the US economy and balance of payments moving in the right direction. They are now doing so. But it was highly regrettable that the measures had to hurt some of our main trading partners so much.

P.M.: What impression did you have of the businessmen that you met in Osaka and Tokyo?

RMS: As an ex-businessman, I am glad I don't have to compete with them.

P.M.: We have economic difficulties just as the US does. Rising prices are very difficult for us. I think unemployment

will be easier to deal with. In the U.S. the balance of payments problem is in conflict with the settlement of the unemployment problem.

RSM: The two economies are really mirror images of each other.

P.M.: We are going to have to switch more of our production from foreign markets to domestic consumption. By issuing bonds ? (for reflation) we will deal with the unemployment problem.

The strength of the yen is an advantage to Japan as an importing nation. The question is how we pass this advantage on to domestic consumer.

RSM: I entirely agree that in the long run the revaluation helps Japan but the transition period is difficult.

P.M.: I was not speaking of the revaluation but of the strength of the yen.

(Laughter and good-byes).

INTERNATIONAL FINANCE
CORPORATION

OFFICE MEMORANDUM

TO: Mr. Raymond Goodman

DATE: November 26, 1971

FROM: William Clark *mc.*

SUBJECT: The Japanese Briefing on Relations with China 11/7/71

I was present for only the beginning of this meeting before departing with Mr. McNamara to see Premier Sato.

Mr. Kanazawa seemed intensely suspicious of China's intentions towards Japan. He spoke of the Chungking formula of negotiating in order to destroy.

Looking back at the early history of the Mao regime, he said there had been in the first five years after the revolution a rate of growth of GNP of between 6.2 and 8.8%. Industrial growth had been much the faster (18%) and agricultural growth lagged (4.5%)

In subsequent years, particularly as the ideological approach became more important GNP growth fell off. Between 1960 and 1969 there had been growth at the rate of 1% per annum only (this estimate was from a Professor Jones).

He said there had been some interesting commentary on the Chinese economy in some of the Chinese periodicals that he had been reading recently. For instance an article criticising the electronic industry for over-centralism; and another demanding more emphasis on heavy industry.

In the course of this he mentioned that only 11.4% of China was arable land.

WDCClark:sf

OFFICE MEMORANDUM

TO: To Files

DATE: November 26, 1971

FROM: Raymond J. Goodman *RJG*

SUBJECT: Note of a conversation on November 7 in the Okura Hotel, Tokyo, between Mr. McNamara and Mr. Keiki Owada, Secretary General of the Agricultural Administration Research Committee, on the subject of Japanese agriculture and land reform.

Mr. Soejima and I were present in addition to Mr. Ukawa of the Japanese Foreign Office.

Owada: The special characteristics of Japanese agriculture are firstly that the available land is small. In 1970 there were 5.34 m. households. The land area was 5.8 m. hectares so that the average size of holding was only 1.1 hectares. There has been some progress in raising livestock, but the area concerned is still small, being only 250,000 hectares. Small scale agriculture creates a problem, but not because income is necessarily low. The average farm household income in 1970 was \$3,850. However, only some 40% of this, or \$1,400, represented farm income. Nevertheless, \$1,400 from 1.1 hectares is very high; indeed the highest in the world. This year the weather has been rather bad but 1967 was the peak year during which the yield of brown rice per hectare was 4 to 5 tons, about three or four times the average level in South East Asia.

The other characteristic is that the intellectual level of the farmers is high. Almost all are literate. The percentage of their children who graduate from high school is about 85% and some 25% attend college (including junior college). The farm population is decreasing so that some of these children are leaving agriculture. There has been an absolute decline in numbers of about 1.4% per annum. So that we have in Japan small holdings of high productivity farmed by people with a high intellectual level.

I do not foresee an increase of the area under cultivation and it will not be possible to increase farm incomes to levels in the urban areas, which are rising rapidly, because of the small size of holdings.

RSM: What will happen in view of this low income problem. Will Japan abandon the policy of food self-sufficiency?

