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McNamara Papers

Travel
June 4

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REFERENCE MATERIAL

Political

POLITICAL SCENE

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 5, 1978

FROM: Tarao Maeda T.M.

Letter No. 86

SUBJECT: Most recent information

1. Political Scene

Prime Minister Fukuda was able to overcome one of his most serious political challenges by opening Narita Airport. He now faces another controversial issue, the resumption of negotiations with China on a peace treaty including an "antihegemony clause." He recently decided to resume the negotiations at the earliest possible time despite strong opposition from rightists in his Liberal Democratic Party. He intends to, if possible, submit the agreement to the extraordinary Diet session for ratification this fall.

As to the Summit talks in July, government officials expect that, as far as the North-South issue is concerned, Japan will be criticized for her poor aid performance in 1977; however, the officials do not yet know figures from other OECD countries.

2. Economics

Recent economic data have been encouraging:

(a) GNP rose 2.4% in real terms over the January-March period compared to the previous quarter. It was the sharpest quarterly increase since a 3.4% leap in the first quarter of 1973. Leading this solid growth were consumer spending with 2.1%, government fixed investment with 2.4% and exports with 7.5%. The 2.4% quarterly growth was equivalent to an annual rate of 10%, which means that GNP will grow at 7% in FY1978 if it would gain 1.75% each in the coming four quarters.

GNP growth in FY1977 thus increased to 5.4% in real terms, slightly better than the governments estimate of 5.3%.1/

(b) Industrial production in FY1977 increased by 3.2%, 0.6% more than originally estimated by the government;

(c) Consumer prices increased by only 3.9% over the period April '77-'78, the lowest rate since October 1972; [In Tokyo, prices increased by 4.3% on an annual basis in May, the fifth consecutive month with an increase of less than 5%.] and

(d) Department store sales indicated a slow but steady growth of personal consumption this year, increasing by monthly 3.4%, 4.7%, 5.6%, and 6.2% respectively over the period January-April.

1/ The updated figures for FY1977 are in Tables I and III.

Minister Miyazawa recently again emphasized that :

(i) the GNP growth rate of 7% for FY1978 will be achieved; and

(ii) the balance of payments' current account surplus will be reduced to some degree. Export growth will decline because of the appreciation of the yen and administrative control measures, but import growth is not expected to increase much (at May 31, Japan's foreign exchange reserves amounted to $27.7 billion).

However, private forecasters still doubt that the 7% target will be achieved. Although some research agencies have slightly upgraded their growth estimates, these still range around 5% (Nikko increased its estimate from 5.1% to 5.3% and Nomura from 4.6% to 5.4%). In addition, the unemployment rate increased in April to 2.20%, the highest since August 1959.

3. Financial Operations

The Asian Development Bank has decided to float a bond issue in Tokyo. The issue in June will amount to ¥15 billion, with an interest rate of 6.3%, a price of 99.75, and a maturity of 15 years (12.3 years on average).

cc: Mr. William Clark

Attachments

Table I (updated)

JAPAN: BASIC ECONOMIC DATA

	FY72	FY73	FY74	FY75	FY76	FY77	FY78*
Economic Growth Rate (Real)	9.8%	6.4%	-0.2%	3.4%	5.7%	5.4%	7.0%
Growth Rate of Government Fixed Capital Formation (Real)	12.9%	-8.4%	2.2%	7.8%	1.1%	15.9%	16.2%
Growth Rate of Private Equipment Investment (Real)	8.4%	13.9%	-14.5%	-9.3%	5.4%	1.0%	6.7%
Balance of Current Account ($ Billion)	6.2	-3.9	-2.3	0.1	4.7	14.1	6.0
Foreign Exchange Reserves ($ Million)	18,125	12,426	14,152	14,182	16,997	29,208	-
Wholesale Prices Increase	3.2%	22.6%	23.4%	2.1%	5.8%	0.4%	2.7%
Consumer Price Increase	4.5%	11.7%	24.5%	11.8%	9.3%	6.7%	6.8%
Wage Increase Rate (Nominal)	16.5%	21.9%	29.1%	12.4%	12.1%	6.1%*	-
Unemployment Rate	1.4%	1.3%	1.5%	1.9%	-2.0%	2.1%	-
Mining & Manufacturing Index Increase	10.1%	12.4%	-9.7%	-4.4%	10.8%	3.2%	6.8%

* Government estimates

Table III
(updated)

Forecast of Economic Growth Rate for FY78
(Growth rate in real terms)

	FY76 Actual (¥billion)	FY77 Actual	Economic Planning Agency FY78 Forecast	Japan Economic Research Center FY78 Forecast	Keidanren FY78 Forecast	Nikko Research Center FY78 Forecast	Nomura Research Center FY78 Forecast	Mitsubishi Research Center FY78 Forecast	Industrial Bank of Japan FY78 Forecast
Private Consumption	96,173(3.9%)	3.6%	5.3%	3.6%	4.9%	4.5%	5.1%	4.2%	3.6%
Private Fixed Investment	34,961(4.2%)	1.6	-	3.7	-	4.2	1.4	-	-
Housing	12,284(1.6%)	2.8	9.8	7.3	12.4	6.5	6.4	1.4	6.3
Equipment	22,677(5.4%)	1.0	6.7	2.1	5.0	3.2	1.4	0.4	1.5
Government Current Expenditure	18,422(2.8%)	4.5	5.7	3.3	4.1	4.4	4.0	3.4	4.5
Government Fixed Assets Formation	14,926(1.1%)	15.9	16.2	15.6	21.1	18.4	21.2	18.8	16.0
Ir[illegible]ease in I[illegible]ventory	3,258(47.6%)	0.04	21.3	1.1	18.8	26.3	-11.9	-16.1	15.6
Total Doemstic Demand	167,739(4.2%)	4.3	7.4	4.8	-	6.3	5.9	-	-
Overseas Current Surplus	1,470(40.2%)	25.8	-	1.2	-9.9	-10.1	-3.2	-	-
Exports	24,578(17.4%)	8.5	2.9	1.6	1.2	-1.5	-0.2	0.9	1.4
Imports	23,108(9.4%)	0.7	4.2	1.9	6.8	3.3	1.6	2.7	6.0
GNP	169,209(5.7%)	5.4	7.0	4.6	6.5	5.3	5.4	4.1	4.5
Reference:									
Current account of BOP (in $billion)	4.7	14.1	6.0	8.6	9.0	10.5	17.1	10.0	
Consumer price index(%)	9.3	6.7	6.8	6.8	6.0	5.0	4.3	5.8	

Tokyo Office
May 18, 1978

POLITICAL SCENE

Present Situation and Prospects

Prime Minister Fukuda's visit to the U.S. is not regarded as a "failure" in general. Although no concrete agreement has come out, the consensus is ~~that~~ he was able to alleviate the Japan-U.S. trade frictions, even if temporarily. Also, the very fact that the head of the two states with the strongest economies met to frankly exchange their views on issues of the world trade, currencies, development assistance, etc, and to come to mutual understanding on ways to further the world peace and prosperity was commended. However, the consensus now hold it Mr. Fukuda's political responsibility to attain the pledges he made--on the 7% economic growth rate for FY78 and doubling ODA in the next three years --in order to avoide the repeated worldwide criticism against Japan as a dishonest and unreliable partner.

Mr. Fukuda's U.S. visit, however, has had no effect on his own popularity among the Japanese public and within the LDP itself. Their primary concern is how soon the Japanese economy could recover from the recession. (A public opinion poll by a leading newspaper before Mr. Fukuda's visit to the U.S. showed the lowest popularity for him since he had taken over from Mr. Miki at the end of 1976. The visit was not likely to improve the profile.)

The most important political issue is, whether Mr. Fukuda can be re-elected as the President of the LDP at its convention to be held at the end of this year. In view of the fact that the LDP majority currently is in favor of Mr. Ohira, Mr. Fukuda is trying to catch every opportunity to seek cooperation from Mr. Ohira. The second chance left for his survival would be to dissolve the Diet and hold the general election this fall. But this option is only possible if the economic recovery becomes clear by that time. With some signs of the economy taking an upturn, the opposition parties also are preparing for a possible election.

Therefore, his political life depends heavily on how quickly the economy will indicate the sign of recovery and enable attainment of the 7% growth target for FY78.

On the other hand, the oppositions will request a supplementary budget along with about a ¥1 trillion income tax cut at the extraordinary Diet session of this fall, if the economy will not show a firm sign of recovery by then. This fall will be the critical time in determining the future political course.

The current Diet session will be extended by 30 days until June 16 in order to enact laws enforcing the Japan-Korea Continental Shelf Treaty which was approved in the previous session. The IBRD Selective Capital Increase and the IFC Capital Increase bills have passed the Lower House and are pending in the Upper House for deliberations. However, we have no concern for their enactment.

Political Attitude towards the Bank Group

There has not been any objections among all political parties, except for the Communist Party, on capital increase or replenishments for the Bank Group. This support will continue.

They are all eager to increase Japan's aid through preferably multilateral channels which, in their view, are more "clean and fair". However, the political consensus also demands that Japan's share in those agencies should be commensurate to Japan's economic strength. As you well know, an accessory resolution was attached when IDA V Replenishment Bill was passed through the Diet last year, calling for the efforts of the Japanese Government to increase Japan's shares in the Bank and Fund so that they reflect more fairly Japan's economic position in the world. A similar accessory resolution was also attached to the recent IBRD Capital Increase Bill which passed the Lower House last month.

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FORM No. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP	Date May 19, 1978

NAME	ROOM NO.
Mr. McNamara	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

You will find these papers interesting. I would rather that they not be copied. Could we have a word about it next week?

From I.P.M. Cargill

Mr. Cargill May 17, 1978

1. I was puzzled by the coolness of senior Finance Ministry officials to Mr. Carter's request to Mr. Fukuda for increased Japanese cofinancing with the World Bank. Matsukawa, Sagami, Dan and Fujioka all expressed satisfaction that Mr. Fukuda replied that Japan would consider it on a case-by-case basis, with no commitment on the volume or time span. Since it is inconceivable that the Ministry is opposed to increased cofinancing itself, there must be some reason for this attitude. Three interpretations are possible:

- Finance Ministry resentment to Foreign Minister intrusion into the multilateral aid field which is traditionally under the jurisdiction of the Finance Ministry.

- Aversion to a definite commitment on volume or timing.

- The existence of a more ambitious cooperative program under study.

2. Although it is clear that the first and second items played their part, they do not seem to provide a full explanation to this curious attitude. Mr. Sagami's comments therefore seem to be significant.

First, I should warn you that Sagami is not directly involved in aid problems at present. As Director-General of the Minister's Office he handles senior personnel problems. Secondly, neither Matsukawa nor Dan made any allusions to a special cooperative program. Finally Sagami is not exactly the most cautious and taciturn bureaucrat. It is possible that Sagami was speaking for himself not for the Ministry.

However, Japan has yet to come up with her program for the special action decided at the North-South Conference. As you know studies are under way in the Finance Ministry for a farm input grant through IDA. Further, Sagami is expected to become Vice Minister for International Finance. It is quite possible that the present senior staff at the International Finance Bureau do not feel free to mention the study because of imminent changes of Ministry senior staff.

3. Mrs. Atsumi told me that the Ministry officials opposed Mr. Hussein's accompanying Mr. McNamara because a cofinancing negotiation of $15 million for Vietnam would downgrade Mr. McNamara's visit. This seems significant. It is possible that the Ministry is planning to use Mr. McNamara's visit as the basis for a more comprehensive cooperative program to be announced later. If this is so, the Ministry would certainly desire that the discussions during the visit be kept on a high "statesman" (in the Japanese context "vague"), without any concrete negotiations on cofinancing.

4. I am meeting Mr. Kakimizu (K. Watanabe's successor; a budget man) later this week. I hope I will find confirmation that the above is not just wishful thinking on my part.

5. I understand that the Imperial audience for Mr. McNamara was Sagami's idea.

Hattori

CONFIDENTIAL

TO: Mr. I. P. M. Cargill

FROM: Mr. Hattori

MEETINGS WITH JAPANESE FINANCE MINISTRY OFFICIALS

The attached is a summary of impressions gained through courtesy calls on senior officials of the Ministry of Finance. I also attach a Who's Who and a Who'll be Who of the persons met.

I am seeing Messrs. Kiichi Watanabe and his successor, Mr. Kakimizu later this week.

WHO'S WHO AND WHO'LL BE WHO

MATSUKAWA	- Vice Minister for International Finance to retire June/July to become Advisor to the Minister
SAGAMI	- Director-General of the Minister's Office to succeed Matsukawa as Vice Minister
DAN	- Director General, International Finance Bureau to retire June/July
MIYAZAKI	- Senior Deputy Director General, IFB strongest candidate for Director General
SAKAI	- Director, General Affairs, IFB
HIRAO	- Deputy Director General, IFB (exchange)
WATANABE (TOYOKI)	- New Director General, Securities Bureau
GYOTEN	- Director, Research, IFB
KAKIMIZU	- Deputy Director General, IFB (aid)
WATANABE (KIICHI)	- Deputy Director General, Banking Bureau to become a Director General (possibly the Minister's Office Tax Bureau) of the Economic Planning Agency - a most prestigious post, or ; at the Finance Ministry,

CONFIDENTIAL

MEETINGS WITH JAPANESE FINANCE MINISTRY OFFICIALS

1. Decision to increase aid

The Initiative to increase aid came from the Budget Bureau (Matsukawa, Sagami, Fujioka). This dramatic reversal of the Bureau's traditional reticence to aid may be due in part to the personal philosophy of the new Director General, Mr. Nagaoka. The thinking behind this initiative seems to be as follows:

- The Ministry fully recognizes the necessity to reflate the economy and to reduce the balance of payments surplus. They are not entirely convinced that reflation by itself will lead to larger imports and a better current account balance. Equipment investment is not likely to increase significantly in view of the existence of large excess capacity in almost every field; although the inventories situation has improved somewhat, the levels are still very high; increased wage payments may not translate into increased consumer spending for goods because of the encumberment of living space. Therefore a better current account balance can be achieved only through a reorganization of the Japanese industrial production, concentrating on lines with comparative advantage while phasing out those in non-competitive fields (to be replaced by imports).

- In spite of the measures taken to discourage inflows of short-term capital, the Ministry seems resigned to some inflows reflecting the make-up of non-resident yen balances up to desired levels.

- Japan will therefore continue to be a capital surplus country. It is Japan's responsibility to take measures to re-cycle that surplus. Japan's dependence on the goodwill of the outside world and its immense stake in the continuation of a free multilateral trade and payments system require a commensurate effort on its part to discharge those responsibilities.

- Japan should:

    (1) Open its capital markets to foreign borrowers

    (2) Increase its aid

    (3) Actively support international financial institutions that serve the cause of a free multilateral system of exchange and payments.

2. Financial support of the World Bank

(1) Borrowings

The World Bank will continue to enjoy privileged treatment in its yen market issues. Everybody was positive on this point. However,

- Mr. Toyoki Watanabe, the new Director General of the Securities Bureau, cautioned against too much reliance on the opinion of underwriters who had a natural interest in large issues and who tended to be over-optimistic.

  World Bank issues performed a very useful function as price leaders in the Japanese bond market, and it would be embarrassing if an issue should be undersubscribed or be traded at a discount shortly after closing.

- He also expected the World Bank to adopt an attitude in the management of its investments commensurate with its responsibilities as a very large international institution, partly owned by the Japanese government.

  Although the Ministry had managed to bring about some "normalization" in the structure of interest rates, there remained some downward rigidities that prevented rates on certain instruments to fall to the level indicated by domestic and foreign economic factors. Too aggressive action by the World Bank could cause undesirable disturbances in the market.

- Messrs. Miyazaki, Sakai, and Fujioka confirmed that requests for IBRD borrowing would be considered favorably. They did express their doubts about the overall size of the Bank's borrowing programs, and the level of liquidity. They thought that it was dangerous for the World Bank to manage its currency assets in an over-aggressive fashion. If it became known that the Bank earned on its investments in Japan a return higher than its borrowing costs, embarrassing questions could be raised in the Diet or in the press that could erode the political and popular support of the Bank in Japan.

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- They reiterated the policy of requiring the early export of borrowing proceeds. They claimed that the borrowings were authorized to finance certain payments, and not to finance higher yen holdings by the borrowers. They stated that the rule was applied much more flexibly in the case of the World Bank. A time limit for export of the proceeds was not and would not be insisted on.

But the restrictions on investments would continue.

- They expressed the hope that the World Bank would cooperate in the field of loan repayments also. They hoped that the World Bank would keep yen out on loan as long as possible.

Messrs. Matsukawa, Miyazaki, Sakai and Fujioka were sympathetic to the complaints of Bank borrowers about the selection of currencies for disbursement and the high interest rate on hard currencies. They wondered whether differential rates could not be charged by the currency of disbursement, or whether individual disbursements could not be made in a rough mix of the four or five principal currencies borrowed. They also asked whether it would help if Japan lent U.S. dollars to the IBRD.

(2) Capital increase and IDA-6

The Ministry seems very much supportive of the IBRD capital increase and IDA-6 replenishment. They expressed the hope that Japan's share of voting rights would be increased. I was unable to form a clear idea whether "harmonization (with IMF)" would be a major issue.

3. Political support of the Bank

As stated above, there is a growing realization of Japan's dependence on the continuation of a free system of multilateral exchange and payments, as well as a sense that its continuation cannot be taken for granted. They see the World Bank as one of the pillars of the system. Further, they entertain serious doubts about the efficacy of incremental bilateral aid to the LDCs. In this sense, the Ministry will become much more active in its political support of the World Bank. This does not mean uncritical support. Rather, it means more active participation in policy discussions so that World Bank actions will be in conformity with the principles of its Charter and relevant to the needs of the LDCs. The desire for an increased Japanese voice is no longer for prestige reasons; it is for a more effective voice in the Bank's policy formulation~~s~~.

As Mr. Gyoten said, the current feeling in the Ministry seems to be that "the days are past when Japan could discharge its responsibilities by increasing its financial support alone; now, Japan has to assume its responsibilities in the direction of the Bank."

4. I was pleasantly surprised to hear the senior officials

express their strong support of the Management's efforts to keep political considerations out of the Bank. In the past, the Ministry seemed divided on the issue of Bank staff compensation. This time they seemed unanimous in their opposition to the attempts to put a ceiling on the salaries of senior staff and technical experts. It is interesting to note that their concern is limited to key personnel and does not extend to staff compensation in general. Some said that it was possible that the lower levels were over-staffed and overpaid.

It appears that the recent U.S. attacks on the Bank have provoked genuine concern in the Ministry, and triggered a determination to assume a positive role in the defense and support of the Bank.

Economic

ECONOMIC SITUATION AND PROSPECTS

Tokyo Office
May 12, 1978

ECONOMIC SITUATION AND PROSPECTS

Although the government has projected that Japan's GNP would increase by 7% in real terms in FY78, many private forecasters doubt it. However, a high growth rate will be essential (i) to increase domestic demand and thereby cut the substantial current account surplus with, and criticism from, the U. S. and EEC; (ii) to prevent more bankruptcies and alleviate growing unemployment:

Economic Situation

Japan's economy was greatly affected by the "oil shock" and experienced, like most industrialized countries' economies (i) a high rate of inflation; (ii) a severe recession; and (iii) a serious disequilibrium in the balance of payments.

(i) Inflation

Inflation became a major issue with wholesale prices and consumer prices increasing by respecitvely 22.6% and 11.7% in FY73, and 23.4% and 24.5% in FY74. However, the government quickly reduced inflation to below 10% through fiscal and monetary policies to "curb aggregate demand".1/ It did not increase public works expenditures in its FY74 and 75 budgets, and increased the official discount rate from 4.25% in 1972 to 9.0% in 1973. It also restricted on foreign exchange transactions considerably.

(ii) Recession

The government's "aggregate demand control" policy, however, prolonged the recession. Although Japan did better than most other industrialized countries, its GNP growth in real terms fell far below its "normal annual rate of 10%"; it decreased by 0.2% in FY74, and increased by only 3.4% in FY75, 5.7% in FY76, and about 5% in FY77.

These lower than expected growth rates resulted in a wide supply-demand gap causing declining corporate profits and an increasing number of business failures and unemployment. This has seriously affected small and medium-scale industries, and has started to affect large-scale industries. Among the seriously affected smaller-scale industries are metal tableware, accoustic equipment, toys, chinaware, carpets, steel materials, and light electrical appliances. The larger affected industries are steel, non-ferrous metal, paper and pulp, shipbuilding. The recession has also affected employment; unemployment reached 1.41 million, or 2.12%, in March, the third highest figure on record (except for March 1956 and March 1959).

1/ Japan's basic economic data covering FY72-FY78 are in Table I.

As a result of the continuing economic recession, the government switched its policy from restricting to stimulating the aggregate demand. It incorporated in its FY76 budget a 21.2% increase in public works expenditures, and subsequently approved a large supplementary budget. The FY77 budget also incorporated a 21.4% increase in public works expenditures, and was followed by two supplementary budgets (¥2 trillion in October and ¥1.3 trillion in January) to further stimulate domestic demand. Also in its FY78 budget, the government allocated a 34.5% increase in public works expenditures. These substantial increases resulted in huge budgetary deficits in FYs76, 77, and 78; 29.9% of the FY76 and FY77 budgets was financed through the issue of bonds, and 32.5% of the FY78 budget is expected to be financed similarly. This high degree of reliance on deficit financing is, except during the war, unprecedented in Japan. In addition to these fiscal measures, the government also lowered the Bank of Japan's official discount rate eight times since April 1975; it is now set at 3.5%, the third lowest among the industrialized countries. These measures have resulted in some improvements. For three consecutive months, increases have been recorded in the mining and manufacturing production and inventory adjustment has progressed.

(iii) Balance of Payments

The "oil shock" also revised Japan's customary balance of payments surpluses into deficits in FYs73, 74, and 75.2/ However, the government's "aggregate demand control" policy resulted in reduced growth of imports. Japanese firms also strengthened their export drives to maintain their traditionally high level of production. In addition, exports increased rapidly due to (i) the economic recovery of especially the U. S., and (ii) the "relatively cheap" yen, which stayed at around ¥300 per US dollar from early 1974 to early 1977. Commercial banks borrowed heavily from abroad during the same period, and the outflow of long-term capital was very much restricted until the fall of 1976. As a result, Japan's FY76 balance of payments again showed a current account surplus of $4.7 billion and an overall surplus of $3.3 billion.

However, the situation became too favorable for Japan. The overall balance of payments for FY77 showed a surplus of $12,126 million. The current account registered a surplus of $14,130 million; the trade balance a surplus of $20,571 million ($83,225 million in exports and $62,654 million in imports). The yen exchange rate also increased from ¥293 per dollar in early 1977 to ¥220-225 at present. As a result, Japan's international reserves increased from $17.0 billion on March 31, 1977 to $29.2 billion as of March 31, 1978.

Economic Prospects, Short-Term

To contribute a "fair share" to the world economic recovery and to reduce Japan's current account surplus, the government has projected that Japan's GNP would increase by 7% in real terms in FY78 and Japan's current account surplus in FY78 would be reduced to $6 billion. However, the government has unofficially changed the forecast. A surplus of $10 billion would be the best estimate. But

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2/ Japan's balance of payments data covering FY72-FY78 are in Table II.

Mr. Fukuda still hopes to achieve his 7% growth target by sharply increasing public works spending, especially during the first half of FY78, and having the private sector take over the momentum in the second half. Japan's FY78 GNP of ¥210,600 billion would be obtained by, in real terms, 5.3% growth in personal consumption, 9.8% growth in private housing investment, 6.7% growth in private plant and equipment investment, 21.3% growth in private inventory investment, and 16.2% growth in government fixed asset formation. Exports would grow by 2.9% and imports by 4.2%. The unemployment rate would stay at about 2%, and consumer prices would increase by 6.8%.3/

Major private research organizations, however, take a dim view of the 7% target in spite of the government's huge public works program. Their projections range from 4.1% to 6.5%. Even though the private organizations agree that the expansion of the public works program will have a positive impact on the economy, final demand is projected to remain relatively stagnant because of sluggish personal consumption, export constraints, and inactive private investment. Inventory adjustment would be prolonged until late 1978.4/ An only 4-5% growth rate, however, would prevent any considerable increase in imports, thereby perpetuating the critical trade problem with the U. S. and EEC and accumulation of foreign exchange. It also would increase, directly and indirectly, the already high number of business failures and the number of unemployed.

To cope with the above, the government has now accepted an economic stimulation plan calling for accelerated public works spending, reduced interest rates, encouragement of housing construction, more private capital spending, and relief for industries with structural problems. This would facilitate import growth, create jobs in depressed industries, and help small businesses. The government also decided to (i) establish a new long-term emergency dollar import-lending system in the Ex-Im Bank (at normally 6% for 3-10 years); (ii) study the promotion of importing commercial aircraft; (iii) study the possibility of government loans for importing aircraft and leasing such aircraft to developing countries; (iv) store up to 5 million kilolitres of oil in oil-tankers; and (v) promote stockpiling of key raw materials, including nickel, iron ore, and uranium.

However, most outsiders (and also insiders) are skeptical about whether these measures will be able to bridge the gap between a 5% for FY77 and a 7% for FY78 growth of GNP and to lower the current account surplus, as announced officially, by at least $4 billion. Although the greatly increased public works program will be helpful in adjusting private business inventories, plant and equipment investment and consumer's spending are still expected to remain sluggish. Consumer-spending will also be negatively affected by the outcome of the "spring wage offensive", which is probably going to result in an increase of 5-6% on average this year, compared to about 9% last year and two years ago. Many view that a way out for the government may be another substantial supplementary budget for FY78 and a major income tax cut.

3/ Forecast of economic growth rate for FY78 are in Table III.

4/ Background information on FY78 projections is in the Attachment.

Long-Term

In May 1976, the government approved an "Economic Plan for the Second Half of the 1970s - Toward a Stable Society." The plan describes the government's intention to achieve a moderate stable economic growth over the medium term by overcoming the recession and controlling the inflation. The plan also specifies measures to cope with frictions expected from the decelerating growth rate.