Owada: There was in 1969 a basic agricultural law, which aimed a) to increase productivity and b) to increase the livelihood of farmers. This was related to some extent to the changing food habits of the Japanese population; for example, a move towards more protein and also vegetables and fruit, which of course means that these products are in greater demand. Another objective is to try and create farm households that would be viable on the basis of farm income alone, but this is difficult. At present some 9% of farm households are solely dependent on farm income, about the same percentage as in

1960, although the absolute number was then higher. In 1967 the percentage increased to 13 owing to the increase in farm prices in that year. Even then incomes were not comparable to the urban level. However, agricultural policy has brought about a surplus of rice but at the cost of a price level twice that of the world price. Up to 1967 Japanese rice prices continued to increase but after that the policy was changed. It seems unlikely that either the recession or the so-called dollar shock will diminish the rate of increase of urban incomes so that the Government can expect continued pressure from the farmers.

As to land reform, this was essentially the result of the occupation but was generally well accepted in Japan. Without it productivity would not have increased and there would have been severe rural and social problems. While the success of land reform could be attributed to the presence of the occupation forces, who were in favour of it, the Japanese Government itself was also positive.

Before the reform 47% of farm land was farmed by tenants who on average gave 50% of the financial return to the landowners. There was no security although in practice tenants were not usually turned off their land. After the reform all land over 1 hectare was bought by the Japanese Government and sold to existing tenants at a price of \$21 per hectare. This was a low price even at that time, when rice was then fetching an average of over \$6 per ton. Landowners were paid in yen bonds with a maturity of 24 years and an interest of 5.5%, but steep inflation rapidly reduced the value of these bonds. Tenants paid 3.6% interest on the money they owed for their land, and the loans were to be repaid over 20 years. Inflation helped them by reducing this burden so that they were in fact able to pay up more quickly. The compensation of the landowners was confiscatory and there were of course many suits brought against the Government by landowners complaining that the purchase price was too low, and even unconstitutional. In 1953 the Supreme Court ruled that it was not unconstitutional, but in 1965 some 1.5 million landowners were given a bonus of some \$30 per hectare each. Under the land reform law some 4.7 million tenants bought land and some 1.75 million landowners were forced to sell. Two thirds of them sold less than half a hectare each and only 6% sold more than 5 hectares, which meant that the landowners were essentially small men themselves. Thus there were many favorable conditions underlying the success of land reform in Japan and some American observers have failed to appreciate this in considering whether Japanese experience could be translated to other countries. In my opinion land reform is necessary in many countries, but what is important economically is not always the same as what is possible politically. Land reform takes time and it is perhaps for this reason that outside Taiwan land reform plans tend to be only paper plans. The approach of experts is usually too radical in view of the close connection between the landowners and those in power. I would propose starting as a first step with a limitation on rents and then ensuring that tenants' rights are respected. A land commission could be set up, which would include tenants, with the responsibility of dealing with the problem and with assistance in training etc. from the authorities.

November 26, 1971

RSM: Would you advocate a tax on holdings above a certain size, in order
a) to increase revenues and b) to make the transfer of large land holdings
that much easier.

Owada: This might be one way of tackling the problem.

cc: Mr. McNamara ✓
Mr. Knapp
Sir Denis Rickett
Mr. Evans
Mr. W. Clark
Mr. Soejima

RJG/am

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MAR 25 2013
WBG ARCHIVES

November 30, 1971
Letter No. 424

Confidential

Mr. William Clark
Director, Information and Public Affairs
International Bank and
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U. S. A.

Dear William:

I am enclosing a translation of the report from the Ministry of Finance archives of the briefing to newsmen by the Finance Minister which followed his conversation with Mr. McNamara.

I am not sure how much it clears up in the confusion of the newspaper accounts after the briefing. But at least we have what the sense of what the Minister understood of his conversation.

This memo is highly confidential, and it was given to us with the understanding that it would not be released --nor do I think we ought to refer to it even indirectly in any future communications that might arise between Mr. McNamara and the Minister, except, of course, for substantive argument that might develop from knowledge of what the Japanese side understood from the conversation.

The italics are mine.

Sincerely yours,

Sol W. Sanders

cc: Mr. McNamara
Mr. Goodman, R.

encl:

SECTION
COMMUNICATIONS
181 DEC -8 PM 3:51

RECEIVED

President has seen

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MAR 23 2013
WBG ARCHIVES

November 30, 1971
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201 W. Sanders

SECTION

COMMUNICATIONS

cc: Mr. McNamara
Mr. Goodman, R.

1971 DEC -6 PM 3:27

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President has seen

Mizuta-McNamara Meeting

Finance Minister Mikio Mizuta held a press conference after his meeting with World Bank President Robert S. McNamara at the Hotel New Otani on Sunday, November 7, and stated as follows: -

1. Contents of the Meeting (explained to the press by Vice-Minister of Finance for International Affairs Takashi Hosomi)

(1) The main subject of talk at the meeting today was what the World Bank should do to cope with the recent changes in the situation in less developed countries, and matters related to the monetary and trade issues were not discussed at all.

(2) President McNamara stated the World Bank's role is to provide the less developed countries with funds obtained from the advanced countries so that the less developed countries can use the funds effectively for development of their own countries and repay their debts with sincerity, and that the Bank's role has produced great results. The President also called attention to the fact that countries like Algeria, Peru and Chile, etc., recently introduced policies to nationalize enterprises or confiscate their assets and stated that the World Bank's role under such a circumstances is becoming a big problem.

Further to this issue, the President stated that it is not a problem for the World Bank alone and that the time will come for Japan, which is giving assistance to less developed countries,

when it must seriously consider how Japan should cope with less developed countries' policies to confiscate assets, etc., which might possibly spread from one country to another in the developing world.

(3) Concerning the China problem, the President stated that although it is obvious some basic solution to the problem must be found in the future, the World Bank has already disbursed \$100 million to Taiwan and another \$200 million has been committed and outstanding. Therefore, it is difficult for the World Bank to start with a clean slate at once and that the World Bank has not reached a decision on this problem. He further stated it is undesirable to confuse the situation unnecessarily, and the World Bank wants to watch developments of the situation a little more.

2. Questions and Answers.

Q. Mr. Minister, what did you tell Mr. McNamara?

A. Since he came here not for talk on any specific issues, I listened to him for the most part.

Q. Did you reach any conclusion on what to do with less developed countries' policies to confiscate assets, etc.?

A. At present, there is a lack of harmony in attitude between the World Bank and various countries with respect to certain aspects of this problem. Our opinion is that we will consult the World Bank thoroughly although this does not necessarily mean that we will fall into step with the World Bank's policy.

Q. Is it not possible for the members of the World Bank to work out a uniform policy toward confiscation policies?

A. Since it is not only a problem between debtor and creditor, but also is related to world politics, it involves matters that cannot be handled by the World Bank alone.

Since loans are given to economically weak countries, they naturally involve many problems. And this problem has been discussed at length by the OECD. It was recently suggested that something like an International Investment Insurance Organization should be established to cope with this problem. It is necessary for Japan to pay prudent attention so that Japan's entry into other countries in the field of development of resources will not clash with nationalism in the host countries. Our country intends to cooperate positively on international issues with other countries.

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RECORD OF FINAL PART OF LUNCHEON CONVERSATION
WITH THE FINANCE MINISTER

November 7, 1971, 12:00 - 14:00

Shogetsutei, Hotel New Otani, Tokyo, Japan

Mr. Mizuta said that the problem of expropriation had come up in his earlier conversation with John Connally and asked what the Bank's attitude is towards expropriation.

Mr. McNamara said that the Bank has a policy which says it will not make loans to countries which have expropriated foreign properties (which they have a perfect right to do) without attempting to negotiate a reasonable settlement on compensation. He also explained that the Bank has always made a distinction between the achievement of the settlement (which might be prevented by many causes) and the attempt to negotiate a compensation settlement. The Bank's ban on lending was only to those who did not try to achieve a settlement. For instance, the Bank had not lent for many years to the Congo (K) until it achieved a settlement with Belgium over the compensation for expropriation of Union Miniere. Similarly, the Bank had not yet resumed loans to Algeria because of her unsettled disputes with France over expropriation. Ditto for Peru, apart from an earthquake loan.