The plan sets as its main target about 6% average annual growth rate in real terms over the period FY76-80. In this context, the plan aims at (i) lowering the rate of unemployment from 1.9% in FY75 to 1.3% in FY80; (ii) eliminating the budgetary deficit by FY79/80; (iii) raising the ratio of tax and other payments to GNP by about 3%, thereby attaining a more equal burden distribution; (iv) reducing the consumer price inflation to 6% and wholesale price inflation to 4% per annum; and (v) achieving a current account surplus of $4 billion and a basic balance equilibrium by FY80.5/

The plan was drafted three years ago. Although it still represents the government's official directions, it was recently somewhat adjusted, on the basis of a more up-to-date information, by the Prime Minister's Advisory Council on Economic Affairs. The Council gave tentatively revised data for FY80 and FY82, showing the same overall growth rate, but assuming that, because of the sizable public works expenditures, a fiscal equilibrium could only be achieved after a substantial increase in taxation by FY82 instead of FY80.6/

The plan also indicates the adjustments necessary for structurally depressed industries, including those affected by the oil price increase, by strucural over-capacity, by competition from low-wage developing countries, and by the recent appreciation of the yen. It suggests that Japan's industry should focus upon industrial machinery, computers, precision machinery, construction, and services.

Another propelling change in the Japanese economy over the course of a few years will be internationalization. The blow dealt to export industries by the excessive upsurge of the yen rate has been a valuable lesson and the pressing need of international cooperation has become more strongly recognized as a result. In the face of the industrial countries as a whole recording current account deficits, Japan will place greater efforts in reducing the surplus. Long-term capital outflows are expected to increase and further import liberalization are bound to take place over the next few years.

5/ In reviewing these data, one should note that Japan's economic development plans are never rigid guidelines, but only provide the basic (consensus) direction to be followed by the government.

6/ Provisional estimates as adjusted are in Table IV.

ATTACHMENT

BACKGROUND INFORMATION ON FY78 PROJECTIONS

1. Personal consumption and private housing investments (which account for about 53% and 7% of Japan's GNP) are expected to stay sluggish, because of consumers' uncertainty about employment and income prospects. Unemployment reached 1.41 million persons, or 2.12% in March 1978, and the spring wage increase is estimated to be less than an average 6%. Despite much low consumer price increase (4.5% in March 1978 over a year ago), mainly because of the yen appreciation, fear of a decrease in real income prevents an increase in personal consumption. Private housing investments, are also expected to be limited, despite the relative stability of land prices and construction costs, and easier access to housing loans.

2. Investment in plant and equipment is not expected to recover significantly. The overall industrial capacity utilization was estimated at only around 80% in December 1977, and the pre-tax profits of major corporations in the first half (April - September) of FY77 at 88% of the profits in the first half of FY73. The profit gap has continued to widen among different industries. Pre-tax profits of electric power, automobile, and petroleum refining industries registered a 100% - 200% increase over the previous peaks, and pre-tax profits of department stores and food products, and electric appliance industries also exceeded their peak levels. In sharp contrast, pre-tax profits of the steel industry declined to less than 10% while the textile, non-ferrous metal, and shipping industries showed deficits. Although the lower rates of interest, the declining costs of imported materials, and the likely to be moderate wage increases this year will contribute to improving corporate earnings, it will still take time before private business as a whole will embark upon new production expansion projects. This year, only the electric power industry is expected to make substantial investments.

3. The prospects for inventory investments are somewhat brighter. Inventory adjustment has progressed, especially in industries related to public works and electric power. However, the inventory ratio is still high in industries, such as nonferrous metal, paper and pulp, color TV and stereo, agricultural machinery, and petroleum products.

4. The government's FY78 budget, with its 34.5% increase in the public works allocation, is expected to have a considerable effect on generating domestic demand. However, there are three major constraints: (i) the still high inventory level and low capacity utilization; (ii) the cautious consumer attitude (any additional income may very well be saved instead), and (iii) the changing composition of government investment. With more investments related to the living environment (for mainly the purchase of land and less to the purchase of raw materials and related items) will decrease the multiplier effect.

5. The reduction of the current account surplus should primarily be achieved by means of increased imports through domestic economic recovery. However, prospects for increased imports are not bright in the near future. Despite the government's import promotion program, including (i) a more positive

attitude at the Tokyo Round negotiations, (ii) a reduction of import tariffs on major industrial products (like passenger cars, computers, and film), (iii) an increase of import quotas for products still subject to import restrictions (mainly agricultural products), and (iv) cheaper import credits, imports are not expected to increase rapidly. The main problems will continue to be MITI's elaborate import regulations and guidelines, the complex distribution system, and the government's reluctance to upset its agricultural system by drastically increasing imports of e.g., considerably low-priced beef and citrus.

6. Exports are expected to stay at a high level, although the rate of increase will somewhat decline due to the deteriorating export climate. The recent appreciation of the yen to ¥220 per dollar has badly affected chemicals, ship-building, industrial plant, and except for specialized and high quality goods, textiles and china. Conversely, the effect on high-quality industries, such as automobiles, optical instruments, motorcycles, and audio-equipment, has been relatively small. Steel and color TVs have stayed competitive, although they have limited exports. The effect of the yen appreciation on various industries varies considerably, but overall exports still seem to be competitive. Therefore, in the absence of effective measures to increase imports, a voluntary limitation of exports may be the only way to attain a reduction of the current account surplus.

7. Together with constructive measures to accelerate imports, it will be important for Japan to encourage the capital outflow. Therefore, the government has promoted yen-denominated foreign bond issues in the Tokyo capital market. However, net investments in yen bonds by non-residents amounted to ¥1.4 trillion in FY77, far exceeding the amount of yen-denominated foreign bonds amounting to ¥454 billion in FY77. In March 1978, the Government, therefore, took measures to restrict non-resident purchases of yen bonds with a redemption period of less than 5 years and one month. In view of the continuing dull demand for money in the private sector, it can now be expected that the capital exports will increase, not only through public issues but also through private placements and syndicated loans by private banks.

Table I

JAPAN: BASIC ECONOMIC DATA

	FY72	FY73	FY74	FY75	FY76	FY77	FY78*
Economic Growth Rate (Real)	9.8%	6.4%	-0.2%	3.4%	5.7%	5.3%*	7.0%
Growth Rate of Government Fixed Capital Formation (Real)	12.9%	-8.4%	2.2%	7.8%	1.1%	17.7%*	16.2%
Growth Rate of Private Equipment Investment (Real)	8.4%	13.9%	-14.5%	-9.3%	5.4%	0.9%*	6.7%
Balance of Current Account ($ Billion)	6.2	-3.9	-2.3	0.1	4.7	14.1	6.0
Foreign Exchange Reserves ($ Million)	18,125	12,426	14,152	14,182	16,997	29,208	-
Wholesale Prices Increase	3.2%	22.6%	23.4%	2.1%	5.8%	0.4%	2.7%
Consumer Price Increase	4.5%	11.7%	24.5%	11.8%	9.3%	6.7%	6.8%
Wage Increase Rate (Nominal)	16.5%	21.9%	29.1%	12.4%	12.1%	5.6%*	-
Unemployment Rate	1.4%	1.3%	1.5%	1.9%	2.0%	2.1%	-
Mining & Manufacturing Index Increase	10.1%	12.4%	-9.7%	-4.4%	10.8%	2.6%*	6.8%

* Government estimates

Table II

Japan: Balance of Payments
($ million)

	FY72	FY73	FY74	FY75	FY76	FY77	FY78*
Trade Balance	8,333	789	3,940	5,843	11,148	20,571	13,500
Exports	29,437	38,943	57,266	56,004	69,394	83,225	85,000
Imports	21,104	38,154	53,326	50,161	58,246	62,654	71,500
Services & Transfers	- 2,173	- 4,707	- 6,270	- 5,709	- 6,466	- 6,441	- 7,500
Current Account Balance	6,160	- 3,918	- 2,330	134	4,682	14,130	6,000
Long-Term Capital	- 5,959	- 9,110	- 2,083	- 260	- 1,606	- 2,401	- 7,000
Basic Balance	201	-13,028	- 4,413	- 126	3,076	11,729	- 1,000
Short-Term Capital and Errors	2,761	- 379	1,021	- 1,646	176	397	-
Overall Balance	2,962	-13,407	- 3,392	- 1,772	3,252	12,126	-

* Government estimates

Forecast of Economic Growth Rate for FY78
(Growth rate in real terms)

	FY76 Actual (¥billion)	FY77 Estimate	Economic Planning Agency FY78 Forecast	Japan Economic Research Center FY78 Forecast	Keidanren FY78 Forecast	Nikko Research Center FY78 Forecast	Nomura Research Center FY78 Forecast	Mitsubishi Research Center FY78 Forecast	Industrial Bank of Japan FY78 Forecast
Private Consumption	96.173(3.9%)	3.9%	5.3%	3.6%	4.9%	3.9%	5.2%	4.2%	3.6%
Private Fixed Investment	34.961(4.2%)	-	-	3.7	-	3.5	0.9	-	-
Housing	12.284(1.6%)	3.9	9.8	7.3	12.4	6.8	6.6	1.4	6.3
Equipment	22.677(5.4%)	0.9	6.7	2.1	5.0	2.0	-1.7	0.4	1.5
Government Current Expenditure	18.422(2.8%)	5.0	5.7	3.3	4.1	3.9	2.8	3.4	4.5
Government Fixed Assets Formation	14.926(1.1%)	17.7	16.2	15.6	21.1	19.1	21.6	18.8	16.0
Increase in Inventory	3.258(47.6%)	1.3	21.3	1.1	18.8	29.4	-15.0	-16.1	15.6
Total Doemstic Demand	167.739(4.2%)	4.8	7.4	4.8	-	6.0	5.5	-	-
Overseas Current Surplus	1.470(40.2%)	-	-	1.2	-9.9	-8.6	-8.7	-	-
Exports	24.578(17.4%)	5.1	2.9	1.6	1.2	-0.1	-2.4	0.9	1.4
Imports	23.108(9.4%)	0.2	4.2	1.9	6.8	4.5	0.9	2.7	6.0
GNP	169.209(5.7%)	5.3	7.0	4.6	6.5	5.1	4.6	4.1	4.5
Reference:									
Current account of BOP (in $billion)	4.7	14.1	6.0	8.6	9.0	7.4	9.2	10.0	
Consumer price index(%)	9.3	6.7	6.8	6.8	6.0	5.8	4.6	5.8	

Provisional Estimates for the Japanese Economy in FY 1980

(¥ trillion, %)

		Performance		Preliminary Estimates						Economic Plan in 1976-1980		
		FY 1975		FY 1980		Annual Average Increase Rate	(for reference) FY 1982		Annual Average Increase Rate	FY1980		Annual Average Increase Rate
		Amount	Ratio	Amount	Ratio	FY1980/FY1975	Amount	Ratio	FY1982/FY1975	Amount	Ratio	FY1980/FY1975
Gross National Expenditure	Real											
	Gross National Expenditure	93	100	126	100	more than 6	142	100	more than 6	125½	100	6¼
	Personal Consumption Expenditure	50	54	63	50	less than 5	68	48	less than 5	65	52	5½
	Government Current Expenditure	8	9	10	8	more than 4	11	8	more than 4	10	8	4
	Government Fixed Assets Formation	9	10	15	12	more than 11	18	13	more than 10	13	10¼	7¼
	Private Business Equipment Investment	14	15	19	15	less than 6	22	16	more than 6	20	16	7
	Private Housing Investment	7	7	9	7	less than 7	11	7	about 7	9½	7½	7-3/4
	Current Account Surplus	4	4	7	6	-	8	6	-	5½	4½	-
	Nominal											
	Gross National Expenditure	150	100	267	100	more than 12	333	100	more than 12	277	100	13
	Personal Consumption Expenditure	85	57	150	56	about 12	186	56	less than 12	153	55	13
	Government Current Expenditure	17	11	28	11	more than 11	35	11	more than 11	30	11	12
	Government Fixed Assets Formation	14	9	29	11	about 16	38	11	less than 16	27	10	14
	Private Business Equipment Investment	21	14	32	12	more than 9	40	12	less than 10	39	14	13
	Private Housing Investment	11	7	20	8	more than 12	26	8	more than 13	23	8	15
	Current Account Surplus	0	0	1	0	-	1	0	-	1	1	-
Fiscal Balance (nominal)	Government Revenue	34		69			96			77		
	Government Expenditure	44		86			110			83		
	Balance of Fiscal Account	△ 10		△ 17			△ 14			△ 6		

Note: 1) Real values are in 1970 prices

2) Gross National Expenditure (nominal) of the Plan is taken from the Economic Plan for 1976-1980

JAPAN'S ECONOMIC RELATIONS WITH DEVELOPING COUNTRIES

I. INTRODUCTION

1. Japan's paucity of natural resources has made it relatively highly trade-oriented although restrictions on imports of manufactures retarded growth of intra-industry trade until the end of the 1960s. Its geographic situation in Asia and its relatively recent economic development at a time when neighboring developing countries were also growing rapidly, made its economic linkages with developing countries markedly stronger than those of other industrialized countries.

Table I.1: SHARE OF TRADE IN GDP AND DEVELOPING COUNTRIES' SHARE IN IMPORTS, EXPORTS AND DIRECT FOREIGN INVESTMENT, 1976

(percent)

	Japan	USA	Germany	France	UK
Share of Imports in GDP	12	8	20	19	26
Share of Exports in GDP	12	7	23	17	21
Share of Imports from Developing Countries in Total Imports	55	44	20	26	25
Share of Exports to Developing Countries in Total Exports	41	35	16	23	25
Share of Private Investment in Developing Countries in Total DAC Private Investment in Developing Countries	14	41	10	3	10

Source: OECD, National Accounts, 1976; IMF, Direction of Trade, 1970-76, and OECD, Developing Cooperation Review, 1976.

2. This note discusses the growth and structure of trade with developing countries, trade policy trends, and foreign direct investment.

II. TRADE

A. Imports

3. Japan's imports consist principally of fuel, other raw materials and food, while exports are primarily manufactured goods. With the exception of very limited coal supplies, almost all raw materials have to be imported.

Table II.1: SHARE OF IMPORT VOLUME IN TOTAL CONSUMPTION OF SELECTED RAW MATERIALS BY ORIGIN, 1976
(percent)

	Share of Total Consumption Total Imported	Imports from Developing Countries
Cotton	100	54
Wood	100	4
Iron ore	100	44
Bauxite	100	36
Copper Ore	97	65
Nickel	100	99
Coal	77	--
Oil	100	97
Phosphate Rock	100	36

Source: Japan, Ministry of International Trade and Industry.

4. Saudi Arabia, Iran and Indonesia are the principal sources of oil supplies (65%) and developing countries also account for 33% of food imports, 34% of agricultural raw materials, and 43% of non-fuel minerals and metals. Australia, New Zealand and Canada are the principal developed

country food and non-oil raw material suppliers. Developed countries provide the bulk of manufactured imports, with the U.S. playing the leading role. Together with Canada it accounted for nearly 60% of total imports to Japan. Imports from the centrally planned economies, while representing a small share of total have been growing quite rapidly, particularly from China.

Table II.2: THE COMPOSITION OF IMPORTS BY COMMODITIES AND SOURCES, 1975

	Imports from			
	Developed Countries	Developing Countries	CPEs	Total $US million
		(percent)		
Food and Beverages	63	33	4	8,550
Non-food Agriculture	51	34	15	4,110
Fuel and Energy	13	83	4	24,090
Non-fuel Metals and Minerals	51	43	6	4,520
Manufactures	73	23	4	9,240
TOTAL	39	56	5	50,510

Source: Annex Table 1.

5. While developing countries had accounted for almost half the source of imports even in the 1950s and 1960s, the increase in oil prices made them the dominant source of imports in the 1970s.

Table II.3: GROWTH OF IMPORTS BY SOURCE IN CURRENT PRICES
(percent)

		Developed Countries	Developing Countries	CPEs	Total
Annual Growth Rate:	1955-65	13	11	18	12
	1966-75	18	26	20	22
	1955-75	15	18	19	17
Share:	1955	51	45	4	100
	1965	53	41	6	100
	1975	39	56	5	100

Source: Annex Table 1.

6. The commodity composition of imports is shown in Table II.4 at constant 1970 prices, as the 1973/74 increase in the price of oil would otherwise swamps all non-oil import trends.

Table II.4: GROWTH OF IMPORTS BY COMMODITIES IN CONSTANT 1970 PRICES
(percent)

		Food	Fuel	Non-fuel Raw Materials	Manufactures	Total
Annual Growth Rate:						
	1955-65	9	23	11	15	13
	1966-75	10	15	9	17	13
	1955-75	9	19	10	16	13
Share:	1955	34	7	41	18	100
	1965	25	18	35	23	100
	1975	18	23	26	33	100

Source: Annex Table 1. Deflators have been taken from Japan Tariff Association, The Summary Report, Trade of Japan, 1977.

7. Apart from the increase in fuel imports mainly from the Middle East, and Indonesia, the most important change in imports has been the increase in the imports of manufactured goods. Japan's policy in the 1970s was to stimulate imports of labor-intensive products such as textiles, clothing and electrical appliances by the introduction of a Generalized System of Preferences in August 1971 and by "orderly marketing" measures. Although the level and share of manufactures in total imports from developing countries is still very small, it grew at 23% a year (in constant prices) from 1955 to 1975, with a rapid acceleration to 35% a year from 1965 to 1975. This was of course substantially higher than the 15% - 16% overall growth of manufactured exports from developing countries.

Table II.5: JAPAN'S IMPORTS FROM DEVELOPING COUNTRIES BY COMMODITIES

	1968	1976	Share of Total Imports 1968	Share of Total Imports 1976	Average Growth Rate 1968-1976
	(US$ Billion)		(Percent)		(Percent)
Food and Beverages	0.7	3.6	14	10	22
Non-Food Agriculture	1.0	2.7	18	7	14
Fuel and Energy	2.0	23.5	38	66	36
Non-fuel Minerals and Metals	1.3	3.0	25	8	11
Manufactures					
Textiles	0.1	0.5	1	1	33
Clothing	-	0.6	-	2	66
Non-electrical Machinery	-	0.1	-	-	64
Electrical Machinery	-	0.4	-	1	73
Total Manufactures	0.3	3.1	5	9	36
TOTAL	5.3	35.9	100	100	27

Source: Annex Table 4.

8. South Korea, Taiwan and Hong Kong have been the principal developing country suppliers of manufactures. Imports from South Korea increased 45 times in 1969-76, from Taiwan, 34 times, and from Hong Kong 8.5 times. Much of the flow of imports from South Korea and Taiwan was the result of Japanese investment in labor intensive export oriented manufacturing industries in those countries. In textiles and electronics, for example, the subsidiaries of Japanese firms account for 50% or more of exports from Korea and Taiwan. 1/ Japan, however, remained a relatively small market for these countries, accounting for 23% of Korean exports, 14% of Taiwan's exports and 7% of Hong Kong's exports.

Table II. 6: IMPORTS OF MANUFACTURES FROM SOUTH KOREA, TAIWAN AND HONG KONG

(US$ Million)

	South Korea		Taiwan		Hong Kong	
	1968	1976	1968	1976	1968	1976
Total manufactures of which:	28	1251	16	534	31	262
Textiles & Clothing	23	681	7	159	7	108
Electrical Machinery	1	225	1	118	4	15

Source: Annex Table 5 and 6.

1/ MITI, Survey of Japanese Firms' Foreign Business, 1977 (Japanese).

B. Exports

9. The composition and destination of exports is of course quite different from the import picture. In 1975 manufactures accounted for 96% of total exports, with almost half (49%) going to developing countries, 8% going to CPEs and 42% going to developed countries, mainly the United States and Europe.

Table II.7: THE COMPOSITION OF EXPORTS BY COMMODITIES AND DESTINATION, 1975

	Exports: Developed Countries	Exports: Developing Countries	Exports: CPEs	Total $US million
		(percent)		
Food and Beverages	55	45	0	810
Non-food Agriculture	30	54	16	760
Fuel and Energy	18	79	3	220
Non-fuel Metals and Minerals	31	58	11	605
Manufactures	43	49	8	53,355
TOTAL	42	49	9	55,750

Source: Annex Table 2.

9. The rapid expansion of trade among developed countries is reflected in the more rapid expansion of Japanese exports to developed countries until the early 1970s. However, new opportunities in the Middle East markets after the increase in oil prices made export growth to developing countries more rapid in the 1970s.

Table II.8: GROWTH OF EXPORTS BY DESTINATION

(percent)

		Developed Countries	Developing Countries	CPE's	Total
Annual Growth Rate:	1955-65	19	12	28	15
	1966-75	18	22	26	21
	1955-75	18	17	27	18
Share:	1955	40	58	2	100
	1965	50	43	6	100
	1975	42	49	9	100

Source: Annex Table 2.

10. During its period of very rapid growth in the 1960s and early 1970s, Japan adopted industrial policies that were specially aimed at stimulating domestic business investment in an effort to bring down costs of heavy industry products. These policies contributed markedly to the success of export promotion. However, almost all of the direct export promotion measures were abolished or suspended in 1973-4 in response to international pressures. The growth of exports has nevertheless been maintained so that the increase in oil prices has not caused Japan balance of payments difficulties.

11. Asian countries, particularly those of East Asia have traditionally been Japan's principal markets, accounting for 60% of exports to developing countries in 1968. The Middle East only accounted for 8% of Japan's exports in 1968. This was less than Latin America where Japanese economic connections

were particularly strong in Brazil. However, by 1976 21% of Japanese exports to developing countries went to the Middle East. The share of imports from the Middle East of course rose even more rapidly, from 33% in 1968 to 51% in 1976. Asia remained constant as a source of imports from 1968 to 1976 at 37%, and Latin America's share declined from 18% to 7% between 1968 and 1976.

Table II.9: JAPAN'S TRADE WITH DEVELOPING COUNTRIES BY REGIONS

	Exports (fob)					Imports (cif)				
	Levels (US$ billion)		% Share		Average Growth Rate (%)	Levels (US$ billion)		% Share		Average Growth Rate (%)
	1968	1976	1968	1976	1969-76	1968	1976	1968	1976	1969-76
Southern Europe	0.03	0.1	1	1	20	-	0.1	-	-	16
Africa	0.8	5.0	13	16	27	0.4	2.1	9	4	14
Latin America	0.7	4.8	13	16	27	1.0	2.7	18	7	12
Middle East	0.4	6.5	8	21	39	1.8	12.5	33	51	34
Asia	3.4	14.0	60	46	20	1.9	15.3	37	37	27
Oceania	0.3	0.2	5	1	-5	0.2	0.1	3	1	9
Total	5.6	30.7	100	100	24	5.3	32.8	100	100	27

Source: Annex Table 3.

12. Japan's exports to developing countries are dominated by intermediate and capital goods, including iron and steel, electrical machinery and transport

equipment 1/ and by such durable consumer goods as electrical appliances (radios and TVs) and automobiles. Again, the most important Japanese export markets are Southeast and East Asia with South Korea, Taiwan, Hong Kong and Singapore being the largest importers, and the Middle East countries, particularly Saudi Arabia and Iran.

Table II.10: JAPAN'S EXPORTS TO DEVELOPING COUNTRIES BY COMMODITIES

	1968	1976	1968	1976	Average Growth Rate 1969-76
	US$ Billion		(Percent)		(Percent)
Food and Beverage	0.1	0.4	3	1	13
Non-food Agriculture	0.1	0.5	2	2	19
Fuel and Energy	0.1	0.1	1	-	16
Non-fuel Minerals and Metals	0.1	0.5	2	2	25
Manufactures					
Textile Yarn,etc.	0.8	2.2	15	7	13
Iron and Steel	0.6	4.6	10	15	30
Non-electrical Machinery	0.7	3.9	12	13	25
Electrical Machinery	0.6	3.5	11	12	25
Transport Equipment	1.2	8.7	21	29	28
Total Manufactures	5.2	29.2	93	95	24
TOTAL	5.6	30.7	100	100	24

Source: Annex Table 4.

1/ Note, however, that large vessels included in transport equipment are often exported to Liberia and Panama for "flags of convenience", exports to Africa and Latin America are substantially exaggerated thereby.

III. TRADE POLICY

A. Tariffs

13. Japan took part in the developed countries' trade liberalization process in the 1950s and 1960s, and it is of course currently participating in the Tokyo Round of negotiations. The following table indicates Japanese tariff levels compared to other developed countries.

Table III.1: AVERAGE TARIFFS IN SELECTED OECD COUNTRIES a/

	Finished Manufactures	All Industrial Products
	(Percent ad valorem)	
Japan	11.2	9.4
United States	7.9	6.7
European Community	9.3	7.2
Australia	21.0	14.4

a/ These figures cover all items; average tariffs on dutiable items only are slightly higher. The calculation was made in 1973 but it is still largely valid.

Source: GATT, Summary by Industrial Product Categories: Tariff 1973, Imports 1970 and 1971, Geneva, March 1974.

In the Tokyo Round Japan is aiming at an average tariff cut of 42%. This is somewhat higher than the Tokyo Round's group target of 40%. Since March 1978, Japan has unilaterally lowered tariff rates on 124 items including automobiles (from 6.4% to zero), roasted coffee (from 25% to 20%), instant coffee (from 20% to 17.5%), and canned vegetable soups (from 24% to 21%). These reductions (in common with those by other Tokyo Round countries) will of course reduce the value of the GSP scheme for the developing countries.

Import Licensing

14. Import licensing has been of much greater importance in restricting imports into Japan than tariffs. However, since 1960 import licensing has been substantially liberalized, so that Japan now compares favorably to European countries in this respect.

Table III.2: NUMBER OF COMMODITIES UNDER RESIDUAL IMPORT RESTRICTIONS IN SELECTED INDUSTRIAL COUNTRIES, JANUARY 1978

	Agricultural and Marine Products	Industrial Products	Total
Japan	22	5	27
France	39	35	74
Germany	19	20	39
Italy	12	8	20
US	1	6	7
UK	19	6	25

Source: JETRO, Japan's Import System, 1978.

15. The remaining quota restrictions mainly apply to agricultural and marine products. The manufactured products on which import quotas remain are leather and leather products, including footwear. These have proved difficult to liberalize because they are produced in small scale enterprises in remote areas in which there are few alternative opportunities for employment. Most of the agricultural and marine product for which import quotas exist are mainly sensitive to imports from develop countries, especially the U.S., Australia and New Zealand.

B. "Administrative Guidance"

16. Until the end of the 1960s special regulations called "Administrative guidance" were used as barriers against imports. However, since the 1971 negotiations with the U.S., and in response to more general criticism of Japan's export surpluses since that time, the "administrative guidance" has been turned toward import promotion.