Mr. McNamara went on to emphasize that the Bank had a policy but that it had had to act almost alone without support, e.g., Japan had lent to the Congo; the U.S. had lent to Algeria, at the time when we were enforcing our ban on loans.

Mr. McNamara inquired what other governments will do to support the Bank's policy.

Mr. Mizuta (Finance Minister): stated that the Bank should be a third party standing between expropriator and expropriated and that if the Bank has decided not to make loans there should be a ban to all others.

Mr. McNamara said that he intended to speak to Mr. Watanabe of Asian Development Bank on this issue.

China

Mr. McNamara raised the subject of Chian and said that the Bank had a large sum of undisbursed loans to Taiwan. He queried whether the Bank should continue to disburse or what.

Mr. Mizuta said that it was the most difficult question and that it would take years to get a settlement. In the meanwhile, he suggested that our guidelines should be to keep Taiwan in the Bank as an active member and to bring the Mainland in, also, i.e., status quo should be maintained.

Mr. McNamara agreed that we should delay any confrontation on this issue.

Mr. Mizuta agreed that delay was the best policy. The regime of Chang would remain but as a very minor government. The "one China" solution in the UN would take a long time to fulfill.

Mr. Goodman queried what the Japanese policy would likely be towards Vietnam.

Mr. Mizuta replied that there is no Japanese aid yet apart from humanitarian but that he would like to see more Asian aid to Vietnam through the Asian Development Bank.

He added that Japan needed to beware of its reputation inside East Asia as an aggressor and that its aid must be indirect and multilateral.

Then he asked Mr. McNamara to explain the Nixon policy towards China.

Mr. McNamara explained that the President had considerable opposition even among his ordinary supporters to any policy of bringing China back into the world, and that for that reason he could only pursue his China policy on the basis of two China policy.

On the Minister's recommendation, it was agreed that nothing should be said publicly about discussions on the China issue.

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OFFICE MEMORANDUM

TO: Files

DATE: November 22, 1971

FROM: Raymond J. Goodman *RJG*SUBJECT: JAPAN: Record of Meeting with Foreign Minister

November 7, 16:00 - 17:00.

Foreign Ministry, Tokyo, Japan

Present: IBRD - Mr. McNamara, Mr. Soejima, Mr. Goodman
Foreign Office - Mr. Fukuda, Mr. Sawaki, Mr. Ukawa
(acting as interpreter) and other
officials

Mr. Fukuda said that Japan owed much to the World Bank, particularly in building the New Tokaido Line and various highways which he imagined Mr. McNamara had traveled on during his visit.

Mr. McNamara acknowledged this and said that the World Bank in its turn was heavily indebted to Japan for prepayment of some of these loans and for permission to borrow in the country.

The Minister said that this was no more than Japan should have done in the circumstances. He then turned to the subject of discussion, saying that he had recently attended the U.S. - Japan Ministerial talks in Washington and then toured Europe with the Emperor. He thought it would be useful if he gave some of his impressions of this tour.

Firstly, a common theme running through his discussions with leaders, particularly in Europe, was that now that Japan had become so strong, where was its strength to be directed? There was obviously a question in their minds as to whether or not Japan would eventually turn again to military adventures. He had stressed that this was owing to a complete misunderstanding. Not only was this kind of adventure forbidden in the constitution but there was a very strong national feeling against it. He stressed that Japan wanted to contribute towards world peace, for example by helping the less fortunate countries. His own view was that social security, as he called it, may be more important as a mean of securing world peace than acquiring nuclear weapons. Indeed, the possession of nuclear capacity by the major powers in itself would be a deterrent to war between them. He thought Japan should engage in an experiment towards world peace. He hoped that Mr. McNamara in his talks with leaders whom he met that had this suspicion about Japan's military ambitions, would reassure them.