C. Market Structure

17. Japan's market structure, varying from commodity to commodity, poses serious problems for importers. Brokers and traders typically appropriate differentials arising from the lower costs of imports so that consumers do not benefit from trade. This is the reason why yen revaluations have not been effective in lowering the prices of imported consumer products significantly, and hence have not resulted in a rapid increase in imports.

18. Additional difficulties stem from unfamiliarity with the preferences of Japanese consumers. Here the Asian countries which have a similar culture to that of Japan are at an advantage. However, the principal reasons for Korea's and Taiwan's success in Japanese markets for manufactures, as already noted, stem from the investment link with Japanese corporations.

IV. PROSPECTS FOR JAPAN'S FUTURE GROWTH OF TRADE WITH DEVELOPING COUNTRIES

A. Imports

19. Japan's economy is expected to grow substantially more slowly in the next decade than in the 1960s and early 1970s, at some 5-7% a year. This slow-down is expected to reduce the tempo of change from energy and raw material consuming to "science intensive" industries, so that food, fuel and other raw materials are expected to continue to dominate imports, with semi-processed goods only becoming important from the mid to late 1980s.

20. The structural changes that would make room for more labor-intensive imports from developing countries are also expected to slow down somewhat with the slower growth of the economy, and this is leading to the same protectionist pressures that are evident in other OECD countries. On the other hand international pressure to reduce Japan's trade surplus, and the rising wage cost effects of yen revaluations are likely to stimulate the trend toward investing in developing countries in labor intensive goods for the Japanese market and to open it up to those developing country exporters who can handle the Japanese marketing situation. The penetration of Japanese markets by imports is generally very low, and imports from developing countries are less than 5% of the clothing and leather consumption, less than 2% of textiles, and no more than 1% of any other category.1/

21. Japan tends to import substantially more from developing countries than it exports to them,2/ because their trade barriers are of course much higher than those of developed countries. In the context of increasingly

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1/ See Annex Table 12.

2/ See Annex Table 11.

liberalized international trade, bilateral or "group" balances are of course not important, but unless the developing countries take part in such liberalization through reciprocal measures, the developed country markets are not likely to be rapidly expanded for them.

22. Taking all these factors into account, the growth of manufactured imports from developing countries to Japan during the next decade is likely to be considerably below the 35% of 1965 to 1975, probably no more than 20% a year in constant prices.

B. Exports

23. The shift to capital and "science" intensive products that has characterized Japan's export trends over the past 20 years is expected to be sustained. Given the relatively rapid growth of the Middle East, Southeast Asian (ASEAN) and East Asian economies, the trend toward an increasing share of the developing countries' share in Japan's exports is also likely to be sustained.

V. JAPAN'S FINANCIAL FLOWS TO DEVELOPING COUNTRIES

A. Private Direct Foreign Investment

24. Japan's direct foreign investment in developing countries grew at 15% per annum in the 1960s, and then accelerated to 27% per annum from 1970 to 1976. 1/ In 1972-76, 61% of Japan's total direct foreign investment went to developing countries. More than 70% of direct foreign investment from the United States and Europe has in contrast in the past decade typically gone to other developed countries. 1/

25. Japan's investment has mainly gone into mining (including oil extraction) and manufacturing (led by textiles), and roughly 50% of total investment has gone to Asia. The investment motives have mainly been (i) to ensure a supply of raw materials and (ii) to defend or promote export markets.

Table V.1: JAPAN'S DIRECT FOREIGN INVESTMENT IN LDCS BY REGIONS AND SELECTED INDUSTRIES: 1951 - 1976 /a
(US$ Million)

	Africa	Latin America	Middle East	Asia	Total
Mining	402	572	1,673	2,003	4,650
Manufacturing	65	1,530	276	2,384	4,255
of which:					
Textiles	34	260	4	736	1,034
Chemicals	1	154	194	353	702
Electrical Machinery	5	134	5	294	438
Iron and Steel	16	319	27	269	631
Other	9	663	46	732	1,450
TOTAL	772	3,020	2,041	5,440	11,273

a/ Note that this table refers to "approvals" by the Japanese Government not actual "commitments". The figures thus differ markedly from OECD data, but they are the only source of industry and regional data.

Source: Annex Table 9.

1/ OECD, Developing Cooperation Review, 1976 and EPD, "Prospects for Private Direct Foreign Investment", November 10, 1976.

B. Total Financial Flows to Developing Countries

26. While ODA flows to developing countries have remained low and relatively "hard", total financial flows from Japan to developing countries have not been far from the total DAC average. This mainly results from the relatively high direct investment flows from a substantial level of export credits.

TABLE V.2: JAPAN'S FINANCIAL FLOWS TO DEVELOPING COUNTRIES
(US$ Million)

		1970	1974	1975	1976	
I.	ODA (net)	458.0	1126.2	1147.7	1104.9	
1.	Grants & Grant like flow	121.2	198.6	201.7	184.9	
2.	Development lending	250.3	681.8	648.7	568.1	
3.	Contribution to multi-national insti-tutions	86.5	245.8	297.3	352.0	
II.	OOF (net)	693.6	788.9	1369.4	1333.4	
III.	Private Flows (net)	672.3	1047.2	362.4	1564.3	
1.	Direct Invest-ment	261.5	705.4	222.7	1084.2	
2.	Portfolio investment	21.0	184.5	47.0	144.9	
3.	Export credits	386.9	148.7	82.7	319.0	
4.	Grants by volun-tary agencies	2.9	8.7	10.0	16.2	
	Total	1824.0	2962.3	2879.6	4002.6	
Memo:						
	ODA as percent of GNP	0.23	0.25	0.23	0.20	(Total DAC 0.33)
	Total as percent of GNP	0.92	0.65	0.59	0.72	(Total DAC 0.97)

Source: DAC, Development Cooperation, 1977 Review.

27. The strong trend toward investment in developing countries is expected to be maintained. Investment is currently taking place in LNG developments in Indonesia and petrochemicals in the Middle East, and there are possibilities of several energy centered investments in Southeast Asia. Investment in manufacturing for home and export markets is also continuing.

ANNEX TABLES

Table 1: JAPAN'S EXPORTS (fob) BY COMMODITIES AND REGIONS: 1955-1975 (SELECTED YEARS)

(Millions of US Dollars)

	(SITC Code)	Year	World Total	Developed Countries	Developing Countries	CPE's	Of Developing Countries: Latin America	Africa	Asia	(OPEC)
1. Food and Beverages	(0+1+22+4)	1955	155	105	48	1	2	8	38	-
		1960	300	215	79	-	11	8	60	-
		1965	375	280	88	2	12	8	70	-
		1970	680	335	335	1	11	14	295	29
		1975	810	445	365	2	20	53	269	69
2. Non-food Agriculture	(2+22+27+28)	1955	97	84	12	-	1	-	11	-
		1960	120	88	26	7	2	-	24	-
		1965	210	105	72	34	5	3	65	-
		1970	305	120	160	29	17	2	146	21
		1975	760	225	410	126	43	17	350	91
3. Fuel & Energy	(3)	1955	7	-	7	-	1	-	-	-
		1960	17	5	12	-	1	-	-	-
		1965	30	9	21	-	2	-	-	-
		1970	48	7	38	2	2	-	-	-
		1975	220	39	175	7	43	-	131	24
4. Non-fuel Minerals & Metals	(27+28+68)	1955	68	36	25	7	12	-	12	-
		1960	28	13	15	-	-	-	15	-
		1965	136	78	54	3	4	1	49	-
		1970	274	126	112	23	4	1	105	-
		1975	605	185	354	67	26	8	319	59
5. Manufactures	(5 to 9-68)	1955	1,683	565	1,068	31	174	162	742	-
		1960	3,585	1,609	1,918	67	301	282	1,346	-
		1965	7,699	3,868	3,405	436	467	668	2,296	-
		1970	18,013	9,952	7,085	995	1,076	1,053	4,894	940
		1975	53,355	22,686	26,186	4,478	4,528	4,512	17,011	8,177
6. Total	(0-9)	1955	2,010	790	1,160	39	190	170	803	-
		1960	4,050	1,930	2,050	74	315	290	1,445	-
		1965	8,450	4,340	3,640	475	490	680	2,480	-
		1970	19,320	10,540	7,730	1,050	1,110	1,070	5,440	990
		1975	55,750	23,580	27,490	4,680	4,660	4,590	18,080	8,420

Note: Details may not add up to totals due to rounding or statistical constraints.

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1976 and 1977.

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Table 2: JAPAN'S IMPORTS (fob) BY COMMODITIES AND REGIONS: 1955-1975 (SELECTED YEARS)

(Millions of US dollars)

	(SITC Code)	Year	World Total	Developed Countries	Developing Countries	CPE's	Of Developing Countries: Latin America	Africa	Asia	(OPEC)
1. Food & Beverages	(0+1+22+4)	1955	710	380	280	53	63	4	218	-
		1960	710	425	265	16	82	13	171	-
		1965	1,660	1,020	500	132	110	35	356	-
		1970	2,720	1,740	860	128	340	83	426	75
		1975	8,550	5,370	2,830	350	750	175	1,879	135
2. Non-food Agriculture	(2-22-27-28)	1955	770	325	435	12	165	26	246	-
		1960	1,120	590	500	25	120	37	339	-
		1965	1,400	710	630	69	200	40	385	-
		1970	2,280	1,140	910	225	175	70	654	145
		1975	4,110	2,100	1,400	605	250	52	1,054	305
3. Fuel and Energy	(3)	1955	205	54	145	6	2	-	145	-
		1960	530	150	350	29	6	-	342	-
		1965	1,300	220	1,000	77	46	1	957	-
		1970	2,960	750	2,120	91	35	15	2,070	1,950
		1975	24,090	3,030	19,990	1,080	35	670	19,280	17,750
4. Non-fuel Minerals and Metals	(27+28+68)	1955	180	68	91	11	17	4	69	-
		1960	645	364	271	13	61	25	188	-
		1965	1,000	386	550	53	174	87	291	-
		1970	2,950	1,495	1,445	111	380	345	564	25
		1975	4,520	2,300	1,960	263	643	290	827	134
5. Manufactures	(5 to 9-68)	1955	305	293	19	1	-	1	17	-
		1960	875	841	14	28	-	2	20	-
		1965	1,480	1,304	80	104	-	2	81	-
		1970	4,230	3,575	385	175	60	7	426	5
		1975	9,240	6,760	2,090	372	182	13	1,880	56
6. Total	(0-9)	1955	2,170	1,120	970	83	240	35	695	-
		1960	3,880	2,370	1,400	111	265	77	1,060	-
		1965	6,840	3,640	2,760	435	530	165	2,070	-
		1970	15,140	8,700	5,720	730	990	520	4,140	2,200
		1975	50,510	19,560	28,270	2,670	1,860	1,200	24,920	18,380

Note: Details may not add up to totals due to rounding or statistical constraints.

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1976 and 1977.

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ANNEX

Table 3: JAPAN'S TRADE WITH DEVELOPING COUNTRIES BY REGION (SELECTED COUNTRIES): 1968-1977 (SELECTED YEARS)

(Millions of US Dollars)

	1968	1974	1975	1976	1977 P	Percentage Share 1968	Percentage Share 1976	Average Growth Rate (%) 1968-1976
Exports (f.o.b.) to:								
1. Southern Europe	34	134	132	141	n.a.	0.6	0.5	19.5
2. Africa	754	3,894	4,592	5,041	n.a.	13.4	16.4	26.8
3. Latin America	696	4,946	4,663	4,803	n.a.	12.4	15.7	27.3
Brazil	102	1,388	926	882	846	1.8	2.9	31.0
4. Middle East	459	12,688	5,458	6,452	n.a.	8.2	21.0	39.2
Saudi Arabia	73	676	1,350	1,892	2,364	1.3	6.2	50.2
Iran	137	1,013	1,853	1,709	1,942	2.4	5.6	37.1
5. Asia	3,370	3,250	12,544	14,039	17,125	60.0	45.8	19.5
India	139	594	471	377	508	2.5	1.2	13.3
Thailand	365	951	958	1,072	1,370	6.5	3.5	14.4
Malaysia	104	708	566	705	870	1.9	2.3	27.0
Indonesia	147	1,450	1,849	1,641	1,812	2.6	5.3	35.2
Singapore	209	1,387	1,522	1,533	1,732	3.7	5.0	28.3
South Korea	603	2,655	2,246	2,828	4,113	10.7	9.2	21.3
Taiwan	472	2,008	1,820	2,068	2,574	8.4	6.7	20.3
Hong Kong	468	1,360	1,379	1,861	2,339	8.3	6.1	18.8
Philippines	411	911	1,026	1,115	1,108	7.3	3.6	13.3
6. Oceania	305	123	91	199	n.a.	5.4	0.6	-5.2
7. LDC Total 1-6	5,618	25,035	27,480	30,675	37,588	100.0	100.0	23.6
8. Total Exports	12,972	55,598	55,754	67,203	80,511			22.8
(Percent of LDC Total, 7+8)	(43.3)	(45.0)	(49.3)	(45.6)	(46.7)			
Memo: CPE's	558	3,942	4,680	4,679	4,911			30.4
Imports (c.i.f.) from:								
1. Southern Europe	5	63	20	16	n.a.	0.1	-	15.6
2. Africa	452	2,149	1,438	1,311	n.a.	8.6	3.7	14.2
3. Latin America	960	2,705	2,509	2,428	n.a.	18.2	6.8	12.3
Brazil	87	656	884	819	953	1.7	2.3	32.3
Peru	195	297	206	233	306	3.7	0.6	2.3
Chile	187	403	258	299	329	3.5	0.8	6.0
4. Middle East	1,760	12,466	16,143	18,398	n.a.	33.4	51.3	34.1
Saudi Arabia	389	5,237	6,131	7,836	8,570	7.4	21.9	45.6
Iran	632	4,764	4,978	4,454	4,269	12.0	12.4	27.6
5. Asia	1,937	15,320	10,588	13,410	15,105	36.8	37.4	27.4
India	293	657	658	802	806	5.6	2.2	13.4
Thailand	147	685	723	849	754	2.8	2.4	24.5
Malaysia	343	979	691	1,364	1,579	6.5	3.8	18.8
Indonesia	254	4,569	3,430	4,096	5,033	4.8	11.4	41.6
Singapore	62	619	399	648	693	1.2	1.8	34.1
South Korea	102	1,567	1,307	1,919	2,160	1.9	5.4	44.3
Taiwan	151	954	811	1,192	1,297	2.9	3.3	29.5
Hong Kong	54	273	245	341	352	1.0	1.0	25.9
Philippines	398	1,104	1,120	794	904	7.6	2.2	9.0
6. Oceania	154	149	106	299	n.a.	2.9	0.8	8.6
7. LDC Total (1-6)	5,268	32,852	30,804	35,862	39,963	100.0	100.0	27.1
8. Total Imports	12,987	62,035	57,865	64,505	70,760			22.2
(Percent of LDC Total, 7+8)	(40.6)	(53.0)	(53.2)	(55.6)	(56.5)			
Memo: OPEC	1,968	20,717	19,594	21,852	25,501			35.1
CPE's	797	3,141	3,006	2,845	3,317			17.2

Note: Regional classification is based on OECD, Trade by Commodities (Series B&C).
p = preliminary.
n.a. = not available

Source: OECD, Trade by Commodities, Series B&C, various issues; IMF Direction of Trade, March 1978; The Bank of Japan, Balance of Payments Monthly, December 1977.

Table 4: JAPAN'S TRADE WITH DEVELOPING COUNTRIES BY COMMODITIES: 1968-1976 (SELECTED YEARS)

(In millions of U.S. dollars)

	SITC Code	1968	1974	1975	1976	Percentage 1968	Share 1976	Average Growth Rate (%) 1976/1968
Exports (fob)								
1. Food and Beverages	(0+1+22+4)	146	354	370	398	2.6	1.3	13.4
2. Non-food Agriculture	(2-22-27-28)	118	535	417	469	2.1	1.5	18.8
Textile Fibers	(26)	91	384	288	312	1.6	1.0	16.7
3. Fuel and Energy	(3)	30	184	173	99	0.5	0.3	16.1
4. Non-fuel Minerals and Metals	(27+28+68)	81	398	353	477	1.5	1.6	24.8
5. Manufactures	(5 to 9-68)	5,243	23,564	26,167	29,232	93.3	95.3	24.0
Chemical Elements and Compounds	(51)	163	742	867	958	2.9	3.1	24.8
Plastic Materials	(58)	119	617	672	703	2.1	2.3	24.9
Rubber Manufactures	(62)	93	293	452	423	1.7	1.4	20.8
Textile Yarn, Fabrics, etc.	(65)	838	1,857	1,957	2,156	14.9	7.0	12.5
Iron and Steel	(67)	566	5,470	5,227	4,640	10.1	15.1	30.1
Machinery (Other than Electric)	(71)	677	3,048	3,464	3,926	12.1	12.8	24.6
Electric Machinery	(72)	589	2,234	2,450	3,548	10.5	11.6	25.2
Transport Equipment	(73)	1,184	6,011	7,317	8,738	21.1	28.5	28.4
6. LDC Total		5,618	24,035	27,480	30,675	100.0	100.0	23.6
Imports (cif)								
1. Food and Beverages	(0+1+22+4)	724	2,945	3,541	3,552	13.8	9.9	22.0
Fruit and Vegetables	(05)	167	281	316	418	3.2	1.2	12.2
Sugar, Sugar Preparation	(06)	128	911	1,374	497	2.4	1.4	18.5
2. Non-food Agriculture	(2-22-27-28)	961	2,836	1,676	2,686	18.2	7.5	13.7
Cotton	(263)	310	516	373	505	5.9	1.4	6.3
3. Fuel and Energy	(3)	1,993	21,023	20,905	23,548	37.8	65.7	36.2
4. Non-fuel Minerals and Metals	(27+28+68)	1,331	3,394	2,571	3,015	25.3	8.4	10.8
Iron Ore and Concentrates	(281)	516	946	1,037	1,061	9.8	3.0	9.4
Non-ferrous Metal Ores	(283)	323	1,179	822	1,045	6.1	2.9	15.8
Non-ferrous Metals	(68)	368	995	506	705	7.0	2.0	8.5
5. Manufactures	(5 to 9-68)	259	2,654	2,111	3,061	4.9	8.5	36.2
Textile Yarn, Fabrics, etc.	(65)	49	414	323	489	0.9	1.4	33.3
Machinery (Other than Electric)	(71)	2	136	137	105	-	0.3	64.1
Electric Machinery	(72)	5	226	238	399	0.1	1.1	72.9
Clothing	(84)	10	571	348	582	0.2	1.6	66.2
6. LDC Total		5,268	32,852	30,804	35,862	100.0	100.0	27.1

Source: OECD, Trade by Commodities, Series B&C, various issues.

Table 5: JAPAN'S TRADE BY COMMODITIES AND REGIONS (COUNTRIES): 1968

(Millions of US Dollars)

				Latin America		Middle East			Asia										Oceania	Total
	(SITC Code)	Southern Europe	Africa	Brazil	Total	Saudi Arabia	Iran	Total	India	Thailand	Malaysia	Indonesia	Singapore	South Korea	Taiwan	Hong Kong	Philippines	Total		
Exports (fob):																				
1. Food & Beverages	(0+1+22+4)	0.7	6.5	0.4	4.8	1.3	-	7.0	0.1	2.2	3.6	5.4	6.6	3.9	8.0	18.6	22.1	84.1	42.5	145.6
2. Non-food Agriculture	(2-22-27-28)	0.9	2.5	2.7	10.3	0.2	7.7	11.3	1.7	2.9	0.3	-	1.4	25.7	19.5	12.7	18.1	86.5	6.5	118.0
Textile Fibers	(26)	0.6	1.9	2.4	8.9	0.2	7.2	9.6	1.5	2.2	0.1	-	0.7	20.2	17.0	9.3	16.3	69.9	0.4	91.3
3. Fuel & Energy	(3)	-	0.2	0.3	0.5	-	0.1	0.2	0.1	2.4	0.1	2.5	2.8	6.8	2.6	3.2	1.7	23.0	5.9	29.8
4. Non-fuel Minerals & Metals	(27+28+68)	-	0.9	0.3	1.7	-	8.6	2.4	3.3	7.6	1.3	2.5	4.8	8.7	14.1	12.7	10.3	73.9	2.1	81.0
5. Manufactures	(5 to 9-68)	32.5	743.7	97.6	678.6	71.5	128.2	437.8	134.2	350.4	99.1	136.6	193.6	557.4	427.4	420.4	378.4	3,102.3	248.3	5,243.2
Chemical elements & Compounds	(51)	0.2	1.1	3.1	15.5	0.1	-	2.0	29.3	5.8	2.6	11.1	3.8	37.0	19.2	7.4	9.5	140.5	3.2	162.5
Plastic Materials	(58)	0.1	3.5	0.9	6.5	0.3	0.9	4.6	6.1	13.8	3.4	7.2	4.7	6.1	12.4	29.5	9.5	100.9	2.9	118.5
Rubber Manufactures	(62	1.4	10.1	0.2	11.9	7.8	7.1	29.5	0.5	6.3	0.7	4.5	1.8	0.4	1.5	2.6	5.4	38.2	2.2	93.3
Textile Yarn, Fabrics, etc.	(65)	1.4	87.9	2.3	62.3	18.6	16.9	116.3	2.3	43.6	9.6	26.0	67.9	90.7	36.3	174.7	35.7	547.4	22.1	837.4
Iron & Steel	(67)	1.9	44.4	18.2	97.3	8.5	42.1	65.8	19.3	51.8	17.3	14.4	26.1	56.7	59.2	15.8	66.4	348.6	8.1	566.1
Machinery Other than Electric	(71)	1.2	23.8	13.3	60.2	6.6	20.3	41.0	38.0	46.7	19.4	15.6	20.9	142.6	91.7	15.8	75.2	530.0	21.2	677.4
Electric Machinery	(72)	1.6	27.6	16.6	103.2	5.5	9.4	46.7	13.0	34.1	13.3	13.8	17.3	59.4	75.3	53.1	29.3	376.6	33.2	588.9
Transport	(73)	20.5	475.9	27.2	199.2	11.7	6.5	41.3	10.0	80.7	14.1	17.5	6.5	84.1	66.9	4.1	44.9	409.6	37.8	1,184.3
6. Total		34.1	753.8	101.3	695.9	73.0	136.6	458.7	139.4	365.5	104.4	147.0	209.2	602.5	471.6	467.6	410.6	3,369.8	305.3	5,617.6
Imports (cif):																				
1. Food & Beverages	(0+1+22+4)	1.0	82.7	21.6	199.5	0.5	2.8	6.5	16.8	82.8	7.4	31.2	1.0	33.0	107.6	11.4	32.1	348.4	86.1	724.2
Fruits and Vegetables	(05)	-	1.5	-	46.5	-	-	0.5	0.7	2.7	0.2	0.2	-	17.3	71.9	0.1	2.5	103.3	14.8	166.6
Sugar, Sugar Preparation	(06)	-	0.5	1.7	42.0	-	-	-	-	0.8	-	6.6	-	-	11.6	-	13.7	33.8	51.8	128.1
2. Non-Food Agriculture	(2-22-27-28)	0.9	60.5	21.8	221.7	-	2.7	25.0	25.9	39.0	208.6	49.1	6.6	11.8	17.9	1.5	241.3	648.3	4.2	960.7
Cotton	(263)	-	51.8	18.5	197.1	-	1.7	22.8	17.4	0.1	-	-	-	-	-	0.2	-	37.5	-	309.2
3. Fuel and Energy	(3)	-	7.6	-	55.6	388.6	622.0	1,697.5	6.7	-	2.2	156.6	48.7	2.8	2.3	-	1.4	231.6	-	1,992.3
4. Non-fuel Minerals & Metals	(27+28+68)	0.3	290.0	29.5	441.5	0.1	4.1	12.7	192.8	16.5	122.1	13.8	4.2	26.1	7.3	10.4	116.4	526.5	60.1	1,331.1
Iron Ore & Concentrates	(281-3)	-	40.1	25.4	233.7	-	-	-	149.6	3.6	51.8	9.1	-	-	-	2.1	20.5	242.1	-	515.9
Non-ferrous Metal Ores	(283)	-	5.9	3.0	101.7	-	4.0	9.3	17.2	2.6	9.5	10.7	0.1	9.3	4.2	-	93.4	149.2	57.0	323.1
Non-ferrous Metals	(68)	-	216.4	-	77.7	-	-	-	1.2	3.2	3.0	2.9	1.3	28.0	15.6	20.7	6.8	73.6	3.3	368.0
5. Manufactures	(5 to 9-68)	2.7	11.1	14.3	41.6	-	0.9	18.3	50.9	8.7	3.0	2.9	1.3	28.0	15.6	30.7	6.8	182.4	3.3	259.4
Textile Yarn, Fabrics, etc.	(65)	-	-	-	0.1	-	-	-	5.4	1.0	-	0.1	-	20.4	5.6	2.3	-	47.8	0.1	48.0
Machinery (Other than Electric)	(71)	-	0.1	-	0.2	-	-	-	0.1	-	-	-	0.3	0.1	0.5	0.3	0.1	1.4	-	1.7
Electric Machinery	(72)	-	-	-	-	-	-	-	-	-	-	-	-	0.5	1.1	3.5	-	5.1	-	5.1
Clothing	(84)	-	-	-	-	-	-	-	-	-	-	-	-	2.9	1.4	4.9	-	9.5	0.1	9.6
6. Total		4.9	452.0	87.2	959.9	389.2	632.5	1,760.0	293.1	147.0	343.3	253.6	61.8	101.7	150.7	54.0	398.0	1,937.2	153.7	5,267.7

NOTE: - = nil or negligible

Source: OECD, Trade by Commodities, Series C, 1968

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ANNEX

Table 6: JAPAN'S TRADE WITH DEVELOPING COUNTRIES BY COMMODITIES AND REGIONS (COUNTRIES): 1976

(in millions of U.S. dollars)

	(SITC Code)	Africa	Latin America Total	Latin America Brazil	Middle East	Saudi Arabia	Iran	Asia	India	Thailand	Malaysia	Indonesia	Singapore	South Korea	Taiwan	Hong Kong	Philippines	Oceania	Total
Exports (fob):																			
1. Food & Beverages	(0+1+4)	60	25	1.2	89	32.3	1.2	210	0.1	5.6	9.3	12.4	28.5	10.0	57.3	56.4	29.1	32	416
2. Non-food Agriculture	(2-26)	4	19	2.7	12	0.2	5.5	180	3.2	17.0	2.4	9.9	1.6	86.0	39.2	16.0	7.2	1	216
3. Fuel & Energy	(3)	2	23	0.2	1	0.1	0.3	72	0.1	7.4	1.1	8.4	2.1	34.2	10.1	1.9	2.9	-	98
4. Non-fuel Minerals & Metals	(68)	7	29	9.0	32	1.1	21.5	350	9.7	22.2	15.6	32.5	24.2	90.8	81.5	48.1	19.0	-	418
5. Manufactures	(5 to 9+26-68)	5,108	4,917	868.5	6,318	1,855.1	1,678.1	13,235	363.9	1,023.0	675.6	1,575.5	1,475.0	2,603.5	2,091.7	1,718.1	1,055.8	169	29,747
Iron & Steel	(67)	364	871	166.6	1,404	291.3	553.0	2,007	113.1	187.9	115.9	222.9	200.8	411.4	340.2	152.6	157.4	5	4,651
Machinery (other than Electric)	(71)	283	749	257.1	709	206.7	204.2	2,195	82.6	172.6	98.1	293.8	184.0	479.2	329.3	180.2	283.4	15	3,951
Electric Machinery	(72)	363	719	200.0	833	218.7	156.2	1,944	29.6	92.8	92.8	200.2	216.9	417.7	452.4	287.9	106.9	32	3,891
Transport Equipment	(73)	3,615	1,752	65.4	1,578	714.7	186.9	1,861	30.9	273.4	182.7	293.9	464.9	101.4	151.0	95.6	175.1	67	8,873
6. LDC Total		5,181	5,013	881.6	6,452	1,888.9	1,706.6	14,047	377.0	1,070.2	704.0	1,638.7	1,531.4	2,824.5	2,279.8	1,840.5	1,114.0	202	30,895
Imports (cif):																			
1. Food & Beverages	(0+1+221+4)	293	771	257.5	51	-	9.6	2,443	207.3	538.9	106.5	226.6	13.0	444.7	517.3	55.2	270.2	26	3,584
2. Non-food Agriculture	(2-221-27-28)	180	375	24.5	42	-	3.7	2,134	61.7	184.6	753.5	714.8	6.1	113.5	82.1	3.6	161.7	31	2,762
Cotton	(263)	132	320	9.2	30	-	0.6	45	24.4	-	0.2	-	-	-	0.2	0.4	0.2	-	527
3. Fuel & Energy	(3)	345	39	-	18,170	7,823.2	4,399.6	4,995	-	-	234.1	2,972.5	458.4	75.9	37.1	-	-	-	23,549
4. Non-fuel Minerals & Metals	(27+28+68)	424	1,034	452.8	107	-	30.9	1,169	414.1	49.9	180.1	150.7	5.3	31.9	19.2	21.0	294.0	233	2,967
Iron Ore & Concentrates	(281)	71	631	446.8	-	-	-	359	340.6	-	-	3.6	-	0.1	-	1.2	13.3	-	1,061
Copper Ore	(283=110)	35	(82	-	7	-	6.8	330	-	-	27.5	55.5	-	-	-	-	246.8	120	574
Non-ferrous Metals	(68)	230	152	-	65	-	7.8	260	11.9	44.5	135.7	47.8	1.1	8.5	3.9	1.4	5.2	-	707
5. Manufactures	(5 to 9-68)	84	246	83.7	84	0.7	4.3	2,670	118.0	74.6	88.0	26.0	163.7	1,250.8	534.2	262.4	67.2	12	3,096
Textiles & Clothing	(65+84)	-	17	15.7	2	-	1.9	1,051	20.9	22.5	2.6	1.9	8.2	681.0	158.7	108.3	10.3	-	1,070
Machinery (Other than Electric)	(71)	-	32	21.4	1	-	-	70	1.2	0.3	10.4	-	29.3	13.2	11.8	3.5	0.7	-	103
Electric Machinery	(72)	-	5	0.3	-	-	-	413	1.3	1.7	23.6	0.3	12.4	224.8	117.7	15.2	14.8	-	418
6. LDC Total		1,326	2,465	818.5	18,454	7,823.9	4,448.1	13,411	801.1	848.0	1,362.2	4,090.6	646.5	1,916.8	1,189.9	342.2	793.1	302	35,958

NOTE: (1) Commodity and regional classifications do not necessarily conform to those of Table 5, because data in this table are based on national sources.

(2) - = Nil or negligible

Source: Ministry of International Trade and Industry, White Paper on Trade, 1977 (in Japanese).

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Table 7 : JAPANESE DIRECT INVESTMENT FLOW[1] BY AREAS: FY1951-1976

	All Countries (A)	Developed Countries[2] (B)	Developing Countries[3] (C)	Percentage Share: Developed Countries (B/A)	Percentage Share: Developing Countries (C/A)
	(millions of dollars)				
FY1951-1962	545	143	402	26.2	73.8
1963	126				
1964	119				
1965	159	375	531	41.4	58.6
1966	227				
1967	275				
1968	557				
1969	665	1,769	1,215	59.3	40.7
1970	904				
1971	858				
1972	2,338	808	1,530	34.6	65.4
1973	3,497	1,554	1,943	44.4	55.6
1974	2,396	849	1,547	35.4	64.6
1975	3,278	1,409	1,869	43.0	57.0
1976	3,462	1,279	2,183	36.9	63.1
FY1972-1976	14,971	5,899	9,072	39.4	60.6
1951-1976	19,406	8,133	11,273	41.9	58.1
FY1972-1976 Average	2,994	1,180	1,814		
1951-1976 Average	746	312	434		
FY1973-1976 Average Annual Growth Rate (%)	10.3	12.2	9.3		

1/ Approval basis, which does not necessarily conform to a disbursement basis.
2/ The sums of figures for North America, Europe and Oceania; some developing countries, which are hard to be excluded, are included in this category.
3/ The sums of figures for Latin America and the Caribbean, Asia, Middle East and Africa.

Sources: The Export-Import Bank of Japan, Kaigai Toshi Kenkyushoho (Monthly Report of the Foreign Investment Research Institution), various issues; Ministry of International Trade and Industry, Wagakuni Kigyo no Kaigai Jigyo Katsudo (Business Operations of Japanese Firms Abroad), 1976; EPD/IE estimates.

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Table 8: JAPANESE FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES BY SELECTED RECIPIENT COUNTIRES /1 FY-1972-1976

(in millions of US dollars)

	FY-1972	FY-1973	FY-1974	FY-1975	FY-1976	FY-1972-76	Cumulative Total FY-1951-76	Percentage Share FY-1972-76	Percentage Share FY-1951-76
Europe									
Greece	3	19	-	2	n.a.	21/2	36/3	n.a.	n.a.
Sub-total	4	26	19	10	15	74	87	0.8	0.7
Africa									
Zaire	3	67	-	58	n.a.	128/2	150/3	n.a.	n.a.
Liberia	-	-	-	86	n.a.	86/2	129/3	n.a.	n.a.
Nigeria	-	-	20	34	n.a.	54/2	112/3	n.a.	n.a.
Zambia	-	-	-	1	n.a.	1/2	44/3	n.a.	n.a.
Sub-total	34	106	54	192	272	658	772	6.9	6.5
Latin America & Caribbean									
Brazil	168	435	250	271	270	1,394	1,794	14.5	15.2
Peru	-	9	351	8	5	373	458	3.9	3.9
Mexico	38	26	6	30	30	130	171	1.4	1.4
Sub-total	283	821	699	371	420	2,594	3,301	27.0	27.9
Middle East									
Iran	-	12	51	32	144	239	293	2.5	2.5
Sub-total	822	322	64	196	277	1,681	2,051	17.5	17.3
Asia and Oceania									
Indonesia	119	341	376	585	929	2,350	2,704	24.5	22.8
Korea	146	211	77	93	102	629	690	6.6	5.8
Hongkong	30	123	51	105	69	378	448	3.9	3.8
Philippines	10	43	59	149	15	276	354	2.9	3.0
Malaysia	13	126	48	52	54	293	356	3.1	3.0
Singapore	42	84	51	55	27	259	305	2.7	2.6
Thailand	30	34	31	14	19	128	227	1.3	1.9
Papua New Guinea	7	26	11	20	n.a.	64/2	115/3	n.a.	n.a.
Sub-total	411	1,041	748	1,124	1,265	4,589	5,630	47.8	47.6
TOTAL /4	1,554	2,316	1,584	1,893	2,249	9,596	11,841	100.0	100.0

/1 Approval basis, which does not necessarily conform to a disbursement basis.
/2 FY-1972-75.
/3 FY-1951-76.
/4 Due to a difference in country coverage, these totals do not conform to those in Table 7.

Note: n.a. = Not available.

Sources: Ministry of International Trade & Industry, Keizai Kyoryoku no Genjyo to Mondaiten (Present Status and Problems of the Japanese Economic Cooperation), 1975, 76 issues, Ministry of Fiannce, Monthly Finance Review, July 1977, and The Export-Import Bank of Japan, ibid., EPDIE estimates.

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Table 9: ESTIMATED REGIONAL AND SECTORAL DISTRIBUTION OF THE JAPANESE FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES:1/ FY1972-1976

(In millions of U.S. dollars)

	Agriculture & Forestry	Fishery	Mining 4/	Manufacturing	Food Products	Textiles	Lumber & Pulp	Chemicals	Iron & Steel & Non-Ferrous Metals	Non-Electric Machinery	Electric Machinery	Transport Equipment	Other Manufacturing	Other Industries 5/	Total
Africa															
FY1972	0	4	13	6	-	5	0	0	1	0	-	0	-	11	34
1973	0	2	86	14	3	8	-	-	1	0	0	0	1	4	105
1974	1	6	22	5	1	1	0	0	2	-	1	-	-	21	55
1975	1	6	89	10	0	1	0	0	8	0	0	0	1	87	192
1976	2	2	119	4	0	2	0	0	1	0	2	0	0	145	272
TOTAL (I)2/	4	20	329	39	4	17	-	-	13	-	3	-	2	268	658
TOTAL (II)3/	4	27	402	65	8	34	-	1	16	-	5	-	3	276	772
Latin America and Caribbean															
FY1972	1	3	8	163	8	23	10	49	19	15	10	22	7	104	279
1973	14	4	24	288	21	93	9	14	42	33	36	28	13	217	547
1974	13	6	369	236	22	36	18	20	64	35	23	7	11	76	699
1975	19	7	10	246	8	18	70	14	42	37	12	40	5	89	370
1976	12	1	27	243	5	23	33	26	54	20	31	49	3	133	416
TOTAL (I)	59	21	438	1,176	64	193	140	123	221	140	112	146	39	619	2,311
TOTAL (II)	69	28	572	1,530	74	260	140	154	319	185	134	221	45	821	3,020
Middle East															
FY1972	-	0	818	2	0	0	0	0	0	0	-	-	1	2	822
1973	-	-	272	44	0	1	0	39	0	0	1	-	3	6	322
1974	0	0	-	55	-	1	0	15	10	1	1	-	26	9	64
1975	1	0	134	20	0	0	0	4	8	3	1	1	3	40	196
1976	0	0	72	151	0	2	0	136	9	2	1	1	1	30	235
TOTAL (I)	1	-	1,296	272	-	4	0	194	27	6	4	2	35	87	1,657
TOTAL (II)	2	-	1,673	276	-	4	0	194	27	7	5	3	36	88	2,041
Asia															
FY1972	11	3	51	277	9	132	14	9	31	10	36	19	17	53	395
1973	21	6	234	487	12	191	40	32	28	19	83	44	38	221	969
1974	6	5	239	357	21	118	21	36	38	18	30	18	56	122	729
1975	10	8	359	533	24	88	14	198	66	19	36	32	56	201	1,111
1976	19	5	800	282	7	47	3	44	67	12	44	8	50	135	1,242
TOTAL (I)	67	27	1,683	1,936	73	576	92	319	230	78	229	121	217	732	4,446
TOTAL (II)	116	42	2,003	2,384	98	736	111	353	269	98	294	136	289	896	5,440
GRAND TOTAL															
FY1972	12	10	890	448	17	160	24	58	51	25	46	41	25	170	1,530
1973	35	12	616	833	36	293	49	85	71	52	120	72	55	448	1,943
1974	20	17	630	653	44	156	39	71	114	54	55	25	93	228	1,547
1975	31	21	592	809	32	107	84	216	124	59	49	73	65	417	1,869
1976	33	8	1,018	680	12	74	36	206	131	34	78	58	54	443	2,183
TOTAL (I)	131	68	3,746	3,423	141	790	232	636	491	224	348	269	292	1,706	9,072
TOTAL (II)	191	97	4,650	4,255	180	1,034	251	702	631	290	438	360	373	2,081	11,273

1/ Approval basis, which does not necessarily conform to a disbursement basis. Data for developing countries in Europe and Oceania are excluded from this table because of statistical constraints.
2/ Cumulative total of FY1972-1976.
3/ Cumulative total of FY1951-1976.
4/ Including petroleum.
5/ Construction, trade, finance and insurance, etc.

NOTE: (1) - = Less than $500,000 (±).
(2) Items may not add to totals due to rounding.

Source: The Export-Import Bank of Japan, "Kaigai Toshi Kenkyushoho" (See Table 7); EPD/IE staff estimates.

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Table 10: JAPAN'S TRADE WITH DEVELOPED COUNTRIES, 1976

	Exports to (Percentage share)	Imports from (Percentage share)
USA and Canada	55	57
Australia and New Zealand	9	22
EEC	23	14
Other Developed Countries	13	7
Total Developed Countries	100	100
US$ billion	31.6	21.9

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1977 Supplement.

Table 11: TRADE BALANCES, 1975-6
(US$ Million)

	Exports to		Imports from		Balance	
	1975	1976	1975	1976	1975	1976
Total Developed Countries	23850	31600	19560	21890	4020	9710
of which:						
USA and Canada	12410	17460	11500	12560	910	4900
Australia and New Zealand	2130	2720	3740	4720	-1610	-2000
EEC	5670	7230	2750	3040	2920	4190
Other	3370	4190	1570	1570	1800	2620
Total CPE Countries a/	4680	4690	2760	2560	2010	2130
Total Developing Countries	27490	30950	28270	34070	- 780	-1320
of which:						
OPEC	8420	9260	18380	21500	-9960	-12240
TOTAL WORLD	55750	67240	50500	58520	5250	8720

a/ Centrally Planned Economy Countries

Source: UNCTAD. Handbook of International Trade and Development Statistics, 1977, Supplement.

Table 12: SHARE OF MANUFACTURED IMPORTS IN JAPAN'S APPARENT CONSUMPTION 1/ IN SELECTED PRODUCTS, 1974 AND 1975

Matched SITC Numbers	Industry	Imports from World in Apparent Consumption		Imports from LDCs in Apparent Consumption	
		1974	1975	1974	1975
65	Textiles	5.0	3.9	2.0	1.6
84	Clothing	11.7	7.2	8.1	4.6
63	Lumber and wood products except furniture	4.0	3.9	1.4	0.9
82	Furniture	1.4	1.0	0.6	0.5
64	Pulp and paper products	2.0	0.8	0.3	0.0
5	Chemicals	8.1	6.2	0.7	0.9
62	Rubber products	1.5	1.2	0.4	0.2
61.83 85	Leather and leather products	11.2	9.1	6.2	4.4
66	Ceramic stone and clay products	2.8	2.9	0.8	1.0
67	Iron and steel	1.3	0.7	0.3	0.2
69.81	Fabricated metal	1.1	1.0	0.3	0.2
71	Non-electrical machinery	6.4	6.6	0.4	0.4
72	Electrical machinery	3.1	3.2	0.6	0.8
73	Transportation machinery	2.6	2.1	0.0	0.1
86	Precision instruments	10.9	12.0	0.7	1.0
89	Miscellaneous products	5.0	4.6	1.0	0.9
	Total Manufactures	4.8	4.1	0.8	0.7

1/ Defined as shipment of producers plus imports minus exports.

Sources: MITI, Census of Manufactures in Bank of Japan, Economic Statistics Annual, 1976.

UN, Commodity Trade Statistics, D Series, 1974 and 1975.

Koch-Weser

I. JAPAN'S POSITION IN IMF, IBRD AND IDA

DRAFT
May 25, 1978

I. 'Harmonisation' Between Japan's Share in IMF, IBRD and IDA

(i) The Present Situation

1. The table below shows Japan's share in IMF quotas (assuming all countries consent to their increases under the 6th Review), IBRD capital (after the selective increase), and IDA (to IDA 5 and all replenishments).

2. The table also shows the votes that accompany these amounts. In the IMF votes are accorded broadly in line with quotas; in IDA votes are adjusted at the time of each replenishment to reflect cumulative contributions to all replenishments; in IBRD votes are given in line with capital subscriptions.

Japan: Shares in Votes and Subscriptions

Share in Subscriptions				Share in Votes		
IMF Quota	IBRD Capital	IDA Contributions		IMF Quota	IBRD Capital	IDA Contributions
4.3	4.1	9.1 1/	Among all Members	4.0	3.8	5.3
6.2	5.9	10.3 (IDA 5)	Among Contributors to IDA 5	6.1	5.9	8.5 2/

1/ Share in all replenishments.
2/ Reflects cumulative contributions.

(ii) Japan's Objectives

3. Japan feels in broad terms that where membership in an international institution involves an obligation (as in IDA) it is asked to take up a large share (10.3% in IDA) but where it involves a possible benefit (as in IMF) other countries resist giving Japan an increase. To illustrate this point, the difference which now exists between Japan's share in IDA 5 (10.3%) and its share

in IMF quotas (6.2%) is larger than for any other contributor to IDA. 1/ Japan therefore stresses in general terms the need for 'harmonisation' of shares and would like the Bank's support for this objective.

4. Japan is mainly interested in an increase in its share in the IMF. Recognizing that the Bank cannot intervene in Fund matters, it would like to see the Bank support the objective of harmonisation by indicating its willingness to see Japan's share increase in IBRD capital. In turn, progress in this direction will no doubt make it easier for Japan to increase its share in future IDA replenishments.

5. In the IMF, Japan has, in the context of the Seventh General Review of Quotas now underway, sought to increase its quota by between a half to one percentage point to be about level with France. (The table attached shows shares in the institutions for the six main Part I countries.) However, while the Fund staff 'do not exclude' the possibility of some selective adjustment for Japan, the scope for such a change may be small since the consensus seems to be forming around a 50% increase in quotas, in equal proportion for all members (with limited exceptions for certain developing countries such as Saudi Arabia). The Japanese therefore are not optimistic about achieving much progress in the IMF; in order to increase their share they would need support from the United States and Germany and a willingness of another major country such as France or the United Kingdom to see its quota share decline.

6. Agreement on the main features of the Seventh Review could come at the time of the Annual Meeting since Fund staff believe that quick progress can be made as soon as the United States is ready to move. 2/ An expression of willingness

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1/ In IDA 5 Japan divided its contribution into an 'ordinary' part and an 'extra' contribution. The figure of 10.3% includes a 1.9% 'extra' contribution.

2/ The Authorisation Bill for the U.S. contribution to the Witteveen Facility has passed the House and is currently stalled in the Senate. Whether and to what extent the contribution should be 'subject to appropriation' is at issue.

by the Bank to see Japan's share increase in IBRD capital would therefore be particularly valuable at this time. A note is attached on this aspect. It would be premature to raise the question of Japan's share in IDA 6.

Japan: Subscriptions and Votes in IMF, IBRD and IDA

IMF

	Votes		% Share in Votes		Quotas		% Share in Quotas[1/]	
			all members	Contributors to IDA5	(million$ SDRs)		all members	Contributors to IDA5
United States	84300		19.9	30.8	8405		21.5	31.4
United Kingdom	29500		7.0	10.8	2925		7.5	10.9
Germany	21810		5.1	8.0	2156		5.5	8.1
France	19440		4.6	7.1	1919		4.9	7.2
Japan	16840		4.0	6.1	1659		4.3	6.2
Canada	13820		3.3	5.0	890		3.5	5.1
Others	237844	(88330)	56.1	32.2	21079	(8802)	52.8	31.1
Total	423554	(274040)	100.0	100.0	39033	(26756)	100.0	100.0

IBRD

	Votes		% Share in Votes		Shares in Capital Subsc.		% Share in Cap. Subsc.	
			all members	Contributors to IDA5	(1944$m)		all members	Contributors to IDA5
ted States	77985		21.7	33.3	7774		23.8	33.9
ted Kingdom	26250		7.3	11.2	2600		8.0	11.3
Germany	17862		5.0	7.6	1761		5.4	7.7
France	15917		4.4	6.8	1567		4.8	6.8
Japan	13789		3.8	5.9	1354		4.1	5.9
Canada	11372		3.2	4.9	1112		3.4	4.8
Others	196186	(70987)	54.6	30.3	16483	(6774)	50.5	29.6
Total	359361	(234162)	100.0	100.0	32651	(22942)	100.0	100.0

IDA

	Votes		% Share in Votes[2/]		Shares in IDA ($m)		% Share in Contrib.	
			all members	Contributors to IDA5	Cum. IDA	Contributors to IDA5	Cum. IDA	Contributors to IDA5
United States	769139		20.3	32.3	5972.3	2400.0	34.5	31.2
United Kingdom	263397		6.9	11.1	2008.1	814.3	11.6	10.6
Germany	236831		6.2	9.9	1829.9	838.8	10.6	10.9
France	138669		3.7	5.8	1028.9	413.3	5.9	5.4
Japan	201476		5.3	8.5	1572.3	792.0	9.1	10.3
Canada	137025		3.6	5.6	1026.9	447.9	5.9	5.8
Others	2050515	(635520)	54.0	26.8	3891.4	1979.9	22.4	25.8
Total	3797052	(2382127)	100.0	100.0	17329.8[3/]	7686.2	100.0	100.0

Note: Figures in parenthesis show the votes and contributions of other countries and the total when the restricted group of contributors to IDA5 is taken rather than the total membership in the Bank and Fund.

1/ On the assumption that each country takes up the subscription/quota available to it in the IBRD Selective Capital Increase and the IMF Sixth Review of Quotas.

2/ Assumes full subscription to IDA 3,4 and 5, expressed in 1960 dollars, and includes all countries. Japan's cumulative contribution to IDA in 1960 dollars is $1352m.

3/ This column combines the 1960 dollar amounts for initial subscription through Third Replenishment together with the amounts for the Fourth and Fifth Replenishment dollars as of the date when the agreement was concluded.

P&B
5/25/78

Increasing Japan's Share in IBRD Capital

(i) Within Presently Authorised Capital Limits

1. There is currently authorised, available and not subscribed, an amount of $1.2 billion of shares in IBRD capital (in current U.S. dollars). If Japan were to subscribe this amount (subject to majority approval of the Board of Governors), Japan's share in IBRD capital would rise from 4.15% to 7.1% (6.5% share in voting power). An extra subscription of only $260 million would be sufficient to bring Japan into line with France's 4.4% share in votes. An increase in this manner would not involve the question of pre-emptive rights. However, it would be unusual 1/ and other countries whose relative shares in the Bank would be effected might be concerned.

(ii) In the Context of the General Capital Increase

2. If a general capital increase of $30 billion were taken up in equal proportion by all IBRD members, Japan's subscription (paid in and callable) would amount to $1.3 billion, slightly increasing its present share in subscriptions and voting rights. If the Bank negotiated an increase for Japan to 5% in the general capital increase, Japan would need to subscribe an additional $700 million for a total of $2.0 billion. However, if Japan does not receive a special increase in its quota in the Seventh Review, negotiating a special increase in IBRD will involve the general capital increase departing from parallelism with the Fund.

Attachment

1/ It should be recognized that it is very unusual for the Bank to authorise special increases in subscriptions other than those which are related to increases in Fund quota. There have been only two such cases: (1) in 1956 when Brazil which had an initial subscription of less than 100% of its Fund quota and subscription, and (2) in 1964 when Panama's subscription was increased from the very low level of $0.2 million to $9 million. In addition, if Japan subscribed the entire amount of $1.2 billion this would exhaust the entire amount of authorized and available stock, leaving no authorised capital available for new members or special increases.

Increasing Japan's Shares in IBRD Capital
(Current U.S. Dollars)

	All Members		Japan		Japan	
	Votes (No. of Votes)	Shares (Curr.$m.)	Votes (No. of Votes)	Shares (Curr.$m.)	Votes %	Shares %
Position as of June 30, 1977	288660	30871.6 1/	10480	1234.1	3.63	4.00
After Selective Increase	359361	39400.6 2/	13789	1633.1	3.84	4.15
Extra Subscription by Japan						
to all available shares	369575	40632.8	24003	2865.5	6.49	7.05
to half available	364468	40016.7	18896	2249.4	5.18	5.62
parity with France (4.4% of votes)	361489	39657.3	15917	1890.0	4.40	4.77
$30b. General Increase						
Proportionate 3/	608052	69401.4	24340	2906.1	4.00	4.19
Increased share	608052	69401.4	30340	3630.1	5.00	5.23

1/ Total authorized capital (in 1944 dollars) in 1977 was $27,000.000 of which $25,589,000 was subscribed as of March 31, 1977 (1944 dollars).

2/ Total authorized capital (in 1944 dollars) in 1978 was $34,000,000 of which $26,329,200 (in 1944 dollars) is subscribed as of March 31, 1978. Of the $7,670,800 which has not been subscribed yet, $6,649,400 has already been allocated, leaving a balance of $1,021,400 in 1944 dollars, available for subscription to new members and available to all members who would like to increase their subscriptions.

3/ As in Technical Note #5, dated February 2, 1978.

Tokyo Office
May 4, 1978

FACTUAL BACKGROUND ON WORLD BANK AND JAPAN

Japanese Subscriptions and Voting Power in the World Bank

Japanese subscriptions to the capital of the IBRD amounts to $1,234 million equal to 4% of the total capital subscribed by all 131 member countries. Japanese share of the voting power is 3.64%, or the 5th largest following the U.S. (22.55%), the U.K. (9.11%), Germany (4.83%), and France (4.53%). Japan has agreed to subscribe $399.2 million of the selective capital increase by which Japanese voting power is to be increased to 3.87%. A selective capital increase legislation is being submitted to the 84th Ordinary Diet Session.