Secondly, he had suggested that the major problems of Japan at this time were (a) the problem of the students, (b) the question of China, and (c) what role Japan should play in the world economy. European leaders

seemed to feel that the question of students was unimportant and even the question of China was less important in their minds than that of Soviet Russia. So, therefore, their main emphasis seemed to be on the third question, that is the role of Japan in the world economy. In reply to this point, he had stressed that the United States faced major difficulties which must be corrected. The U.S. economy was so huge that somehow or other its stability must be achieved and all its friends would have to contribute. Moreover, solutions must be found soon, certainly before the Presidential campaign of next year. He found a response to this among the European leaders, particularly those of the U.K. and Germany. They particularly agreed that the stability of the U.S. economy was important to their own security because of the need to retain U.S. forces in NATO. The Minister himself felt that these recent difficulties would have to be settled on a multilateral basis but that an informal understanding between the U.S. and Japan would be important. In that connection, he and his colleague the Finance Minister would be seeing a number of U.S. leaders soon in Tokyo, for example, Mr. Connally, Mr. McCracken and others.

Mr. McNamara agreed with the Minister's basic points about Japan's role and its increasing strength. He wanted to make three points:

First, he agreed on the relatively limited value, perhaps the decreasing value, of nuclear weapons. They were also dangerous as they would spread to other countries. Thus, he thought it would be contrary to Japan's interest to go nuclear, but he recognized that this view of the usefulness of nuclear weapons was not accepted by some of America's allies or even some people in the U.S., for example in the Congress. It required constant vigilance by leaders to educate the public.

Secondly, he agreed with the Minister's analysis of the U.S. economy. The soundness of that economy was essential if the economy of the others and their security were to be assured. It would be a pity if America's friends misinterpreted what was going on and particularly the way in which certain things had been done; for example, the recent change of policy on China and the import surcharge. These actions were necessary but America did not wish to harm the interest of others.

Thirdly, he agreed that one element in Japan's economic policy should be the use of resources to assist the less developed countries, in addition to, of course, a necessary increase in social investments at home. He hoped that Japan would not be deflected from this objective by the weakness of others. Indeed, he felt that Japan might take a lead. He knew that Japan had been cautious about taking the initiative but felt that it was quite appropriate now for Japan to do so.

The Minister noted that Japan lagged behind other advanced countries in social investment. It had, in fact, been engaged in wars at 10-year intervals, and as a result of this lag there was some resistance to putting too much into foreign aid. However, he personally felt that the size of Japan

was such that it could only survive in a world of peace and prosperity. As he put it, a very large tree would be more hurt by strong winds than small ones.

Mr. McNamara agreed that this was right. He had been told that before long Japan would be consuming 30% of the world's output of some 10 commodities. The same was true of the U.S.; the latter was consuming 30 to 40% of the world's resources each year, although the population was only 6%. Neither she nor Japan could go on doing this without helping the nations that produce these commodities.

The Minister then asked about Indo-China and the need to reconstruct the area now that the war was dying down. He asked what the World Bank's view was.

Mr. McNamara agreed that we should have to begin thinking about reconstruction and he would be interested in joining with others, including the Asian Development Bank, in a common program. He said, confidentially, that he hoped North Vietnam would become a member of the IMF and the Bank and, of course, the ADB. We had not been active in South Vietnam, partly because of the military activities there, but he was glad we hadn't because this might have affected our ability to help both the North and the South.

The Minister noted that the stability of Indonesia was very important in the world, particularly in this region, and asked what the Bank's views were of that country.

Mr. McNamara said that he felt we were all fortunate to have a group of such able men running the economy and international affairs, and that they were so strongly backed by President Suharto and by the Sultan. He and the Bank were pleased with the progress so far and he was delighted that Japan had been able to match the U.S. in its assistance to Indonesia. He believed that Indonesia could use these funds effectively, for there was no more able leadership anywhere in the world. But we must not fool ourselves that there would be no problems. As people's expectations rose, protests might come from the students as in other countries.