The initial Japanese subscription to the funds of IDA amounted to $33.59 million, or 4.36% of the total subscriptions. Japan has 5.35% of the total IDA voting power, compared to 20.42% for the U.S., 6.99% for the U.K., 6.29% for Germany, and 3.68% for France. The total replenishment figures and the Japanese share since 1964 are as follows:

	Total Replenishment ($ million)	Japanese Share ($ million)	% of Total
IDA I*	744	41.25	5.54
IDA II*	1,200	66.48	5.54
IDA III*	2,422	144.00	5.90
IDA IV	4,500	495.00	11.00
IDA V	7,600	792.00	10.42

* - 1960 U.S. dollars

The Japanese Government has always enacted the IDA Replenishment legislation expediently and accommodated IDA with advance contribution before the replenishments became effective.

Japan has subscribed $2,769,000 to the captial of IFC, equal to 2.56% of all subscriptions. The entire subscription has been paid in, as are the subscriptions of other members. Japan has 2.24% of the total voting power in IFC as compared to 26.27% for the U.S., 10.86% for the U.K., 4.50% for France, and 2.90% for Germany.

IFC capital increase legislation authorizing the Japanese share of $22,777,000 out of a $480 million capital increase is being submitted to the 84th Ordinary Diet Session.

Other Contributions

As of end 1977 Japan has contributed $4,975,000 to CGIAR and $2,250,000 to Onchocerciasis Campaign Fund. This is 1.8% and 7.4% of the total contribution respectively. This year the Government will increase its annual contribution to $3.5 million to the former and $1.25 million to the latter.

Japan as a Member of Consultative Groups Organized or Chaired by the Bank

Japan has been a member of the Consortia for aid to India and Pakistan since their establishment in 1958 and 1960, respectively. In 1971 it joined the Consultative Group on International Agriculture (CGIAR). Japan has also been associated with most of the Consultative Groups organized by the Bank to coordinate assistance to: Bangladesh, Burma, Colombia, East African Community, Egypt, Ethiopia, Ghana, Indonesia, Korea, Nepal, Nigeria, Peru, Philippines, Sri Lanka, Sudan, Tanzania, Thailand and Zaire.

IBRD Lending to Japan

From 1953 through 1966, the World Bank played an important role in supplying Japan with needed foreign exchange and capital - 31 loans totalling $862.9 million for the reconstruction of its infrastructure and the expansion of its steel and power industries.1/ This was the largest amount of lending to a member country at the time. Widely known of the projects financed by the Bank are the New Tokaido Railway and the Tokyo-Nagoya-Kobe Highways. More than $722 million of these 31 loans were used to pay Japanese suppliers.

IBRD Borrowing from Japan

The relationship between the Bank and Japan has been completely reversed since the late 1960s. As of December 31, 1977, approximately 11% of the Bank's total outstanding obligations (amounting to $21,611 million) were in Japanese yen; as compared to the 45.8% in the U.S. dollars, 25% in the Deutsche Mark and 10.5% in the Swiss Francs. The first borrwoing in Japan took place in 1970, when the Bank of Japan purchased the Bank's obligations in lieu of advance payments of IBRD loans. As of May 31, 1978, the Bank borrowed an aggregate amount of ¥761.8 billion (out of which ¥597.5 billion is outstanding) through 13 Bank of Japan loans totalling ¥553.8 billion, 8 public issues totalling ¥178 billion, 1 private placement of ¥10 billion, and 1 Euro-yen issue of ¥20 billion. 2/

1/ A list of IBRD lending to Japan is in Table I.

2/ A list of IBRD borrowing from Japan is in Table II.

Co-financing between the Bank and Japanese official sources so far has been done on an ad hoc basis. The Overseas Economic Cooperation Fund has co-financed with us ¥48,599 million and the Export-Import Bank of Japan has co-financed with us ¥12,529 million in government loans, ¥245,120 million in the form of buyers' credits and ¥15,052 million in suppliers' credits.

A number of Japanese commercial banks have participated in Bank loans at the time they were made. These purchases have aggregated more than $66 million of which about $22 million has been repaid.

Two co-financing arrangements with Japanese commercial banks were made in 1977: $20 million to a multi-purpose dam project in Thailand and $30 million to a power project in Malaysia.

Japanese Suppliers under World Bank and IDA Loans

Japanese industry has been highly successful in obtaining export orders for goods and services required to implement projects financed by the Bank and IDA. Over the years, a total of 14% of all foreign procurement by the Bank and IDA has been placed in Japan. This compares with 25% in the U.S., 14% in Germany, and 12% in the U.K. by June 30, 1977, payments received by Japanese suppliers amounted to $2,994 million.

The Japanese share in procurement of the Bank/IDA projects has increased over the years. In fiscal 1977, Japan's share of Bank's foreign procurement amounted to $415.5 million or 23.5%. Its share of IDA foreign procurement amounted to $148.7 million or 16.9%.

Since Japan joined the Bank in 1952, the total amount Japan has paid into the capital stock of the Bank is $123,409,000. The total amount which Japan has received back from the Bank in procurement to date is $2,117.7 million (the figures are in current U.S. dollars). This means that Japan has received almost 17.2 times its outlay. As for IDA, the total of subscription and contributions made by Japan as of June 30, 1977 is $839.19 million in current U.S. dollars, while it has received $876.6 million from IDA in procurement.

Impact on Japanese Balance of Payments

Since Japan joined the IBRD, there has been a net favorable impact on the Japanese balance of payments of $1,502 million (including long-term investments). IDA has also brought a net inflow of $450.7 million to Japan.

Table I

IBRD LENDING TO JAPAN

Date	Borrower	Project	Amount ($1,000)	Interest Rate	Terms (grace Period)
12/19/1953	Kansai Electric	Power plant	21,500	5	20 (3.5)
12/19/1953	Kyushu Electric	Power plant	11,200	5	20 (3.5)
12/19/1953	Chubu Electric	Power plant	7,500	5	20 (3.5)
2/16/1956	Yahata Steel	Steel mill	5,300	4-5/8	15 (2.5)
3/25/1956	Nihon Kokan	Steel mill	2,600 *	4-3/4	
5/12/1956	Toyota Motors	Factory Construction	2,350 *	4-3/4	
3/25/1957	Ishikawajima Heavy Industries	Shipbuilding Factory	1,650 *	4-3/4	15 (2)
3/25/1957	Mitsubishi Shipbuilding	Shipbuilding Factory	1,500 *	4-3/4	
3/25/1957	Kawasaki Steel	Steel mill	20,000	5	15 (3.5)
3/19/1957	Land Development Corp.	Land reclamation	4,300	5	15 (3)
11/9/1957	Water Resources Dev. Public Corp.	Multi purpose Projects	7,000	5-3/4	20 (4.5)
3/23/1958	Kawasaki Steel	Steel mill	8,000	5-5/8	14 (2.5)
8/22/1963	Kansai Electric	Power plant	37,000	5-3/8	25 (4.5)
8/22/1958	Hokuriku Electric	Power plant	25,000	5-3/8	25 (3.5)
9/24/1958	Sumitomo Metal	Steel mill	33,000	5-3/8	15 (3)
10/10/1958	Kobe Steel	Steel mill	10,000	5-3/8	15 (2)
12/22/1958	Chubu Electric	Power plant	29,000	5-3/4	25 (4)
11/14/1958	Nihon Kokan	Steel mill	22,000	5-3/4	15 (2)
2/24/1959	Electric Power Dev.	Power plant	10,000	5-3/4	25 (15)
1/16/1960	Fuji Steel	Steel mill	24,000	6	15 (2)
1/16/1960	Yahata Steel	Steel mill	20,000	6	15 (2)
5/25/1960	Nihon Doro Kodan	Roads	40,000	6-1/4	23 (3)
1/20/1961	Kawasaki Steel	Steel mill	6,000	5-3/4	15 (3)
1/20/1961	Sumitomo Metal	Steel mill	7,000	5-3/4	15 (3)
5/3/1961	Kyushu Electric	Power plant	12,000	5-3/4	20 (1.5)
6/30/1961	Japan National Railways	Railways	80,000	5-3/4	20 (3.5)

* Counted as one loan through the Japan Development Bank

1/30/1962	Nihon Doro Kodan	Roads	40,000	5-3/4	23 (3)
11/21/1963	Nihon Doro Kodan	Roads	75,000	5-1/2	26 (5.5)
6/24/1964	Nihon Doro Kodan	Roads	50,000	5-1/2	25 (5)
2/25/1965	Tokyo Expressway Public Corp.	Roads	25,000	5-1/2	24 (4)
3/26/1965	Electric Power Dev.	Power plant	25,000	5-1/2	25 (4)
7/20/1965	Nihon Doro Kodan	Roads	75,000	6-1/2	25 (4.5)
11/4/1965	Hanshin Expressway Public Corp.	Roads	25,000	6-1/2	24 (4)
9/20/1966	Nihon Doro Kodan	Roads	100,000	6-5/8	15 (3)
	Total	31 projects	862,900		

IBRD BORROWING IN JAPAN

1. Borrowings from Bank of Japan

(in ¥ Billions)

	Principal Amount	Outstanding Amount
7.14% Serial Obligations of 1970, due 1973-1975	36.0	-
7.14% Serial Obligations of 1970 (March issue) due 1973-1975	36.0	-
7.43% Serial Obligations of 1971, due 1975-1976	36.0	-
7.43% Serial Obligations of 1971 (March issue) due 1975-1976	36.0	-
7.43% Serial Obligations of 1971 (June issue) due 1975-1976	7.0	-
7.24% Serial Obligations of 1971 (September issue) due 1975-1976	6.0	-
6.74 - 7.05% Serial Obligations of 1972, due 1978-1979	100.0	97.0
6.74-7.44% Serial Obligations of 1973, due 1979-1980	135.0	135.0
8.19-8.64% Serial Obligations of 1974, due 1980-1982	40.8	40.8
8.25-8.64% Serial Obligations of 1975, due 1981-1983	42.6	42.6
8.25% Serial Obligations of 1976, due 1982-1983	18.4	18.4
6.63% Yen Obligation of 1977, due April 26, 1984	30.0	30.0
6.14% Yen Obligation of 1978, due October 26, 1984	30.0	30.0
	¥553.8	¥393.8

2. Public Issues

		Principal Amount	Outstanding Amount
(1) 7-3/4% Japanese Yen Bonds of 1971, (June) First Series,	due 1977-1981	11.0	9.9
(2) 7-1/2% Japanese Yen Bonds of 1971, (Sept.) Second Series,	due 1977-1981	12.0	10.8
(3) 7.40% Japanese Yen Bonds of 1972 (Feb.) Third Series,	due 1978-1982	15.0	13.5
(4) 7% Japanese Yen Bonds of 1972, (May) Fourth Series,	due 1978-1987	20.0	19.5
(5) 7% Japanese Yen Bonds of 1972, (Nov.) Fifth Series,	due 1978-1987	20.0	20.0
(6) 7.5% Japanese Yen Bonds of 1973 (July) Sixth Series,	due 1979-1988	20.0	20.0
(7) 7.0% Japanese Yen Bonds of 1977, (Aug.) Seventh Series	due 1983-1992	30.0	30.0
(8) 6.8% Japanese Yen Bonds of 1977, (Dec.) Eighth Series	due 1983-1992	50.0	50.0
		¥178.0	¥173.7

3. Private Placement

	Principal Amount	Outstanding Amount
6.90% Japanese Yen Notes of 1973, Series, A, due 1979-1983	¥10.0	¥10.0

4. Euro-yen Issue

	Principal Amount	Outstanding Amount
6-1/4% Yen Bonds of 1977, due August 15, 1984	¥20.0	¥20.0
Total: (1 - 4)	¥761.8	¥597.5

V. CGIAR AND RIVER BLINDNESS

ONCHOCERCIASIS CONTROL PROGRAM

JAPAN

1. Japan is one of the original parties to the Onchocerciasis Fund Agreement, signing it on June 7, 1975. Its initial contribution was $500,000 in 1975, but has subsequently increased each year -- to $750,000 in 1976, and $1 million in 1977. It has included $1.25 million in its budget for 1978. We would expect to receive the contribution later this year. The following table shows Japan in relation to overall funding for the first phase of the Program:

	Actual 1974-77	Actual and/or Pledged 1978	Estimate 1979	Total 1974-79
Total contributions ($ million)	32.86	14.94	13.16	60.96
- of which Japan	2.25	1.25	1.50	5.00
Percentage	6.8	8.4	11.4	8.2

2. Japan has not given an official objective in terms of the size of its total contribution to the first phase, as it contributes by means of annual budget allocations, but the Bank's chief interlocutor in the matter, the Japanese Ministry of Foreign Affairs, has indicated that the objective would be to contribute a total of $5 million over the period. However, discussions with members of the Japanese delegation to the last Annual Meeting of the Bank indicated that this objective may not be fully shared by the Budget Department of the Ministry of Finance, which at least at that time felt that the annual Japanese contribution should not exceed $1 million. Agreement on the 1978 increase would indicate that the view of the Ministry of Foreign Affairs has prevailed, at least for the present.

3. The official contact for the Program in Japan is Mr. Hiromoto Seki, Director of the Multilateral Cooperation Division, Economic Cooperative Bureau, Ministry of Foreign Affairs.

4. A table showing receipts and disbursements of the Onchocerciasis Fund for the 1974-79 period is attached.

HSederlof/sn
May 25, 1978

Receipts and Disbursements of Onchocerciasis Fund, 1974-79

($ Million)

	Actual 1974-78	Estimate 1978	Forecast 1979	Total
Receipts				
Contributions				
African Development Bank	0.72	0.18	0.18	1.08
Belgium	1.14*	0.47	0.47	2.08
Canada	1.99	0.66	0.66	3.31
France	3.66	0.83	1.03	5.52
Germany 1/	5.24	-	-	5.24
Iraq 2/	0.05	-	-	0.05
Ivory Coast 3/	-	0.93	1.42	2.35
Japan	2.25	1.25	1.50	5.00
Kuwait	4.00**	1.00	1.00	6.00
Netherlands	4.00	2.50	-	6.50
Norway	-	0.51	0.51	1.02
Saudi Arabia	-	1.67	1.67	3.34
United Kingdom	3.06	1.44	1.97	6.47
United States	4.00	2.00	1.00	7.00
World Bank Group	2.75	1.50	1.75	6.00
Total Contributions	32.86	14.94	13.16	60.96
Income from investments	0.58	0.15	0.15	0.88
Total receipts	33.44	15.09	13.31	61.84
Surplus from previous year	-	3.24	3.93	-
Total funds available	33.44	18.33	17.24	61.84
Disbursements				
Advances to WHO	30.20	14.40	19.65	64.25
Surplus carried forward	3.24	3.93	-	-
Financing gap	-	-	2.41	2.41

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* Includes 1977 contribution, $465,900 equivalent, received in January 1978.

** Includes 1977 contribution, $1 million equivalent, received in January 1978.

1/ Germany had paid in the total amount of its six-year contribution by 1977.

2/ Iraq provided a one-time contribution of $50,000 at the outset of the Program.

3/ Ivory Coast, a participating country, pledged a contribution equal to the cost of Program extension works in the country during 1978 and 1979, estimated at $0.93 million for 1978, and $1.42 million in 1979.

World Bank
May 25, 1978.

Briefing Note for Mr. McNamara's Visit to Tokyo

1. Japan has contributed to the CGIAR every year since the start, beginning with a token amount in 1972 of $105,000. Between 1975 and 1978, contributions have grown at an average annual rate of 73% in current dollars. However, Japan's share of total contributions to the CGIAR is still small (4% in 1978), and compares unfavorably with its share in the fifth IDA replenishment (11.4%) and its share of the combined GNPs of the OECD country donors to the CGIAR (13%).

Request $8m i.e. same share as FRG

2. Despite this low level of contribution, Japanese support, in general, for the CGIAR remains firm, and seems to be increasing. Based on confidential soundings, the Bank's Tokyo office recommends that the Secretariat request $7 million for 1979, in the expectation of perhaps $5 million being approved, distributed among six international centers, plus WARDA and the Genes Board. For 1978, based on similar confidential advice, $5 million was requested, and $3.5 million was approved. If $5 million is approved, Japan will still be ~~some way from its apparent aim~~ to be in the same league as Germany (expected to contribute $8 million in 1979), and would be providing 5% of total expected contributions for 1979.

Ja 13.2% GNP + FRG share 8.2% of CGIAR + FRG share 11.2%

OECD Govt

3. Responsibility for administration of CGIAR affairs rests primarily with the Foreign Office, but the Ministry of Finance determines the level of contributions. The new Minister of Agriculture, Mr. Nakagawa, has a close personal interest in the international centers, having visited several of them (under arrangements made by us) in 1975. The Director of the Japanese Tropical Agricultural Research Center, Dr. Shiro Okabe (a former Bank staff member) is also anxious that Japan assume a larger role in the CGIAR. There is a Japanese serving on our Technical Advisory Committee, Dr. Ishikura of the Japan Marine Science and Technology Center. The Bank's Tokyo office has played an active and most valuable part in maintaining Japanese interest and stimulating increased contributions.

4. Points which might be stressed in any discussion of CGIAR matters could include:

- recognition of the rapid increase in Japanese support;
- the importance of the applied research done at the international centers in increasing agricultural production in the LDCs, and providing a sound base for expanded aid to agricultural development;
- the importance of Japan supporting the CGIAR on a scale commensurate with its economic strength;
- the need for CGIAR donors to maintain contributions to meet inflation, plus anticipated real growth in the programs supported;
- the widespread evidence that investment in agricultural research has a particularly high rate of return;
- in the light of Japan's intention to increase its level of aid, the advantages of the CGIAR as a vehicle for increased aid for technical assistance in an important area. It is an established but flexible system with built-in procedures which permit Japan's own processing to be kept to a minimum.

Attachments
CGIAR Secretariat
May 25, 1978

Attachment 1

JAPANESE CONTRIBUTIONS TO CGIAR CENTERS

(US$ Millions)

	1972	1973	1974	1975	1976	1977	1978	TOTAL
IRRI	.105	.230	.265	.675	1.000	1.800	2.300	6.375
ICRISAT					.200	.250	.400	.850
CIAT						.150	.200	.350
CIMMYT						.150	.300	.450
WARDA						.150	.150	.300
IITA							.150	.150
TOTAL	.105	.230	.265	.675	1.200	2.500	3.500	8.475

CGIAR Secretariat
May 25, 1978

CGIAR CONTRIBUTI[illegible]NS (1972-1978)
(US$ Mi[illegible]ions)

DONOR	ACTUAL 1972	1973	1974	1975	1976	1977	ESTIMATE 1978	TOTAL 1972-1978
Arab Fund						.310	.310	.620
Asian Dev. Bank				.300		.500	.500	1.300
Australia		.005	1.015	1.215	1.745	1.790	2.750	8.520
Belgium	.140	.600	.380	.620	1.740	2.260	2.415	8.155
Canada	1.160	1.780	4.675	4.340	5.390	6.800	7.620	31.765
Denmark	.250	.225	.370	.400	.455	.620	.750	3.070
EEC						2.500	2.450	4.950
Ford Foundation	5.315	3.675	3.000	2.800	2.000	1.590	1.000	19.380
France			.130	.410	.510	.435	.400	1.885
Germany		1.805	3.040	3.935	4.475	5.385	6.500	25.140
IDB			2.030	4.120	5.000	5.700	6.200	23.050
IDRC	.175	.345	.645	.990	1.780	1.355	1.390	6.680
Iran					1.975	2.000	2.000	5.975
Italy					.100	.100	.130	.330
Japan	.105	.230	.265	.675	1.200	2.500	3.500	8.475
Kellogg Foundation	.155	.290	.280	.290	.300	.310	.320	1.945
Netherlands	.375	.430	.555	1.235	1.500	1.720	1.650	7.465
New Zealand					.105	.025	.025	.155
Nigeria				.645	.645	.630	.615	2.535
Norway	.075	.185	.445	.810	1.120	1.510	2.000	6.145
Rockefeller Foundation	3.990	4.545	3.500	2.885	2.165	1.595	1.250	19.930
Saudi Arabia					1.000	1.000	-	2.000
Sweden	1.000	.150	1.490	2.290	2.255	2.265	2.750	12.200
Switzerland		.410	.140	.460	.855	1.205	1.270	4.340
United Kingdom	.690	1.110	1.920	2.410	2.890	3.540	4.795	17.355
UNDP	.850	1.000	1.465	2.165	1.930	3.500	4.135	15.045
UNEP				.600	.340	.340	.490	1.770
United States	3.770	5.390	6.805	10.755	14.870	18.050	21.400	81.040
World Bank	1.260	2.780	2.375	3.225	6.625	7.850	8.680	32.795
Others								
Kresge	.750							.750
TOTAL	20.060	24.955	34.525	47.575	62.970	77.385	87.295	354.765

Source: Centers' Program and Budget Papers and accounts 1974-1979.

CGIAR Secretariat - May 25, 1978

DISCUSSIONS WITH JAPANESE GOVERNMENT

REGARDING BANK GROUP'S MINERAL AND ENERGY PROGRAM

(1) Assert Bank Group's interest in this subject, referring to CIEC background. Mention buildup of our staff in oil and gas sector.

(2) Emphasize importance of this program in promoting the most efficient use of world resources by overcoming political obstacles to private investment in the LDC's; also its importance in promoting export earnings of LDC's (enhancing their credit worthiness and reducing requirements for concessional aid).

(3) Offer Bank Group (Bank, IDA and IFC) financial and technical support for projects in this field.

(4) Express interest in co-financing such projects with EXIMBANK and OECF, and

(5) Resort to ICSID.

May 17, 1978

JBK

Mr Knapp OK

Mr. Koch-Weser

	APPROPRIATE DISPOSITION		NOTE AND RETURN
✓	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE

REMARKS

Attached is a draft press statement on minerals & energy, for use by Mr McNamara in Tokyo. You will recall that he wanted you to look at it. (I understand that all these papers are needed by Monday, May 15th).

WCBaum OPO

REVISED DRAFT
RHablutzel:mfb
May 10, 1978

WORLD BANK ACTIVITY IN MINERALS AND ENERGY

In the past, the lending activity of the World Bank and IDA in the field of energy has been predominantly for electric power projects. With well over 300 loans for an aggregate amount of close to $10 billion, power lending accounted for 19% of all loans and credits, and more than the combined lending from all other sources of official development assistance for this sector. Lending for coal mining projects and for oil and gas transportation and processing was for very much smaller amounts ($470 million in 19 projects). Similarly, Bank lending for non-fuel minerals projects, with a total of 18 loans and credits, has accounted for $650 million or just over 1% of total commitments ($52.5 billion as of 12/31/77).

There have recently been some important changes in the external financing requirements of the developing countries with regard both to the energy and the non-fuel minerals sectors.

In energy, the rapid increase in the price of petroleum has had several profound consequences. First, the oil importing developing countries faced a stiff increase in their import bill, constraining their import capacity for other commodities vital for their development. Second, it greatly increased the real value of whatever oil and gas resources they may have underground, unexplored or undeveloped. As a consequence, the investment requirements have become both larger and of greater urgency. We estimate that 40 to 50 out of over 70 oil importing developing countries could produce petroleum, of which only 10 are now producers; with an investment in the upstream phase of about $50 billion over the next 10 years, these 70 countries could substantially reduce their current oil import bill of $18 billion in spite of rapidly increasing consumption over this period.

A further consequence of the petroleum price increase, of course, is the improvement in the economics of coal mining, leading to significant increases in investment requirements in this sub-sector as well.

The changes in the non-fuel minerals sector (mostly the mining of metallic ores) have been less dramatic, but after the recession-induced slowdown in mineral investments, the future requirements for insuring an orderly development of the world supply of metals have increased no less significantly. Investment requirements in the developing countries in the second half of the seventies are expected to be about $38 billion, but to nearly double in the following five years.

The prospects of obtaining the capital for the oil and mining sector on such a large and increasing scale from traditional private sources are less favorable than in the past because of the growing size of individual projects on the one hand, and a new style of profit sharing and a new perception of political risks on the other. These political risks have already had the effect of stimulating economically less attractive exploration and investment activity outside the developing countries. In the case of petroleum and gas, a major part of the investments in the oil importing developing countries will be needed to satisfy domestic requirements, and are unlikely to be forthcoming in adequate amounts from traditional sources such as foreign oil companies, which are primarily interested in countries with export potential.

Both in the development of fossil fuels and in non-fuel minerals the World Bank can play an important role by providing finance, expertise, and an impartial and objective position. We can serve as a catalyst to develop mutually advantageous arrangements between governments of developing countries and sources of external capital.

In July 1977 the Board of the Bank adopted a greatly enlarged program in the development of fuels and minerals; present lending targets have been set for fuel minerals alone to reach about $450 million in 1980 and further expand thereafter; for non-fuel mineral projects the volume of lending would come close to that level by 1981. In addition, IFC lending in these sectors would reach $50-$75 million at the same time. Loans from the World Bank are expected to finance on average 15%-20% of total project cost. In addition, by its presence and by its experience in co-financing, the Bank would help to marshall the balance of the foreign financing requirements from other multilateral and bilateral as well as private sources. Thus, the Bank's assistance will be attached to projects in these sectors representing annual investments of some $4-$5 billion. Additional staff have been recruited to carry out this expanded program, and initial work on it is well underway. As regards the much-needed initiative for exploration activities, the Bank will seek to provide advice to developing countries on the laws and incentives needed to attract private capital. It is also prepared to support exploration activity in selected cases and if linked to a possible participation in the financing of a subsequent project for the extraction of fuel and mineral resources.

The Bank's overall technical assistance and lending for fuel and non-fuel mineral development over the next 10 years is expected to benefit about 45 developing countries with a population of 1,300 million people. Of these, about 20 countries are in the lowest income bracket and account for the bulk of the population in these 45 countries. In addition, the Bank continues to lend for electric power.

In the current fiscal year, the Bank Group will be lending about $1.4 billion in 25 projects. Most of the projects for power generation are for hydro-electric and coal-fired plants.

FINANCIAL OPERATIONS

Financial

II. BORROWING PROGRAM

BRIEFING FOR MR. MCNAMARA

Question 1 - What is the Bank's borrowing program in Japan for FY79 versus FY78 (rollovers and new funds?)

Attached is a table which summarizes our borrowing operations in Japan in FY78 and sets out our borrowing plans for FY79. The forecast for FY79 forms part of an exercise to illustrate the possible composition of a $4.3 billion borrowing program relying on markets outside the United States.

The rollover operations with the Bank of Japan correspond to understandings which we have reached for the restructuring of our outstanding note placements with them. The borrowings twice a year would be used to refinance a variety of maturities spread out over the year and would thus simplify rollover operations in the future.

For FY79 we are assuming two public issues in the domestic Japanese market at the level of ¥ 75 billion (equivalent to $329 million) each. The biggest issuesso far in the Japanese market have been at the ¥ 50 billion level.

A further operation assumed is a Yen loan from Japanese trust companies (under the leadership of Mitsubishi Trust) which has been under discussion for more than six months. The amount of ¥ 20 billion is a minimum suggested and could probably be increased to ¥ 30 billion. With a final maturity of 20 years (average 17.5 years) it would be the first loan with such a maturity in Japan with an estimated total cost to the Bank of 7.69%.

We doubt that the authorities would permit us to resume borrowing in the Euro-Yen market. There have only been two Euro-Yen issues in mid-1977 (including our own issue of August 1977) and none since then. Since we have indications that the Japanese authorities do not want to expand the Euro-Yen market through new issues we have not included any Euro-Yen operations in our forecasts despite the lower cost which would apply.

IBRD BORROWING PROGRAM

Borrowing Assumptions for Japanese market in FY79 compared to borrowing operations in FY78

Month		FY79	FY78
		(in ¥ million)	
		Rollovers	
October	Bank of Japan	30,000	30,000
April	" " "	30,000	30,000
	Sub-total (rollovers)	60,000	60,000
		New funds	
July	Public issue (domestic)	75,000	-
August	Loan from Trust companies	20,000	-
	Public issue (domestic)	-	30,000
	" " (Euro)	-	20,000
December	Public issue (domestic)	-	50,000
February	Public issue (domestic)	75,000	-
	Sub-total (new funds)	170,000	100,000
	Total	230,000	160,000
$ equivalent	$1 = 228 (5/25/78)	1,009 million	=
	= 257 (average)	-	623 million

$ 1.0 b.

May 25, 1978

Question 2 - What is the program for borrowing in Japan beyond FY79? How much has been discussed with the Japanese authorities?

We have so far not discussed with the Japanese authorities specific borrowing plans in the Japanese market for FY79 and beyond. In previous Board papers and discussions concerning the Bank's borrowing program there were, however, indications that we expected the Japanese market to remain one of the three or four major markets in which we would raise funds. The Japanese authorities should, therefore, be aware that we would hope to raise perhaps about 20% of our annual gross borrowings in Japan. In FY78 our gross borrowings in Japan amounted to about 15% of the year's borrowing program; in FY79 the percentage would increase to about 23% of the Bank's borrowing program, assuming a major concentration on markets outside the United States.

We have discussed with The Bank of Japan a sequence of rollover operations which would concentrate the maturities of all of our note placements with them in two yearly maturity dates, i.e. October and April. We have so far done two operations of Yen 30 billion each and will continue on this scale for the next years. The rollover scheme would not provide any new funds and will, of course, be subject to approval by The Bank of Japan and the Bank's Executive Directors in each case.

Question 3 - How far have arrangements (date, amount, term, etc.) already progressed for the first FY79 public and private operations in Japan?

Our present estimates for the two operations in Japan are as follows:

(a) Public Issue

Date:	7/78 (about $329 million equivalent)
Amount:	Yen 75 billion
Average life: (final maturity)	12.3 years (15 years)
Cost to the Bank:	6.50%
Lead manager:	Nomura

(b) Yen loan:

Date:	7/78
Amount:	Yen 20 to 30 billion (about $88 to $132 million equivalent)
Average life: (final maturity)	17.5 years (20 years)
Cost to the Bank:	7.69%
Provided by:	Mitsubishi Trust as lead bank and other Trust companies.

The Ministry of Finance has put us into the queue for July. Inasmuch as the access to the Japanese market is still limited to Yen 100 billion per month for non-resident issuers, our operation will practically pre-empt other borrowers. According to Japanese practice the queue and the possible terms of forthcoming issues have been discussed in the financial newspapers well in advance of any actual negotiations.

There is a clear understanding between the Bank and Nomura and Mitsubishi that no firm decision concerning these operations can be taken until after the discussion of the Bank's budget next month. However in order to expedite matters and assure a timely completion of these transactions in July, if they should be approved, we have at present a team from the Legal and Treasurer's Departments in Tokyo to discuss documentation and other technical aspects.

Preliminary consideration of the two transactions by our Board is presently tentatively scheduled for the last week of June.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 16, 1978

FROM: Eugene H. Rotberg

SUBJECT: RMcN Trip to Japan

Borrowing Prospects:

Bond Issues

The Ministry of Finance has been forthcoming in permitting us access to the Japanese market. We are currently negotiating (a) the largest public issue done by a non-resident in Japan--Yen 75 billion (US$ 333 million equivalent) through Nomura Securities and (b) a Yen 20-30 billion (US$ 90-120 million equivalent) 18-year private placement with Mitsubishi Trust Co. Inasmuch as access to the Japanese market is still rationed (Yen 100 billion per month), our public issue has essentially preempted other borrowers. If the occasion presents itself, you may wish to express our appreciation.

There are two aspects of our borrowings, however, which the Japanese may be concerned about. (1) From time to time, they have asked whether IBRD borrowing of yen is a matter of concern to LDCs. It is as if they were self-conscious about the revaluation potential of the yen and do not wish to be "blamed" for the burden placed upon our borrowers. Recently, they have indicated that they might be willing to relax their preference that we disburse the yen quickly and permit us to invest in Japan the borrowed yen for a period of time, perhaps six months or more. I don't see any real advantage in this to our borrowers since the yen ultimately will be disbursed at random in say, December rather than July; further, Japanese Treasury bills now yield 3 to 3-1/2 percent; it therefore would be to our advantage to disburse the yen rather quickly. (2) The interest coupons in Japan for different "categories" of borrowers are set by the Government. There is little room therefore to distinguish between borrowers in the same categories aside from slight adjustments in price. The Japanese are quite apologetic about this matter since there is little yield difference amongst sovereign government borrowers (Mexico, Venezuela, France, etc.), the World Bank and the Government of Japan. This is not, however, a matter of great concern to us. The underwriters and the Finance Ministry have seen to it that no issuer prices its bond closer to Japanese government guaranteed obligations than the World Bank.

As to our overall borrowing program in Japan for FY79, I would expect that, after the July borrowing operations, we will do at most another similar operation later in the fiscal year. This will result in yen denominated borrowings about the same as our borrowings in Germany and somewhat greater than our proposed Swiss operations.

Bank of Japan

Our borrowings from the Bank of Japan have now been rephased so that we repay a multiplicity of small tranches and borrow on fixed dates twice a year in a manner similar to the Bundesbank refinancings. The average life of the yen borrowings is now 6-1/2 years. I might mention in this connection that one of the reasons why our liquidity on June 30, 1978 will be higher than initially projected is because although we had few maturing tranches in FY78, the rephasing arrangement had us borrow $270 million equivalent prior to June 30 which artificially raised our cash position. These resources will, of course, be drawn down in FY79 since maturing tranches exceed the rephased FY79 borrowings (Yen 60 billion) from the BOJ.

* * *

I have some general comments about the decision making process in Japan. With apologies for the clichés and stereotypes--which, alas, I have found to be fairly accurate: Decision making is by consensus. And not so much compromise as consensus. Strong individual decision makers are rare. The society seems more comfortable in diffusing responsibility rather than focusing it. Recommendations and initiatives start from the bottom and go "up" in very small stages to the final authority. The foregoing stems in part from the Japanese reluctance to be overruled or reversed at any level of the hierarchy; conversely, it is unlikely that those in senior positions will reverse or qualify what has been brought to them. Therefore, in Japan, more than in other countries, it is important to obtain staff support for any policy or initiative. A Japanese Vice Minister of Finance once told me "Don't thank me for knocking the ball into the hole in the golf course. In Japan, it is the approach shots of others from the tee which have put me in the range. I only performed the ministerial act." This wasn't pretended modesty; it was a pretty accurate description of his function and the way he perceived that function.

EHR:ccc

Tokyo Office
May 12, 1978

FINANCIAL OPERATIONS

Capital Market

Excessive liquidity and declining interest rates characterize the recent Tokyo capital market. These features are due largely to (i) the delayed recovery in demand for new equipment investments and (ii) increased inflows of foreign capital, mostly in speculative investments in expectation of the higher yen value supported by the continuing surpluses in the trade and current account of Japan's international balance of payments.

Following the latest cut in the official discount rate by 0.75% to the lowest post-war level of 3.5% effective March 16, long-term interest rates were lowered from April. This overall revision in the interest rate structure was considered to be the last resort of the Government's stimulative measures from the monetary side. Since April 1975, the official discount rate was lowered eight times from 9% to 3.5%. During the same period, yield of the Government bonds was lowered from 8.414% to 6.180%. The World Bank bonds were yielding 9.19%, 9.47%, 9.30%, 9.46%, 9.78%, and 9.97% in the secondary market then, compared to 6.02%, 6.05%, 6.50%, 6.55%, 6.56%, and 6.63% of recent weeks for the 1st to 6th issues. 1/

As a result of the decline in interest rates in Japan to lower levels than those in most other industrial countries as well as the Government's policy to encourage foreign bonds issuance as a means to reduce the BOP surplus, the Tokyo market has become very lucrative for foreign borrowers. The volume of yen-denominated foreign bonds issued in the market increased remarkably in 1977, numbering 15 issues and amounting to ¥296 billion. This exceeded the total amount of ¥249 billion for 21 issues floated during the first 6 years since the Tokyo capital market was liberalized to foreign issuers. The trend of increase continues in 1978 and during the first quarter, 8 issues totalling ¥170 billion were floated. In the April to July period, around ¥100 billion worth of bonds are scheduled to be issued monthly. 2/

The Japanese Government has been promoting internationalization of the Tokyo capital market. Starting in January of 1978, several new developments have taken place. First, developing countries have been given access to the markets. As a result, the Korean Development Bank, the governments of the Philippines and Malaysia floated their bonds. Secondly, terms of issuance have been diversified. For example in April, Norway issued five-year bonds, and Argentina, eight-year bonds. The Asian Development Bank is expected to issue

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1/ Latest interest rates and terms and conditions of domestic long-term bonds are in Table I.

2/ The number and amount of yen-denominated foreign bonds issued in the Tokyo capital market is in Table II. Terms and conditions of individual issues are in Table III (1-3).

fifteen-year bonds in June. Thirdly, participation of non-resident underwriters in the underwriting syndicates was permitted, even though their number is limited to 5-10 per issue and the underwriting share to 5%. However, despite the progress in internationalization, three major problems still remain to be solved: (i) bond issuance by non-resident private entities, (ii) inflexibility of the interest rate structure, and (iii) absence of taking credit standing of issuers into consideration in determining the issuing conditions.

The World Bank with 8 issues totalling ¥178 billion, is by far, the largest foreign issuer in the Tokyo market, accounting for 24.9% of all bonds issued by non-residents. 3/ The World Bank bonds with their sheer magnitude alone have contributed greatly to internationalization and liberalization of the Tokyo capital market.

The Bank bonds sell quickly. Although it varies by each issue, the number of individuals purchasing our bonds have increased compared to the decreasing share held by financial institutions. Reflecting the relaxation of foreign exchange control and speculative motivation, non-residents for the first time purchased 8.5% of our 8th Series. 4/

Effects of the large public works expenditures by the Government may show during the second half of 1978, which would stop the downward trend of interest rates. It is not considered, however, to be sufficiently stimulative to create money demand for new equipment investments in the private sector. It is simply because the existing gap between demand and supply is so large that the effect of expenditures could easily be absorbed.

Savings

The recent money cycle in Japan shows that money surplus in the personal sector has grown steadily but has not been fully absorbed by the corporate and public sectors. Japan's gross savings ratio (32.2% in CY1976) and personal savings ratio (24.3% in CY1976) are one of the highest among the industrial nations. 5/ Although gross savings slowed down in FY74 and showed a decline in FY75 due to deterioration in corporate earnings, personal disposable income had steadily increased. The growth in FY76 of personal savings was 7.3%, but the personal savings ratio remained at a considerable high level of 23.8%. It is estimated that similar savings pattern will take place in FY77 and likely to be extended into FY78. 6/

In view of the moderate wage increase expected for this spring, the personal disposable income will not increase much. But personal savings ratio will stay at a high level, reflecting the cautious consumption attitude.

3/ A breakdown of the yen-denominated bonds by issuers is in Table IV.

4/ Purchase of World Bank bonds by issues is in Table V. Secondary market prices of our bonds are in Table VI (1-3).

5/ International comparison of savings and other relative indices are in Table VII.

6/ Transition in Savings is in Table VIII.

Several notable changes have taken place in the personal financial assets composition. First, postal savings almost doubled from 8.8% in FY65 to 15.1% in FY76. Secondly, bond investments also doubled from 4.3% to 8.3%, in sharp contrast with a decrease in stock investments from 10.8% to 2.8%. Thirdly, trust funds and insurances have steadily increased. This is a clear indication that personal savings preference has shifted to higher yielding assets. 7/

Assuming that this trend will continue, personal investments in bonds will increase at a higher rate than the GNP growth rate in the future. This is very encouraging for the Bank as the Tokyo capital market will be able to play a significant role for the future borrwoing requirements of the Bank. The market should have no problem in absorbing the massive amount of bonds to be floated in FY78 -- ¥25 trillion in all, including ¥1 trillion yen-denominated foreign bonds.

Under the above circumstances, the Tokyo market should continue to remain attractive for non-resident borrowers including the Bank. The yen-denominated foreign bonds are expected to play an important role in the market when corporate bonds stay inactive. It is certain that they will continue to contribute towards both internationalization and normalization of the Tokyo capital market.

Euro-yen Issue

In August 1977, the Bank issued its first Euro-yen bonds denominated in yen in the amount of 20 billion. Because of the chronic and large current account surplus, a similar operation has not been permitted by the Finance Ministry since. However, the Finance Ministry, in principle, does not object the Bank's either public or private placements denominated in yen in order to absorb liquidity existing outside of Japan. It is not an unreasonable expectation, therefore, that time will come for the Bank to be able to place yen bonds with the OPEC countries.

Borrowing from the Bank of Japan

The World Bank began to borrow from Japan in 1970. The first borrowing was the ¥36 billion serial obligations made by the Bank of Japan in lieu of advance repayments to be made by Japan of the World Bank loans. Since then until Februaty 1973, a total amount of ¥356 billion new money was provided to the Bank by the Bank of Japan.

Although no new money has been provided since 1973 when Japanese balance of payments turned deficits, the Bank of Japan rolled-over most of their loans to the Bank. The aggregate amount of the World Bank's borrowing from the Bank of Japan is ¥553.8 billion of which ¥393.8 billion is outstanding as of April 30, 1978.

7/ Personal Investment Pattern is in Table IX.

Today, under a strong surplus trend in the external payments, the Government and the Bank of Japan take a position that the World Bank's new borrowing from Japan should take a form of public borrowing. Therefore, the Bank of Japan has agreed only to roll-over the past loans. In October of last year, the Bank of Japan agreed with us on a new refinancing program to smooth out the large amount of our borrowing from the Bank of Japan which would become due in 1979. Under the program, the Bank is scheduled to borrow ¥30 billion in April and October through 1979, totalling ¥150 billion, which will almost offset the ¥156 billion the Bank is to repay the Bank of Japan through December 1979.

In view of the present attitude of the Government, as well as the continuing payments surplus position of Japan, we believe that this type of refinancing program can be successfully extended beyond 1979.

Private Placement and Syndicated Loans

In 1973 the Bank made a ¥10 billion private placement. This form of borrowing operation has been suspended since. However, there are now two new sources from which the Bank can tap long-term funds in Japan -- trust banks and life insurance companies.

The trust banks and life insurance companies which are the main sources of long-term money in Japan, have conventionally financed corporations. Faced with the existing low corporate demand for money and not much prospect of improvement in the future domestically, they have begun to look for sound investment opportunities abroad.

Pension funds, which trust banks manage, are rapidly growing and are a potential source of 20-25 year money for the Bank in the future. We can reasonably expect to reactivate private placement operation and/or initiate a syndicated loan borrowing program in Japan.

Bank's Investments in Japan

The World Bank began investing its yen liquidity in Japanese Government bonds and Government Guaranteed bonds in 1975, when the interest rate structure became relatively higher than other countries. Since then to March 1977, a total amount of ¥84 billion was invested in the Japanese market. 8/ During 1977 alone this is estimated to have produced approximately ¥7 billion earning to the Bank. In March 1977, when the long-term interest rates in Japan were drastically reduced, as a part of the reflation measure, the World Bank stopped further investment.

However, with the approval of the Japanese Government, the World Bank placed Euro-yen deposits totalling ¥33 billion with overseas branches of some Japanese banks last August. Our long-term investments in Japan are still limited to the Government and Government Guaranteed bonds. We have been trying and will continue our efforts in obtaining the Finance Ministry's approval of diversifying our investments in Japan. One of the attractions, for example, is bank debentures. Through these efforts, we hope to increase the Bank's income.

8/ List of IBRD Investments in Japan is in Table X.

CURRENT TERMS AND CONDITIONS OF DOMESTIC LONG-TERM BONDS

	Maturity (Yr)	Coupon (%)	Price (%)	Yield (%)
Government Bonds	10	6.1	99.50	6.180
Government Guaranteed Bonds	10	6.2	99.75	6.240
Local Government Bonds	10	6.2	99.50	6.281
Bank Debentures	5	6.2	par	6.200
Corporate Bonds (AA)	12	6.4	99.75	6.436
Corporate Bonds (AA)	10	6.3	99.50	6.381

OTHER INTEREST RATES

Long-Term Prime Rate		7.1 (%)
Bank Deposit	1 Yr	4.5
	2 Yrs	4.75
Official Discount Rate		3.5
Short-Term Prime Rate		3.75

YEN-DENOMINATED FOREIGN BONDS

Year		No. of Issues	Amount (¥ billion)	Cumulative No.	Cumulative Amount (¥ billion)
1970		1	6	1	6
1971		3	33	4	39
1972		6	85	10	124
1973		3	40	13	164
1974		-	-	13	164
1975		2	20	15	184
1976		6	65	21	249
1977		15	296	36	545
1978	I	8	170	44	715
	II				
	III				
	IV				

Terms and Conditions of Foreign Yen Bonds (1)
(1970 - 1976)

Date of Issue	Issuer	Amount (¥ billion)	Term (year)	Average Life (year)	Coupon (%)	Price (%)	Yield* (%)	No. of Underwriters
12/18/70	ADB (1st Series)	6	7	6.4	7.40	99.00	7.619	6
6/30/71	IBRD (1st Series)	11	10	9.0	7.75	99.50	7.839	16
10/20/71	IBRD (2nd Series)	12	10	9.0	7.50	99.50	7.587	19
11/19/71	ADB (2nd Series)	10	7	6.6	7.40	99.75	7.454	18
2/18/72	IBRD (3rd Series)	15	10	9.0	7.40	99.50	7.487	18
5/06/72	ADB (3rd Series)	10	10	9.4	7.30	par	7.300	18
7/25/72	Australia (No. 1)	10	10	9.0	6.90	par	6.900	20
8/04/72	IBRD (4th Series)	20	15	11.9	7.00	par	7.000	22
9/28/72	Province of Quebec (1st Series)	10	12	9.9	6.90	99.25	7.015	25
12/02/72	IBRD (5th Series)	20	15	11.9	7.00	par	7.000	26
7/14/73	IBRD (6th Series)	20	15	11.9	7.50	99.50	7.571	28
8/20/73	United Mexican States (1st Series)	10	12	9.9	7.90	99.75	7.940	29
11/12/73	Brazil (1st Series)	10	12	9.9	8.25	99.50	8.333	29
7/17/75	Finland (1st Series)	10	12	9.9	9.25	99.00	9.472	29
11/4/75	New Zealand (1st Series)	10	12	9.9	9.00	99.50	9.087	29
3/10/76	ADB (4th Series)	15	12	10.74	8.70	par	8.700	29
6/10/76	United Mexican States (2nd Series)	10	10	9.0	9.00	99.25	9.143	29
8/03/76	EIB (1st Series)	10	12	9.9	8.90	par	8.900	29
10/13/1976	Brazil (2nd Series)	10	10	9.9	9.90	99.00	9.191	30
11/30/76	Kingdom of Denmark (1st Series)	10	12	9.9	9.00	par	9.000	30
12/27/76	Singapore (1st Series)	10	12	9.9	8.90	par	8.900	30

* Calculated on a simple method.

Terms and Conditions of Foreign Yen Bonds (2)
1977

Date of Issue	Issuer	Amount (¥ billion)	Term (year)	Average Life (year)	Coupon (%)	Price (%)	Yield* (%)	No. of Underwriters
2/28/77	Manitoba(First Series)	12	10	9.0	8.60	par	8.600	30
5/11/77	EIB (Euro Issue)	10	7	5.5	7.25	par	7.250**	30
5/30/77	Finland(Second Series)	10	12	9.9	7.80	par	7.800	30
7/13/77	BFCE (First Series)	20	12	9.9	7.60	par	7.600	30
8/05/77	Ireland (First Series)	15	12	9.9	7.20	99.50	7.278	30
8/19/77	IBRD (Seventh Series)	30	15	12.3	7.00	99.75	7.034	30
8/24/77	IBRD (Euro Issue)	20	7	7.0	6.25	par	6.250**	30
9/29/77	IDB (First Series)	15	12	10.74	6.80	99.50	6.876	30
9/30/77	New Brunswick(1st Series)	12	12	9.9	7.00	99.75	7.038	30
10/24/77	EIB(Second Series)	15	10	9.4	6.80	99.75	6.842	30
10/29/77	UMS (Thirs Series)	20	10	9.0	7.10	99.75	7.142	30
10/29/77	Spain (First Sereis)	15	10	9.0	7.00	99.50	7.085	30
11/14/77	New Zealand (2nd Series)	27	10	9.0	6.80	99.80	6.833	30
11/24/77	Brazil (Third Series)	20	10	9.0	7.00	99.45	7.094	30
12/09/77	IBRD (Eighth Series)	50	15	12.3	6.8	par	6.800	30
12/15/77	Venezuela (First Series)	20	12	9.9	6.8	99.90	6.815	30
12/27/77	Singapore (2nd Series)	15	10	9.0	6.7	99.70	6.750	30

* Calculated on a simple method.

** Annual Coupon.

Terms and Conditions of Foreign Yen Bonds (3)

1978

* Calculated on a simple method

Date of Issue	Issuer	Amount (¥ billion)	Term (year)	Average Life (year)	Coupon (%)	Price (%)	Yield* (%)	No. of Underwriters
1/23/78	Kingdom of Denmark (2nd Series)	20	12	9.9	6.7	99.70	6.745	30
1/30/78	Manitoba (2nd Series)	15	12	9.9	6.7	99.90	6.715	30
1/31/78	KDB (Korean Development Bank)	10	10	9.0	6.7	99.70	6.750	30
2/24/78	Australia (2nd Series)	50	12	10.32	6.6	99.30	6.705	30
2/27/78	City of Oslo	15	12	9.06	6.6	99.10	6.735	30
2/28/78	Finland (3rd Series)	25	10	9.0	6.7	par	6.700	30
3/08/78	SNCF	20	12	9.9	6.6	99.15	6.728	30
3/30/78	Philippine	15	10	9.0	6.7	99.80	6.733	30
4/11/78	Malaysia	15	10	9.0	6.5	99.25	6.624	30
4/17/78	Argentina	15	8	7.4	6.4	99.10	6.571	31 (1)
4/18/78	Norway	25	5	5.0	5.7	99.20	5.907	31
4/25/78	Sweden	40	12	9.9	6.3	99.60	6.358	38 (7)
4/25/78	RENFE	16	12	9.9	6.5	99.15	6.627	36 (5)
5/22/78	Quebec (2nd Series)	30	12	10.32	6.4	99.40	6.488	37 (6)
5/26/78	EUROFIMA	10	12	10.32	6.3	99.50	6.373	37 (6)
5/30/78	Venezuela (2nd Series)	40	12	10.32	6.4	99.90	6.414	37 (6)
5/30/78	BNDE	16	10	9.0	6.5	99.30	6.616	37 (5)
June	Mexico (4th Series)	30						
June	BFCE (2nd Series)	30						
June	ADB (5th Series)	15						
June	Stockholm	10						
June	IFF	5						
July	IBRD (9th Series)	75						
July	Brazil (4th Series)	30						

( ) = Number of non-resident underwriter.