The Minister asked about the Pusri Project and Mr. Goodman gave a brief statement on the status of the project. Mr. McNamara mentioned that the market was growing rapidly and that consideration was now being given to a second fertilizer plant.

Finally, the Minister asked about China, by which he presumably meant the Republic of China.

Mr. McNamara said that we had loan commitments exceeding \$300 million to Taiwan, of which only \$100 million had been disbursed, so there were still \$200 million to go under existing loans and there were others under consideration. He hoped that the Bank could avoid as long as possible discussing the issue of Taiwan's membership formally among its members but he did not know

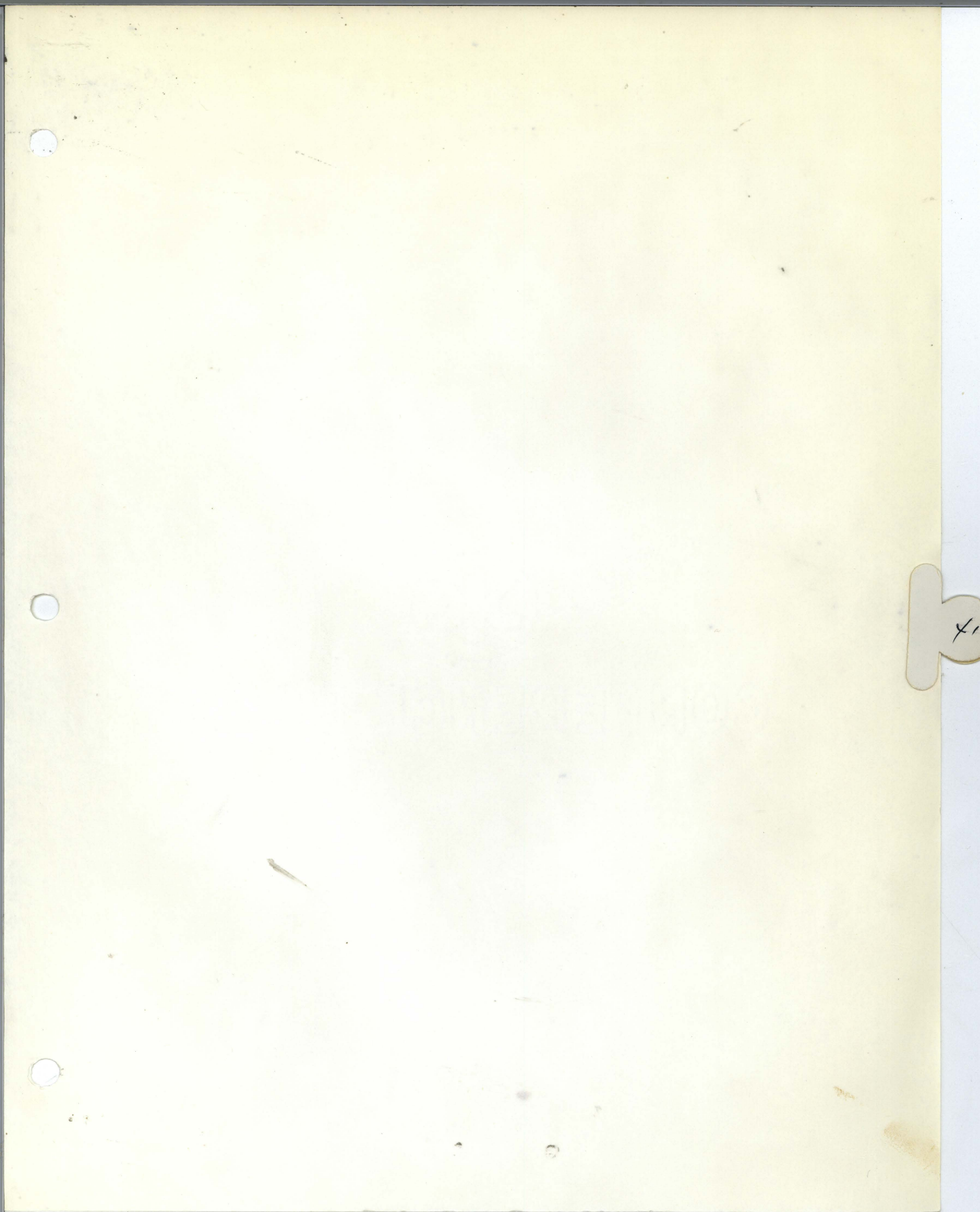
how long we could avoid this. In contrast to the U.N. and some of its specialized agencies, he thought it was by no means clear what action the Bank, the Fund and the Asian Bank could and should take.