Table IV

YEN-DENOMINATED FOREIGN BONDS BY ISSUERS

(Thru. March 1978)

Issuers	No. of Issues	Amount (¥ billion)	%
IBRD	8	178	24.9
ADB	4	41	5.7
EIB	2	25	3.5
IDB	1	15	2.1
Finland	3	45	6.3
Spain	1	15	2.1
Australia	2	60	8.4
Mexico	3	40	5.6
Brazil	3	40	5.6
New Zealand	2	37	5.1
Denmark	2	30	4.2
Singapore	2	25	3.5
Venezuela	1	20	2.8
Ireland	1	15	2.1
Philippine	1	15	2.1
Manitoba	2	27	3.8
New Brunswick	1	12	1.7
Quebec	1	10	1.4
Oslo	1	15	2.1
BFCE	1	20	2.8
KDB	1	10	1.4
SNCF	1	20	2.8
Total:	44	715	100.0

PURCHASES OF IBRD YEN BOND ISSUES

Purchasers \ Series	1	2	3	4	5	6	7	8
1. City Banks	20.6%	18.3%	17.3%	17.1%	17.1%	17.1%	16.2%	15.6%
2. Long-Term Credit Banks	5.0	4.8	4.3	4.2	4.3	4.3	5.7	6.4
3. Trust Banks	1.6	1.8	2.3	2.5	3.2	3.4	3.4	3.7
4. Insurance Companies	0.2	0.7	1.0	1.7	0.9	0.4	2.3	0.4
5. Other Financial Institutions	34.6	33.5	29.3	33.3	30.4	18.1	23.6	19.2
6. Other Companies	5.4	2.6	4.0	4.0	3.3	2.5	9.8	5.1
7. Individuals	32.6	38.3	41.8	37.2	40.8	54.2	39.0	41.1
8. Non-Residents	0	0	0	0	0	0	-	8.5

Table VI - 1

WORLD BANK BOND SERIES (1)

Series	Date (1977) 4/07	4/14	4/21	4/28	5/06	5/12	5/19	5/26	6/02	6/09	6/16	6/23	6/30
First	98.85	NA	NA	NA	101.10	NA	101.00	101.00	NA	101.00	101.00	100.90	NA
Second	97.45	NA	98.35	NA	100.20	NA	100.50	100.40	100.40	NA	100.30	NA	100.10
Third	NA	NA	98.30	NA	99.90	NA	100.05	100.50	NA	100.50	NA	100.50	100.50
Fourth	92.25	NA	NA	94.25	94.50	NA	95.20	95.25	NA	96.45	96.45	96.40	96.50
Fifth	92.15	NA	NA	95.00	95.05	95.00	95.15	95.15	NA	96.05	96.00	NA	NA
Sixth	NA	NA	96.50	96.60	97.00	97.35	97.60	98.15	98.10	NA	99.35	99.15	99.45

	Date (1977) 7/07	7/14	7/21	7/28	8/04	8/11	8/18	8/25	9/01	9/08	9/16
First	101.40	NA	101.95	NA	101.95	101.70	NA	101.30	101.30	101.30	NA
Second	NA	101.00	101.70	NA	101.95	100.55	99.95	100.35	100.35	100.30	100.10
Third	101.00	101.05	101.30	101.30	101.35	NA	NA	100.15	100.55	100.50	100.35
Fourth	98.35	99.60	100.00	100.05	100.00	99.95	99.55	99.70	100.05	100.00	100.00
Fifth	98.30	99.85	100.05	100.05	100.05	100.15	99.75	99.55	NA	99.60	99.55
Sixth	100.95	101.15	101.95	101.90	102.00	100.40	NA	NA	100.60	100.20	100.25

Table VI - 2

WORLD BANK BOND SERIES (2)

Series	Date (1977) 9/22	9/29	10/06	10/13	10/20	10/27	11/4	11/10	11/17	11/24
First	NA	101.60	101.80	NA	NA	102.00	102.50	102.70	103.45	103.45
Second	100.20	101.00	101.20	NA	101.75	101.90	102.80	103.20	103.15	103.15
Third	NA	100.80	101.05	102.10	102.25	NA	102.80	103.55	103.50	103.70
Fourth	100.05	NA	101.60	NA	100.70	100.90	101.85	102.00	NA	NA
Fifth	99.60	100.15	101.15	NA	100.10	100.95	100.95	101.05	101.00	101.10
Sixth	100.25	100.45	100.55	101.35	101.50	102.00	103.00	103.20	103.20	103.20
Seventh							100.00	100.25	100.40	100.40

	12/01	12/08	12/15	12/22	12/29	1978 1/05	1/12	1/19	1/26	2/02
First	103.50	103.50	NA	102.95		NA	NA	NA	102.55	102.75
Second	103.15	NA	101.95	102.95		NA	104.40	NA	NA	NA
Third	103.60	NA	102.40	101.65		NA	103.05	102.90	102.85	103.05
Fourth	101.90	NA	100.90	101.00		NA	102.15	102.25	102.25	102.75
Fifth	101.20	101.40	101.00	101.00		101.30	102.20	102.35	102.35	102.35
Sixth	103.50	103.50	103.30	103.40		103.35	104.90	105.60	105.60	105.60
Seventh	100.50	100.60	101.00	101.10		NA	102.65	102.65	102.60	102.60

Table VI - 3

WORLD BANK BOND SERIES (3)

Series	Date 1978	2/09	2/16	2/23	3/02	3/09	3/16	3/23	3/30	4/06
First		102.75	102.75	102.95	NA	NA	NA	103.45	103.20	103.90
Second		103.10	103.10	102.95	102.85	102.85	104.05	104.80	NA	104.30
Third		NA	102.35	NA	102.30	NA	103.00	103.30	103.00	102.65
Fourth		102.00	NA	101.20	101.90	101.85	102.15	NA	NA	102.60
Fifth		101.75	101.45	100.80	101.90	102.00	102.40	NA	102.80	102.60
Sixth		104.60	103.90	103.60	104.60	104.50	104.80	105.50	105.30	105.25
Seventh		101.50	101.00	100.85	100.80	102.00	103.00	103.35	103.30	NA
Eighth					100.50	101.00	101.35	102.05	101.80	101.60

	4/13	4/20	4/27	5/04	5/11	5/18	5/25	6/01	6/08	6/15
First	104.30	103.20	NA	NA	103.00					
Second	103.80	103.10	NA	NA	NA					
Third	103.00	102.65	102.10	102.60	104.50					
Fourth	102.60	102.50	NA	101.40	101.80					
Fifth	102.60	102.70	102.00	NA	101.70					
Sixth	105.30	104.80	103.65	103.40	103.00					
Seventh	103.35	102.70	101.80	101.30	101.60					
Eighth	101.90	101.50	101.00	101.50	NA					

International Comparison of Savings and Other Relative Indices

(Calendar year, %)

		Gross Saving Ratio	Personal Saving Ratio	Increase in Personal Disposable Income: Nominal	Increase in Personal Disposable Income: Real	Consumer Price Increase	Unemployment Rate
	1972	38.8	21.9	16.3	11.0	4.5	1.4
	1973	39.8	25.1	25.2	12.8	11.7	1.3
Japan	1974	37.1	25.7	24.3	2.3	24.5	1.4
	1975	32.2	25.1	16.9	5.0	11.8	1.9
	1976	32.2	24.3	12.1	2.6	9.3	2.0
	1972	15.3	6.3	7.8	4.2	3.3	5.6
	1973	16.8	8.0	12.5	6.7	6.2	4.9
U. S. A.	1974	15.0	7.5	9.0	- 1.6	11.0	5.6
	1975	13.0	7.9	10.2	1.7	9.1	8.5
	1976	14.1	6.6	9.4	3.4	5.8	7.7
	1972	26.7	15.2	9.8	5.5	5.5	1.1
	1973	26.7	13.9	8.3	1.9	6.9	1.3
Germany	1974	25.1	14.3	8.0	1.6	7.0	2.6
	1975	21.7	14.5	9.1	3.6	6.0	4.7
	1976	22.6	-	-	-	4.5	4.6
	1972	18.7	7.0	14.8	7.8	7.1	3.8
	1973	19.8	7.7	14.1	6.2	9.1	2.7
U. K.	1974	17.3	10.3	18.4	1.9	16.0	2.6
	1975	16.8	11.2	23.4	- 0.7	24.2	4.2
	1976	-	-	-	-	16.5	5.8
	1972	27.2	12.3	11.6	5.6	6.2	393.9 1/
	1973	27.5	13.3	14.7	5.6	7.3	497.7
France	1974	25.8	12.3	17.2	2.9	13.7	840.0
	1975	22.3	-	15.5	3.8	11.8	941.2
	1976	-	-	-	-	9.6	-

Gross Saving Ratio = Gross Saving/GNP

Personal Saving Ratio = Personal Saving/Personal Disposable Income

1/ Unit: 1,000 persons

Table VIII

TRANSITION IN SAVINGS

(¥ billion, %)

FY	GNP (Nominal) (A)	Gross Saving (B)	Gross Saving Ratio (B)/(A)	Personal Disposable Income (C)	Personal Saving (D)	Personal Saving Ratio (D)/(C)	Personal Saving to GNP (D)/(A)
1972	94,765.3 (16.1)	37,105.4 (16.4)	39.2	62,136.9 (17.3)	13,019.0 (23.8)	21.0	13.7
1973	115,675.2 (22.1)	45,741.7 (23.3)	39.5	78,424.0 (26.2)	18,992.8 (45.9)	24.2	16.4
1974	136,422.4 (17.9)	48,561.2 (6.2)	35.6	98,743.1 (25.9)	25,158.6 (32.5)	25.5	18.4
1975	149,631.6 (9.7)	47,813.5 (-1.5)	32.0	113,143.7 (14.6)	28,024.5 (11.4)	24.8	18.7
1976	169,208.6 (13.1)	54,505.4 (14.0)	32.2	126,239.9 (11.6)	30,066.9 (7.3)	23.8	17.8

( ) Increase from Previous Year.

Table IX

PERSONAL INVESTMENT PATTERN

(%)

	End FY1965	End FY1976	Increase in FY1976
Cash & Demand Deposits	17.4	15.4	8.6
Fixed Deposits in Banks	35.1	36.1	34.0
Postal Savings	8.8	15.1	20.6
Trust Funds	4.9	6.2	7.1
Insurance	12.4	13.1	13.5
Bonds	4.3	8.3	12.1
Stocks	10.8	2.8	1.3
Investment Trust	3.4	1.5	1.7
Others	2.9	1.5	1.1
Total	100.0	100.0	100.0

Outstanding Balance of Bank's Investments

(in ¥ million)

	Month	G. Bond	G.G. Bond	Total
1975	June		19,421	19,421
	July		24,338	24,338
	August		29,302	29,302
	September		33,336	33,336
	October		38,325	38,325
	November		43,177	43,177
	December	2,765	45,402	48,167
1976	January	2,765	45,236	48,001
	February	5,966	45,079	51,045
	March	9,966	44,244	54,210
	April	14,766	44,130	58,896
	May	19,566	43,732	63,298
	June	21,966	43,607	65,573
	July	23,566	43,466	67,032
	August	26,366	43,136	69,502
	September	30,366	42,270	72,636
	October	30,366	42,003	72,369
	November	34,366	41,682	76,048
	December	34,366	41,539	75,905
1977	January	34,366	41,088	75,454
	February	38,366	40,715	79,081
	March	43,966	40,106	84,072
	April	43,966	39,702	83,668
	May	43,966	39,622	83,588
	June	43,966	39,277	83,243
	July	43,966	39,155	83,121
	August	43,966	39,044	83,010
	September	43,966	37,831	81,797
	October	43,966	37,309	81,275
	November	43,966	37,210	81,176
	December	43,966	36,408	80,374
1978	January	43,966	36,311	80,277
	February	43,966	35,928	79,894
	March	43,966	34,538	78,504
	April	43,966	34,436	78,402

JAPAN'S ODA

Japan's ODA

Tokyo Office
May 15, 1978

JAPAN's OFFICIAL DEVELOPMENT ASSISTANCE

The Japanese Government has recently pledged to greatly improve its development aid performance. After being criticized by the U.S. and EEC, the government has now promised to more than double its aid in three years (especially as a way to counter its trade surplus) and to substantially improve the quality of its aid. However, even the most optimistic government official is aware that the government will have to drastically (if not dramatically) change its policies and procedures if it wants to realize its pledge.

Aid Administration and Financing

Japan's aid program is mainly carried out by three agencies but decided upon by four to five government ministries. The agencies are:1/

(i) the Overseas Economic Cooperation Fund (OECF) for soft loans; and

(ii) the Export-Import Bank of Japan (EXIM Bank) for conventional loans (these agencies are explained in detail elsewhere), and

(iii) the Japan International Cooperation Agency (JICA) for technical assistance (this agency is explained in detail in Attachment A).

The framework for Japan's aid and the agencies' activities is decided upon, generally collectively, by various government ministries, including the Ministry of Finance (MOF), the Ministry of Foreign Affairs (MOFA), the Ministry of International Trade and Industry (MITI), the Economic Planning Agency (EPA), and sometimes the Ministry of Agriculture and Forestry and/or the Ministry of Transportation. An ad hoc Ministerial Meeting on Overseas Economic Cooperation acts as a coordinating body for all major policy decisions. However, the influence of the various ministries on the agencies' daily operations differs considerably; whereas JICA is under the almost complete control of MOFA, EXIM Bank is mainly controlled by MOF, and OECF substantially by EPA. In addition, MOF is in charge of multilateral aid and MOFA of bilateral aid. On every aid proposal, however, the lower level government officials have to reach consensus agreement, reconciling MOFA's views on the proposal's political impact, MOF's on its budgetary impact, and MITI's on its effect on Japanese interests.2/

1/ Relatively minor aid is also provided by the Japan Overseas Development Corporation, the Overseas Fisheries Cooperation Division, the Japan Petroleum Development Corporation, and the Metal Mining Agency of Japan.

2/ An aid request from the government of e.g. Tanzania has to be submitted through the Japanese Ambassador in Dar es Salaam to MOFA, which will distribute it to the other ministries for discussion and agreement; it is only after this agreement that the government will instruct JICA to provide technical assistance or OECF or EXIM Bank to study the possibility of providing financial assistance.

MOF gains additional influence through its contributions to the financing of OECF and EXIM Bank. It provides funds for grant and lending programs, and allows the carry-over of undisbursed funds into the next fiscal year; it also may lend to the agencies through its Trust Fund Bureau, which administers postal savings and national pension funds. Although MOF, worried about its heavy deficit financing (29.9% in FY77 and estimated at 32.5% for FY78), had clamped down on ODA allocations for some years, it recently again recognized the importance of Japan's performance in this field. The total budgetary allocation for ODA increased by 15.8% from ¥549 billion in FY77 to ¥635 billion in FY78 (details set out in Table I). Out of this, the appropriation for bilateral aid, 70.5% of the total, shows an increase of 13.6% and for multilateral aid, 29.5% of the total, an increase of 21.7%.

Aid Performance and Prospects

Japan's aid performance has been conspicuously poor with an ODA ratio of only 0.20% in CY76 and 0.21% in CY77, and an ODA grant element of 74.9% in CY76. Japan only became an official aid donor in CY61 with ODA of US$106.9 million, representing 0.20% of GNP. Since then, its ODA has been increasing more or less gradually to US$1.1 billion in CY76, which, however, again meant an ODA ratio of 0.20% (down from 0.32% in CY67; for details, see Table II). The terms of Japan's loans improved slightly with a grant element of 51.5% in CY76; in that year, the average interest rate on ODA loans was 3.3%, with a maturity of 24.9 years including 7.8 years of grace (see Table III). However, in all aspects, Japan still ranked at the bottom of the DAC performance ladder (see Table IV).3/

Bilateral aid was by far the major component of Japan's ODA throughout the 1960's, but its share declined to 61% in CY76. Although the volume of Japan's commodity aid almost matched its project assistance during the 1960's, the latter increased more; in CY76, commodity aid accounted for 19% of bilateral aid, project aid for 56%, and debt relief for 10% (see Table V). After CY72, the government started to somewhat diversify its regional aid allocation; in CY76, 77% went to Asia, 1.3% to the Middle East, 6.6% to Latin America, and 10.7% to Africa (see Table V). Of the Asian aid, the major part went to the ASEAN countries and Burma. Japan has always allocated a large portion of its bilateral aid to low income countries. In CY76, 56.2% of its bilateral aid went to countries with a per capita income of $200 or less, and 81.2% to those with an income of $520 or less. However, the share of the LLDCs has been minor (7.9% in CY76), mainly because of Japan's focus upon East Asia; in this, its performance again ranked far below the DAC average (17.9% in CY76).

Japan's multilateral aid has noticeably increased; its share of total ODA increased from 15.4% in CY71 to 31.9% in CY76. The Bank and IDA have been the main recipients, accounting for about 40%, followed by the Asian Development Bank with about 25%.

3/ See also the enclosed "Memorandum of Japan", submitted to DAC on the Occasion of Annual Aid Review, 1977.

In CY76, Japan's total flow of resources to the developing countries amounted to about US$4 billion, or 0.72% of its GNP (see Table II). Although other official flows and private flows had been increasing rapidly until CY73 (when the total flow amounted to 1.44% of GNP), they were seriously affected by the "oil shock", with especially private flows dropping from US$5.8 billion in CY73 to US$3.0 billion in CY74, resulting in a decline in total net offical and private flows as a percentage of GNP from 1.44% in CY73 to 0.65% in CY74. The economic recession of the past few years prevented the percentage from again exceeding 1%.

The Prime Minister now recently pledged to more than double Japan's aid in three years and to greatly improve its ODA grant element. Taking CY76 as the basis year, he promised to at least double Japan's aid expressed in US dollars (to US$2.2 billion), and to attempt to double it expressed in Japanese yen, by CY79.4/ The press had been especially active in pressing the government to improve its ODA perforamce.5/ However, it was only because of increasing criticism from especially the U.S. and E.E.C. that the government started to move. Even the most conservative government agencies and officials now feel that improving Japan's ODA may be one of the few tools left to alleviate foreign criticism of especially Japan's massive current account surplus.6/

As a result, Japan's ODA performance in this and the following years can be expected to improve. However, it is doubtful that the government will be able to realize its pledge without taking some dramatic steps. Japan's aid program is still relatively new, and its aid agencies somewhat inexperienced and understaffed. Of even more importance, perhaps, is the problem of, on every project, having to reach consensus agreement among the ministries involved.7/

To cope with its aid processing constraints, the government has agreed to simplify its procedures and to increase its cooperation with international aid agencies. However, it is still studying and still has to work out detailed decisions on:

4/ However, even then Japan's ODA would only rise to about 0.23% and 0.27% respectively.

5/ The Asahi Shimbun (with a circulation of 7 million) and the Nihon Keizai Shimbun (Japan's Wall Street Journal with a circulation of 1.5 million) had been taking the lead.

6/ In trying to achieve this, the government has the support of the Japanese public. For example, a recent survey of the Cabinet Public Relations Office found that 77% of the people interviewed were in favor of Japan's expanding its economic aid to developing countries.

7/ It is symptomatic that even now there is still disagreement about the exact meaning of the government's pledge; Foreign Minister Sonoda recently announced that CY77 should be taken as the basis year.

A) composition and quality of aid;

B) untying of aid;

C) local cost financing;

D) basic human needs;

E) debt relief for poorest countries; and

F) co-financing

The government's present thinking is set out in Attachment B.

Table I

Japan's FY76-78 ODA Budgets

Disbursements? Data - the '76 [illegible] Table IV [illegible]

(in million)

	FY76 (¥)	FY77 (¥)	FY78 Gov't Proposal (¥)	FY78 Gov't Proposal ($) 1/	FY77/76 Increase (%)	FY78/77 Increase (%)
A. Grants	170,456	228,486	296,600	1,348.2	34.0	29.8
I. Bilateral grants	64,479	74,496	109,200	496.4	15.5	46.5
1. Reparation payments and others	6,560	1,599	1,600	7.3	-75.6	-
2. Food aid	4,713	11,021	17,400	79.1	133.8	57.5
3. Technical assistance	37,206	43,876	51,200	232.7	17.9	16.8
4. Others	16,000	18,000	39,000	177.3	12.5	116.7
II. Grants & capital subscription payments to multilateral institutions	105,977	153,990	187,400	851.8	45.3	21.7
1. Grants to UN agencies and other institutions	22,497	21,103	21,500	97.7	6.2	1.8
2. Capital subscription payments and contributions to multil. institutions	83,480	132,887	165,900	754.1	59.2	24.9
B. Official Loans	295,632	334,920	361,600	1,643.6	13.3	8.0
I. EXIM Bank	65,000	65,000	46,000	209.1	0	-29.2 2/
II. OECF	207,000	241,000	282,000	1,281.8	16.4	17.0
III. JICA	13,200	17,200	18,700	85.0	30.3	8.7
IV. Others	10,432	11,720	14,900	67.7	12.3	26.8
Sub Total:	466,088	563,406	658,200	2,991.8	20.9	16.8
Loans called in and others	-15,391	-14,869	-22,800	-103.6		
Total ODA:	450,697	548,537	635,400	2,888.2	21.7	15.8

1/ US$1 = ¥220.

2/ Since the demarkation of job functions with OECF in 1975, EXIM Bank has not committed new loans. The amounts allocated are for disbursement under old commitments.

Source: MITI

III. ODA

(i) What is Meant by 'Doubling'

1. Precision has not yet been given by the Japanese authorities to the pledge. A consensus has not yet been reached at the Cabinet level. Nihon Keizai reported that at a Cabinet meeting on May 16, the P.M., MOFA and MITI favored doubling yen disbursements from a 1977 base by 1980. MOF however argued in favor of the 1976 U.S. dollar base and the Minister repeated this position more recently in the Diet referring to 1980 (4 years) as the target date. We have taken the pledge to mean a doubling of yen disbursements (net) based on 1977 for the following reasons:-

(i) Doubling from a 1976 base in U.S. dollars would leave the ratio of ODA to GNP in 1979 at 0.21% the same as in 1977. (If 1980 were taken as the target as the target year the ratio would decline to 0.19% of GNP.) In fact the doubling even could be achieved this calendar year in part because of yen appreciation. Therefore, a pledge on this basis would not be seen as reflecting Japan's intentions to the international community.

(ii) Doubling from a 1977 base in U.S. dollars would raise the ODA ratio only to 0.24% of GNP by 1980 and therefore might not represent sufficient progress for the Japanese towards the average ODA ratio for DAC members (0.33% in 1976). 1/

(iii) The 0.7% ODA target is set in terms of net disbursements and therefore Japan is likely to put its own pledge on this basis.

1/ DAC's provisional estimate for 1977 is 0.31%.

2. Obviously, in political terms it is important for the Bank to help the consensus form in line with the 1977 yen base. The various permutations are shown in the table attached.

(ii) How Will it be Possible to Double Yen Disbursements Between 1977-80

3. Rapid increase in ODA should be possible through (i) expansion of program aid (commodity and equipment supply loans), (ii) support for development efforts in the ASEAN region, including the ASEAN regional projects, and (iii) increased assistance to Vietnam (made possible as the problem associated with past loans to South Vietnam has been resolved). The most important factor is the commitment of the government to increase ODA, based on a consensus among all important ministries and supported by the public. A possible limiting factor that might prevent the achievement of the target is the weakness of the aid administration.

(iii) What Counts as ODA

3. (a) The DAC definition of ODA is as follows:- 1/ to be eligible for inclusion in ODA, a transaction should be:

- undertaken by the official sector;
- administered with the promotion of the economic development and welfare of developing countries as its main objective;
- concessional in character and contain a grant element of at least 25%.

(b) Co-financing with the Bank counts as ODA if the grant element is 25% or above. It counts towards the ODA target only as disbursements take place on co-financed operations. (See separate note on co-financing commitment levels.)

1/ "Resources for Development - a short guide to statistics," dated February 27, 1975.

(c) Capital subscriptions to IBRD. Paid in capital counts as ODA, callable does not.

(d) IDA Contributions. Only disbursements to IDA count towards the ODA target according to DAC reporting instructions. A note deposit does not. However, Japan includes note deposits in its ODA disbursements even though disbursements take place only as IDA makes its pro rata calls. If Japan were to make its second and third payments in IDA 5 in cash rather than in notes, Japan would be in compliance with DAC reporting instructions. (In addition IDA would derive investment income of about $250 million over FY79 to FY87). Cash payments would still be called pro rata by IDA and would not involve acceleration for Japan or delayed drawings for other contributors.

(iv) What are the Implications for IDA 6

3. IDA 6 disbursements will not start until FY81 so that contributions to IDA 6 will sustain Japan's ODA levels in the period beyond the pledge. However, the atmosphere created by the Fukuda pledge is expected to make it easier for the Japanese to be forthcoming in the IDA 6 negotiations, particularly in burden sharing negotiations.

Attachments: (i) Japan's Pledge to 'Double' ODA
(ii) Flow of Development Finance Table

VIIIc. FLOWS TO MULTILATERAL INSTITUTIONS BY DONOR COUNTRY a/
(Calendar Years; US$ million)

JAPAN

	1965-67 Average	1970	1975	1976	1977	1978	1979	1980
CAPITAL SUBSCRIPTIONS PAYMENTS								
IBRD: b/ Past Increases	3.6							
Selective Increase						39.9		
General Increase								
IDA: c/ Calls On 1-4	13.8	22.2	147.5	147.8	109.7	110.4	81.7	61.2
5					8.1	26.0	71.6	127.0
6								10.0
7								
IFC: d/	—	—	—	—	—	4.6	4.6	4.6
Sub-Total Bank Group	17.4	22.2	147.5	147.8	117.8	180.9	157.9	202.8
IDB: Ordinary Capital					3.8	3.8	1.4	1.4
Concessional Capital				22.7	18.9	31.9	35.6	38.4
ADB: Ordinary Capital	)13.3	)51.0	24.1	-	-	20.3	20.3	20.3
Concessional Capital	)	)	54.7	91.6	28.2	47.2	60.3	79.8
Other	—	—	5.5	17.4	20.0	25.0	30.0	40.0
TOTAL CAPITAL SUBSCRIPTIONS	30.7	73.2	231.8	279.5	188.7	309.1	305.5	382.7
Other e/	8.9	13.8	66.6	74.1	38.7	96.8	179.0	295.6
TOTAL MULTILATERAL	39.6	87.0	298.4	353.6	227.4 f/	405.9	484.5	678.3
Total ODA	304.8	458.0	1147.7	1104.9	1421.0	2136.5	2691.8	3391.5
KEY RATIOS								
Multilateral ODA								
- As % of Total ODA	13	19	26	32	16	19	18	20
- As % of GNP	.03	.04	.06	.06	.04	.05	.05	.04
Bank Group Subscriptions								
- As % of Total ODA	6	5	13	13	8	8	6	6
- As % of GNP	.01	.01	.03	.03	.02	.02	.02	.02
IDA								
- As % of Total ODA	5	5	13	13	8	6	6	6
- As % of GNP	.01	.01	.03	.03	.02	.02	.01	.02
MEMO ITEMS (Fiscal Year)								
IDA Cash/Note Deposits	13.7	-	145.6	142.9	149.6	310.4	310.4	310.4
IDA 5 Note Deposits						310.4	310.4	310.4
IDA 5 Calls ($m)						8.9	42.3	100.0
Fb						2.6	11.9	28.2

a/ Source: Historical figures through 1976 from DAC. Preliminary estimates for 1977 (actuals for Bank Group). All other figures are projections made by Bank staff.

b/ Assumes: (1) a Selective Capital Increase of about $8.5 billion approved with 10% paid-in and released in FY78; and (2) an illustrative General General Capital Increase of about $40 billion approved in FY82 with 10% paid in and released over the three-year period FY83-85.

c/ Assumes: (1) that contributions to IDA 5 will total $8,022 million, i.e. total pledges valued at exchange rates of 12/31/77; (2) IDA 6 and IDA 7 will be respectively 23% and 50% larger than IDA 5 (reflecting 7% per year nominal growth); and (3) all contributions to IDA 5, IDA 6 and IDA 7 will be paid in three approximately equal annual installments and drawn pro rata.

d/ Assumes: an IFC Capital Increase of $480 million paid in and released over the four-year period FY79-82. Japan is following its procedure and has indicated that the first installment will not be available until FY79.

e/ Residual on the assumption that (a) Japan reports calls to IDA in its ODA from 1978-80 rather than note deposits and (b) that by 1980 multilateral ODA will equal 20% of the total.

f/ The Japanese have reported a multilateral ODA figure for1977 of $524 million compared with the figure shown of $227 million. The full details of the Japanese figure are not known but it is believed that the main reason for the difference is that the first deposit of notes for IDA5 is included in the figure of $524 million.