The Minister agreed that it was one of his major headaches to try to arrive at a conclusion of what to do on the question of the two Chinas.

The meeting ended at this point.

RJGoodman:br

cc: Messrs. McNamara ✓
Knapp
Rickett
Shoib
W. Clark



MINISTER'S SECRETARIAT
MINISTRY OF EDUCATION

KASUMIGASEKI, CHIYODA-KU
TOKYO, JAPAN

TABLE 3: Enrollment Ratio and Educational Standard

year	enrollment ratio			educational standard			
	primary	secondary	higher	no attendance	1st level	2nd level	3rd level
	%	%	%	%	%	%	%
1885	49.6	0.50	0.64	90.98	8.84	0.08	0.11
1890	48.9	0.38	0.63	84.08	15.65	0.10	0.17
1895	61.2	1.01	0.60	77.96	21.65	0.16	0.23
1900	81.5	2.89	1.00	71.11	28.22	0.38	0.30
1905	95.6	4.02	1.23	62.32	36.51	0.79	0.38
1910	98.1	5.15	1.27	51.15	47.07	1.33	0.48
1915	98.5	6.22	1.53	40.06	57.32	2.04	0.57
1920	99.0	8.31	1.71	30.88	65.49	2.94	0.69
1925	99.4	13.35	3.14	22.40	72.34	4.36	0.90
1930	99.5	15.71	3.75	16.39	76.30	6.10	1.21
1935	99.6	16.34	3.79	11.81	79.06	7.61	1.53
1940	99.6	20.33	4.59	8.17	80.84	9.23	1.75
1945	99.8	--	--	--	--	--	--
1950	99.6	36.89	7.49	2.11	80.70	14.31	2.88
1955	99.8	49.03	9.04	0.88	76.22	18.95	3.95
1960	99.8	55.51	10.39	0.58	70.77	23.67	4.98
1965	99.8	69.96	18.01	0.44	63.25	29.86	6.45

1. enrollment ratio: in relevant age group,
2. educational standard: in workable population
(15 - 65 of age)
3. average enrollment ratios of developing countries
in Asia in 1963: (comparable years of Japan)
primary level: 1892, secondary level: 1909,
higher level: 1928.

MINISTER'S SECRETARIAT
MINISTRY OF EDUCATION

KASUMIGASEKI, CHIYODA-KU
TOKYO, JAPAN

TABLE 1: Hypothetical Contribution of Educational Investment to Economic Growth

year	national income	employed population	material capital	stock of educational investment
1905	100	100	100	100
1917	168	104	147	236
1930	335	115	398	600
1955	594	153	374	1731
1960	979	171	686	2286

TABLE 2: Basic Statistics on Population and Education

year	population (million)	workable population (million)	ratio of primary sector (%)	national income per capita (US \$)	ratio of educational expenditure to N.I.(%)
1885	38.4	23.8	79.2	61.0	1.80
1890	40.1	24.5	76.1	83.5	1.09
1895	41.9	25.6	73.1	101	1.17
1900	44.2	26.6	69.9	115	2.05
1905	46.9	27.8	66.5	104	2.03
1910	49.7	28.8	63.0	125	3.01
1915	53.3	30.7	59.2	152	2.47
1920	56.1	32.6	54.4	176	2.62
1925	59.8	34.8	52.0	204	3.60
1930	64.2	37.8	49.4	206	4.39
1935	68.7	40.5	43.5	265	3.68
1940	71.4	42.1	44.0	283	2.54
1945	72.2	---	---	---	---
1950	83.2	49.7	48.3	205	5.14
1955	89.3	54.7	41.1	302	6.09
1960	93.4	60.0	32.5	483	5.78
1965	98.3	66.9	25.5	708	7.13

(US \$: 1965 price)

OFFICE MEMORANDUM

TO: Mr. Raymond Goodman

DATE: November 26, 1971

FROM: William Clark *WC*

SUBJECT: Conversation with Mr. Kikuo Nishida, Secretary-
General of the Japanese National Commission for
Unesco - 7 Nov. 1971

The Major characteristics of Educational Development in Japan.

A. Ecological and Historical Backgrounds of the People:

1. Changeable climate; inimical, soothing and threatening makes for a very hard working people.
2. High density of population on small islands.
3. Unity of nation since the 3rd Century; homogeneity, innocence, (i.e. not anti-foreign) curiosity and potentiality fostered under feudal system.
4. National crisis of independence in 1850's. This led to a very active policy of development.

B. Administrative Strategies for Modernization by Education:

1. Top priority to universal primary education and teacher training; only one university for training national leaders, and this university was given preference over degrees from Harvard, Oxford etc.
2. Emphasis on acquiring practical knowledges and skills, e.g. Tokyo University is primarily for engineering.
3. Strong Leadership of central Government.
4. Providing educated youngsters with utilitarian incentives.

C. Merits and Demerits of These Traditions:

1. Drastic changes in social structure by eliminating social classes dominated through several centuries; the merchants who had been the lowest caste were now given a reputable place in society.
2. Mobilizing well motivated human talents from middle and lower classes by creating chances for free competition (compare the situation in India).
3. Nominal eagerness for school career as a passport to society.
4. Lack of voluntariness, expecting governmental leaderships with some suspicions against them, hence the fascist movement of the '30's which was unsuccessful and brought to a final end by the collapse in World War II.

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OFFICE MEMORANDUM

TO: Mr. Raymond Goodman

DATE: November 26, 1971

FROM: William Clark *W*

SUBJECT: Conversation with Mr. Akio Morita
President, Sony Corporation *NOV. 7, 1971*

Mr. Morita began by saying that Sony had started with a very small capital of about \$500, which had grown in 25 years to 500 million dollars.

New products were the basis of their success, rather than the imitation of old or European or American products which had been the basis of most Japanese industry.

Most Japanese businesses were very old fashioned and imitative, he had attempted to encourage an opportunity for the young in Sony.

The real problem was the lack of a market for their electronic goods, e.g. television. For this reason they were looking around in the LDC.s. Mr. Morita went to great length to explain an idea he had had for sending a television set round on a Toyota jeep to give educational programs played from an electronic record of television which went with the set (I mentioned that he had talked to me five years ago about this, when he was just beginning it and asked him whether it had been successful). He was wildly enthusiastic about its success in many very under-developed countries. Mr. McNamara asked what advantages such a television set would have over conventional television if electricity were available; or indeed what advantages it would have over film. Mr. Morita said that if electricity were present there was no great advantage in this complicated system.

He went on to answer a question of what was meant by collective decisions in management. Apparently a group of five or six met for a whole morning once a week and had complete freedom to criticise the suggestions put forward as policy by the various department heads. It did not appear to me that this was a way of initiating ideas, but rather of weeding them out should anyone be making foolish decisions. Mr. Morita said that each of the five or six people was a generalist and was speaking from a generalist point of view not as the expert on sales, or production. In this way he felt that the industry was managed as a whole without undue emphasis on one aspect.

He went on to say that one of the advantages of the habit of a lifetime of service in one company was that people were prepared to take long-term decisions even though they would not bear immediate fruit. He said for instance he had refused to get into the Colour T.V. market in America at the beginning because he had not completed his research into the Sony method of colour television. Everyone told him that if he missed the beginning of the market he would never get in. In fact they had done so two years late, and now had got a major share of the market.

WDC:ark:sf