P&B
5/31/78

IV. CO-FINANCING

IV. Co-Financing

(i) What Can We Accept in CY79, CY89, CY81

1. The IDA lending program (adjusted to a calendar year basis for CY79-81) appears to offer room for accepting co-financing opportunities on concessionary terms (from OECF) at illustrative levels as shown in the table below. They would imply a build up of co-financing operations to about 10-15 a year by 1980, consistent with the emphasis placed by the Japanese authorities up to this point in proceeding on a project by project basis.

Illustrative Co-financing Levels on Concessionary Terms to the Poorest Countries 1/

	CY79	CY80	CY81
Total Project Costs	2370	2760	2990
IDA Credits	1370	1560	1690
Balance to be financed	1000	1200	1300
Co-financing from Japan	100	150	200

2. While an amount of co-financing up to this level or beyond could be accepted by the Bank, the possibilities need to be seen against:-

(i) the small number of co-financing operations with OECF to date (see table attached)

(ii) the complicated procedure involving clearance of individual operations by four ministries (MOF, EPA, MOFA and MITI)

must improve [illegible] is to be expanded

(iii) the particular technique chosen (joint financing, untied aid, and the possibility of local cost financing would be simplest for the Bank).

1/ This estimate has been derived (i) by adjusting the IDA lending program FY79-82 to a calendar year basis (excluding the Indian subcontinent), (ii) by assuming that IDA will finance about 60% of project costs excluding co-financing, (iii) that Japan might be ready to co-finance 10-15% of remaining costs.

3. The Bank would accept co-financing offers from EximBank or from Japanese private banks for additional amounts.

4. While the concessionary element of Japan's ODA (75% in 1976) is lower than the DAC average (89%), we would accept standard Japanese ODA loan terms for the poorest countries. (3% interest , 26 years maturity including 8 years grace.) For the middle income countries, EximBank terms are suitable (not at best more concessionary than 4.5% interest, 20-year maturity including 6 years grace.)

CO-FINANCING WITH OECF, JAPAN, FROM 1969

	Country and Project				US$m		US$m		US$m
1.	Indonesia	- Pusri Fertilizer		IDA	30.0	OECF	8.0	ADB	10.0
	CR193 of 6.15.70							ASAID	20.0
2.	Indonesia	- Telecommunications		IDA	12.8	OECF	.1	Australia	1.2
	CR210 of 7.13.70								
3.	Korea	- Railway IV		IBRD	40.0	OECF	50.1	Europ. consort.	48.4
	LN863 of 11.22.72		LN663	IBRD)	24.1				
			CR183	IDA)				KfW	5.4
4.	Indonesia	- Pusri Fertilizer		IDA	5 0	OECF	7.5	USAID	4.0
	CR193 of 5.21.73								
5.	Thailand	- Ban Chao Nen Hydro		IBRD	75.0	OECF	41.1		
	LN977 of 4.15.74								
6.	Malaysia	- Sixth Power		IBRD	45.0	OECF	48.0	UKCDC	12.0
	LN1031 of 7.25.75							CIDA	3.0
7.	Nepal	- Kulekhani Hydroelectric		IDA	26.0	OECF	10.0	Kuwait Fund	15.9
	CR600 of 1.9.76							UNDP	3.0
8.	Egypt	- Port of Alexandria		IBRD	45.0	OECF	19.2	USAID	30.8
	LN1239 of 4.19.76								
9.	Indonesia	- Second Shipping		IBRD	54.0	OECF	25.0	Norway	99.7
	LN1250 of 5.20.76								
10.	Egypt	- Suez Canal Expansion		IBRD	100.0	OECF	220.0	Arab Fund	41.0
	LN 1482 of 0.28.77							IDB	12.0
								Kuwait Fund	20.0
								Saudi Fund	50.0
								Abu Dhabi Fund	15.0
								USAID	25.0
								Other	97.0
11.	Korea	- Sixth Railway		IBRD	120.0	OECF	3.2	Europ. Consort.	8.6
	(Approved 3.30.78)							USEXIM Bank +	
							450±	Commercial Banks	39.7
								Suppliers' Crd.	10.8

April 25, 1978

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: June 2, 1978

FROM: Frank Vibert F.V.

SUBJECT: Fukuda Pledge: Revised Ministry of Finance views

1. Mr. Iwasaki called this morning to say that Murayama had called from Tokyo last night to say that the M.O.F. interpretation of the Fukuda pledge is as follows :-

- base year 1976
- in U.S. dollars ($1.1 billion)
- target year 1979 (rather than 1980)

2. Our estimate (as shown in the briefing note) is that this interpretation (U.S. $2.2 billion in 1979) is consistent with a ratio of ODA to GNP of 0.21 percent in 1979.

CC: Mr. Cargill
Mr. Hope

FV:fs

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(Through Mr. H. Georg Gabriel, Director, PAB)

DATE: June 2, 1978

FROM: Chandra Hardy, Division Chief, FS/PAB

SUBJECT: Japan ODA

1. As you requested please find the following revised Tables attached.

(i) Table VIII updated to show DAC preliminary 1977 actuals.

(ii) Projections of Japan's 1980 ODA to include "Projections using 1976 as a base and 'doubling' in dollars by 1979."

2. You have noted the difference in 1980 multilateral ODA in Tables VIIIa and VIIIc. We drew your attention to these differences when we forwarded Table VIIIc on April 11. Japan reports multilateral ODA on a cash/note deposit basis and this is reflected in projections incorporated in Table VIIIa. Table VIIIc is a revision of the Calls Tables and contributions to IFIs are projected on a Calls or use of funds basis.

3. Attached please find Annex A which gives a record of some Official Statements on the 'doubling' of Japan's ODA.

Attachments

CHardy/am

VIII: FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE FROM DEVELOPMENT ASSISTANCE COMMITTEE MEMBERS[a/]
(Calendar Years, US, $m. and % of Projected GNP)

	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Australia	59	119	202	202	267	286	430	507	385	427	505	582	669
	.38	.53	.59	.53	.59	.44	.55	.60	.42	.45	.47	.48	.49
Austria		10	11	12	18	40	59	64	39	118	98	110	132
		.11	.07	.07	.09	.15	.18	.17	.10	.24	.18	.18	.19
Belgium	101	102	120	146	193	235	271	378	340	369	507	644	749
	.88	.60	.46	.50	.55	.51	.51	.59	.51	.46	.64	.65	.67
Canada	75	96	346	391	492	515	713	880	887	994	1341	1582	1818
	.19	.19	.42	.42	.47	.43	.50	.56	.47	.51	.61	.64	.66
Denmark	5	13	59	74	96	132	168	205	214	255	328	386	430
	.09	.13	.38	.43	.45	.48	.55	.58	.57	.60	.67	.70	.70
Finland b/		2	7	13	20	28	38	48	51	49	63	73	90
		.02	.07	.12	.15	.16	.17	.18	.18	.17	.17	.18	.20
France	823	752	971	1075	1320	1461	1616	2091	2167	2394	2665	3002	3374
	1.38	.76	.66	.66	.67	.57	.59	.62	.63	.63	.62	.62	.63
Germany	223	456	599	734	808	1102	1433	1689	1384	1386	1883	2092	2313
	.31	.40	.32	.34	.31	.32	.37	.40	.31	.27	.32	.32	.31
Italy	77	60	147	183	102	192	216	182	226	168	237	248	271
	.22	.10	.16	.18	.09	.14	.14	.11	.13	.09	.11	.10	.10
Japan	105	244	458	511	611	1011	1126	1148	1105	1421	2092	2530	3029
	.24	.27	.23	.23	.21	.25	.25	.23	.20	.21	.27	.29	.30
Netherlands	35	70	196	216	307	322	436	604	720	899	1167	1338	1509
	.31	.36	.61	.58	.67	.54	.63	.75	.82	.85	1.00	1.02	1.03
New Zealand c/			14	17	21	29	39	66	53	50	67	81	92
			.23	.23	.25	.27	.31	.52	.43	.35	.45	.48	.49
Norway	5	11	37	42	63	87	131	184	221	295	406	464	538
	.11	.16	.32	.33	.43	.43	.57	.66	.71	.82	.96	.97	.98
Sweden	7	38	117	159	198	275	402	566	608	782	909	1047	1162
	.05	.19	.38	.44	.48	.56	.72	.82	.82	1.00	.97	1.00	1.00
Switzerland	4	12	30	28	65	65	68	104	112	118	104	123	141
	.04	.09	.15	.12	.21	.16	.14	.19	.18	.19	.16	.17	.17
United Kingdom	407	472	447	562	609	603	730	863	835	907	949	1073	1194
	.56	.47	.37	.41	.39	.34	.38	.37	.38	.37	.37	.38	.38
United States d/	2702	3418	3050	3324	3349	2968	3439	4007	4334	4123	5492	6171	6896
	.53	.49	.31	.32	.29	.23	.24	.26	.26	.22	.26	.26	.26
GRAND TOTAL													
ODA ($b.-Nominal Prices)	4.6	5.9	6.8	7.7	8.5	9.4	11.3	13.6	13.7	14.8	18.8	21.5	24.4
	.52	.44	.34	.35	.33	.30	.33	.36	.33	.31	.35	.36	.37
ODA ($b.-Constant 1977 Prices)	12.2	14.1	14.4	15.5	15.8	14.3	14.2	15.1	14.8	14.8	17.4	18.6	19.7
GNP ($t.-Nominal Prices)	0.9	1.3	2.0	2.2	2.6	3.1	3.4	3.8	4.1	4.7	5.3	5.9	6.6
ODA Deflator e/	.38	.42	.47	.50	.54	.66	.80	.90	.93	1.00	1.08	1.16	1.24

a/ Figures for 1977 and earlier years are based on actual data. Those for 1978-80 are based on OECD and World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements by governments. They are projections, not predictions of what will occur unless action not now planned takes place.
b/ Finland became a member of DAC in January 1975.
c/ New Zealand became a member of DAC in 1973. ODA figures for New Zealand are not available for 1960 and 1965.
d/ In 1949, at the beginning of the Marshall Plan, US Official Development Assistance amounted to 2.79% of GNP.
e/ Includes the effects of changes in exchange rates.

Source: DAC/OECD.

P&B
12/22/77

VIIIa. Flow of Official Development Assistance: Pattern for DAC Donors
(Calendar years: U.S. $ million and % of GNP)

	1965-67 Average	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1985
GERMANY													
Multilateral	52	133	205	207	311	418	528	340	467	554	647	724	1192
Bilateral	409	466	529	601	791	1015	1161	1044	1203	1329	1445	1589	2814
Total	461	599	734	808	1102	1433	1689	1384	1670	1883	2092	2313	4006
Multilateral as % of GNP	.04	.07	.10	.08	.09	.11	.12	.08	.09	.09	.10	.10	.09
Bilateral as % of GNP	.34	.25	.24	.23	.23	.26	.28	.23	.23	.23	.22	.21	.22
Total as % of GNP	.38	.32	.34	.31	.32	.37	.40	.31	.32	.32	.32	.31	.31
ITALY													
Multilateral	31	84	46	51	74	216	123	148	163	165	174	190	320
Bilateral	67	63	137	51	118	- c/	59	78	71	72	74	81	138
Total	98	147	183	102	192	216	182	226	234	237	248	271	458
Multilateral as % of GNP	.05	.09	.05	.05	.05	.14	.07	.09	.08	.08	.07	.07	.07
Bilateral as % of GNP	.10	.07	.13	.04	.09	-	.04	.04	.04	.03	.03	.03	.03
Total as % of GNP	.15	.16	.18	.09	.14	.14	.11	.13	.12	.11	.10	.10	.10
JAPAN													
Multilateral	38	86	79	133	246	246	297	352	537	614	694	902	1662
Bilateral	267	372	432	478	765	880	851	753	1187	1478	1836	2127	4144
Total	305	458	511	611	1011	1126	1148	1105	1724	2092	2530	3029	5806
Multilateral as % of GNP	.03	.04	.04	.05	.06	.06	.06	.06	.08	.08	.08	.09	.09
Bilateral as % of GNP	.26	.19	.19	.16	.19	.19	.17	.14	.18	.19	.21	.21	.21
Total as % of GNP	.29	.23	.23	.21	.25	.25	.23	.20	.26	.27	.29	.30	.30
NETHERLANDS													
Multilateral	35	42	64	114	92	133	239	224	291	337	384	434	806
Bilateral	57	154	152	193	230	303	365	496	715	830	954	1075	1759
Total	92	196	216	307	322	436	604	720	1006	1167	1338	1509	2565
Multilateral as % of GNP	.17	.13	.17	.25	.15	.19	.30	.25	.28	.29	.29	.30	.32
Bilateral as % of GNP	.27	.48	.41	.42	.39	.44	.45	.57	.69	.71	.73	.73	.71
Total as % of GNP	.44	.61	.58	.67	.54	.63	.75	.82	.97	1.00	1.02	1.03	1.03
NEW ZEALAND d/													
Multilateral	-	3	4	5	9	10	16	10	14	19	21	26	42
Bilateral	-	11	13	16	20	29	50	43	42	48	60	66	112
Total	11	14	17	21	29	39	66	53	56	67	81	92	154
Multilateral as % of GNP	-	.05	.05	.06	.08	.08	.13	.08	.10	.13	.12	.14	.13
Bilateral as % of GNP	-	.18	.18	.19	.19	.23	.39	.35	.31	.32	.36	.35	.36
Total as % of GNP	.20	.23	.23	.25	.27	.31	.52	.43	.41	.45	.48	.49	.49
NORWAY													
Multilateral	9	22	24	33	46	58	82	112	160	203	232	269	495
Bilateral	4	15	18	30	40	73	102	106	160	203	232	269	495
Total	13	37	42	63	87	131	184	218	320	406	464	538	990
Multilateral as % of GNP	.12	.20	.19	.22	.23	.25	.29	.37	.43	.48	.49	.50	.50
Bilateral as % of GNP	.05	.12	.14	.21	.20	.32	.37	.34	.43	.48	.49	.50	.50
Total as % of GNP	.17	.32	.33	.43	.43	.57	.66	.71	.87	.96	.97	1.00	1.00
SWEDEN													
Multilateral	30	54	91	91	122	168	193	206	270	310	358	400	665
Bilateral	22	63	68	107	153	234	373	401	500	599	689	762	1290
Total	52	117	159	198	275	402	556	608	770	909	1047	1162	1955
Multilateral as % of GNP	.13	.18	.25	.22	.25	.30	.28	.28	.33	.33	.50	.50	.50
Bilateral as % of GNP	.10	.20	.19	.26	.31	.42	.54	.54	.60	.64	.50	.50	.50
Total as % of GNP	.23	.38	.44	.48	.56	.72	.82	.82	.93	.97	1.00	1.00	1.00

VIIIb. FLOW OF FINANCIAL RESOURCES TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES BY COUNTRY: HISTORICAL DETAIL

(Net Disbursements: US$ Millions)

JAPAN

	1965-67 Average	1970	1971	1972	1973	1974	1975	1976
OFFICIAL DEVELOPMENT ASSISTANCE (ODA)								
A. Bilateral Official Development Assistance								
Grants and Grant-like Contributions	108.4	121.2	125.4	170.6	220.1	198.6	201.7	184.9
Technical Assistance	8.2	21.6	27.7	35.6	57.2	63.5	87.2	108.1
Food Aid	-	23.3	16.8	11.4	7.5	9.9	10.6	4.6
Other Grants and Grant-like Contributions	100.2	76.2	80.9	123.6	155.4	125.2	103.9	72.2
Development Lending and Capital	158.8	250.3	306.7	307.2	545.1	681.8	648.7	568.1
New Development Lending	140.3	236.4	186.1	261.0	379.1	565.9	448.2	454.4
Food Aid Loans	-	-	116.7	22.5	97.0	61.3	2.2	-
Debt Reorganization	18.5	13.9	3.8	23.7	68.6	54.6	186.1	96.6
Equities and Other Bilateral Assets	-	-	-	-	-	-	12.3	17.1
Sub-Total Bilateral ODA	267.2	371.5	432.0	477.8	765.2	880.4	850.4	752.9
B. Contributions to Multilateral Institutions								
Grants	4.1	7.7	10.8	16.5	22.6	37.5	70.8	77.8
UN Agencies	4.0	7.2	10.0	15.5	22.6	35.7	68.9	75.2
EEC	-	-	-	-	-	-	-	-
Other	0.1	0.5	0.8	1.0	-	1.8	1.9	2.6
Capital Subscription Payments	30.7	73.2	58.5	106.2	214.1	212.6	231.8	279.5
IBRD	3.6	-	25.7	-	-	-	-	-
IDA	13.8	22.2	-	104.2	58.4	150.3	147.5	147.8
Regional Banks	13.3	51.0	32.8	2.0	150.3	56.5	78.8	91.6
Other	-	-	-	-	5.4	5.8	5.5	40.1
Concessional Lending	2.8	5.6	9.3	10.5	9.1	-4.3	-5.2	-5.3
Sub-Total Multilateral Institutions	37.6	86.5	78.7	133.3	245.8	245.8	297.3	352.0
TOTAL ODA	304.8	458.0	510.7	611.1	1011.0	1126.2	1147.7	1104.9
As % of GNP	0.29	0.23	0.23	0.21	0.25	0.25	0.23	0.20
OTHER OFFICIAL FLOWS (OOF)								
A. Bilateral Other Official Flows	161.0	492.6	408.8	531.0	823.8	806.8	1354.5	1247.8
Official Export Credits	151.5	349.5	271.7	266.3	254.0	8.3	339.0	471.0
Debt Relief	-	-	-	-	-	-	-	-
Equities and Other Bilateral Assets	9.5	143.1	136.3	264.7	569.8	798.5	1015.5	776.8
B. Contributions to Multilateral Institutions at Market Terms	2.8	201.0	243.1	325.4	355.1	-17.9	14.9	85.6
IBRD	-	200.0	237.5	323.7	342.6	-58.8	-66.6	4.5
Other	2.8	1.0	5.6	1.7	12.5	40.9	81.5	81.1
TOTAL OOF	163.8	693.6	651.1	856.4	1178.9	788.9	1369.4	1333.4
PRIVATE FLOWS MARKET TERMS								
A. Private Investment and Lending	79.9	282.5	481.6	1061.7	3207.4	889.8	269.7	1229.1
Direct Investment	80.2	261.5	222.4	204.0	1301.1	705.4	222.7	1084.2
New Direct Investment	-	261.5	222.4	204.0	1301.1	705.4	222.7	1084.2
Reinvested Earnings	-	-	-	-	-	-	-	-
Bilateral Portfolio Investment and Other	-	3.5	133.8	640.3	1771.0	169.4	40.1	99.9
Multilateral Portfolio Investment	-0.3	17.5	125.4	217.4	135.3	15.1	6.9	45.0
B. Private Export Credits	88.6	386.9	494.0	190.6	440.1	148.7	82.7	319.0
Guaranteed Private Export Credits	88.6	346.8	444.5	171.5	396.0	148.7	82.7	-
Non-Guaranteed Export Credits	-	40.1	49.4	19.1	44.0	-	-	-
TOTAL PRIVATE FLOWS	168.5	669.4	975.6	1252.3	3647.5	1038.5	352.4	1548.1
Memo Items:								
ODA COMMITMENTS								
Bilateral	361.3 1/	482.7	724.4	865.9	1073.7	1635.4	1285.2	980.7
Multilateral	47.2 1/	110.2	152.5	152.8	290.8	285.3	351.5	496.2
TOTAL ODA COMMITMENTS	408.5 1/	592.9	876.9	1018.7	1364.5	1920.7	1636.7	1476.9

1/ 1966-67 Average.

P&B
1/16/78

VIIIc. FLOWS TO MULTILATERAL INSTITUTIONS BY DONOR COUNTRY a/
(Calendar Years; US$ million)

JAPAN

	1965-67 Average	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
CAPITAL SUBSCRIPTIONS PAYMENTS													
IBRD: b/ Past Increases	3.6												
Selective Increase						39.9							
General Increase											55.0	55.0	56.0
IDA: c/ Calls On 1-4	13.8	22.2	147.5	147.8	109.7	110.4	81.7	61.2	43.0	29.7	17.5	5.9	-
5					8.1	26.0	71.6	127.0	155.4	138.3	99.2	67.5	48.0
6								10.0	32.0	88.0	156.1	191.2	170.1
7											12.2	39.0	107.3
IFC: d/						4.6	4.6	4.6	4.6	4.6			
Sub-Total Bank Group	17.4	22.2	147.5	147.8	117.8	180.9	157.9	202.8	235.0	260.6	340.0	358.6	382.2
IDB: Ordinary Capital					3.8	3.8	1.4	1.4	1.4	1.4	2.2	2.2	2.2
Concessional Capital				22.7	18.9	31.9	35.6	38.4	41.1	43.9	47.0	50.3	53.8
ADB: Ordinary Capital	)13.3	)51.0	24.1	-	-	20.3	20.3	20.3	20.3	12.4	12.4	12.4	12.4
Concessional Capital	)	)	54.7	91.6	28.2	47.2	60.3	79.8	97.7	116.9	125.0	148.6	173.2
Other			5.5	17.4	20.0	25.0	30.0	40.0	50.0	55.0	60.0	65.0	70.0
TOTAL CAPITAL SUBSCRIPTIONS	30.7	73.2	231.8	279.5	188.7	309.1	305.5	382.7	445.5	490.2	586.6	637.1	693.8
GRANTS													
UN Agencies	4.0	7.2	68.9	75.2	81.0	92.0	130.0	195.0					
EEC													
Other	0.1	0.5	1.9	2.6	2.0	4.0	20.0	30.0					
TOTAL GRANTS	4.1	7.7	70.8	77.8	83.0	96.0	150.0	225.0	300.0	350.0	400.0	500.0	607.0
OTHER MULTILATERAL	2.8	5.6	-5.2	-5.3									
TOTAL MULTILATERAL	37.6	86.5	297.4	352.0	271.7	405.1	455.5	407.7	745.5	840.2	986.6	1137.1	1300.8
KEY RATIOS													
Multilateral ODA													
- As % of Total ODA	13	19	26	32	16	19	18	20	22	23	23	24	24
- As % of GNP	.03	.04	.06	.06	.04	.05	.05	.04	.06	.05	.06	.06	.07
Bank Group Subscriptions													
- As % of Total ODA	6	5	13	13	7	8	6	10	7	7	8	8	7
- As % of GNP	.01	.01	.03	.03	.02	.02	.02	.02	.02	.02	.02	.02	.02
IDA													
- As % of Total ODA	5	5	13	13	7	6	6	10	7	7	7	7	6
- As % of GNP	.01	.01	.03	.03	.02	.02	.02	.02	.02	.02	.02	.02	.02
MEMO ITEMS (Fiscal Year)													
IDA Cash/Note Deposits	13.7	-	145.6	142.9	149.6	310.4	310.4	310.4	381.8	381.8	381.8	465.6	465.6
IDA 5 Note Deposits						310.4	310.4	310.4					
IDA 5 Calls ($m)						8.9	42.3	100.0	152.9	157.8	118.7	78.9	55.4
Fb						2.6	11.9	28.2	43.1	44.6	33.5	22.3	15.6

a/ Source: Historical figures through 1976 from DAC. Preliminary estimates for 1977 (actuals for Bank Group). All other figures are projections made by Bank staff.

b/ Assumes: (1) a Selective Capital Increase of about $8.5 billion approved with 10% paid-in and released in FY78; and (2) an illustrative General General Capital Increase of about $40 billion approved in FY82 with 10% paid in and released over the three-year period FY83-85.

c/ Assumes: (1) that contributions to IDA 5 will total $8,022 million, i.e. total pledges valued at exchange rates of 12/31/77; (2) IDA 6 and IDA 7 will be respectively 23% and 50% larger than IDA 5 (reflecting 7% per year nominal growth); and (3) all contributions to IDA 5, IDA 6 and IDA 7 will be paid in three approximately equal annual installments and drawn pro rata.

d/ Assumes: an IFC Capital Increase of $480 million paid in and released over the four-year period FY79-82. Japan is following its procedure and has indicated that the first installment will not be available until FY79.

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Japan: Official Government Pronouncement On Increasing ODA

1. New Five-Year Plan approved by the Cabinet in May 1977 noted the close relationships between Japan and developing countries, and stated that Japan should help their development efforts.1/ The list of plan targets to be achieved by FY1980 (April 1980 to March 1981) included an increase in the ODA to GNP ratio to "the level of other developed nations."

2. Later in 1976, the Advisory Council on External Economic Cooperation also recommended, in a report to the Prime Minister, that the government should make efforts to raise the ODA to GNP ratio to the 1975 DAC average of 0.36% by 1980.2/

3. The Prime Minister stated, in his policy speech in the Diet, that the government would endeavor to raise the level of ODA "close to that of the other major advanced nations."3/

4. The representative of Japan at the CIEC meeting promised that Japan would double the level of ODA in 5 years.

5. Masao Fujioka, Executive Director of Export-Import Bank of Japan, made the following statement at the Seminar on Finance and Trade on April 24, 1978:

> "The first, and very important form of cooperation, is Official Development Assistance. Notwithstanding the large deficit budget and the situation where even domestic need cannot be met, the Japanese Government has pledged to double its ODA within the next 5 years, and efforts are being made to even surpass this goal."

1/ Economic Planning Agency, Economic Plan for the Second Half of the 1970s - Toward a Stable Society, May 1976.

2/ Advisory Council on External Economic Cooperation, "Recommendations on the Improvement of Official Development Assistance," August 31, 1976. The Council consists of individuals in the business and financial communities, scholars, and a few economic cooperation experts.

3/ Attachment to the Tokyo Office Bulletin, No. 69, February 10, 1977. The policy speech was delivered on January 31, 1977.

6. TOKYO: Japan will double its official development aid over the next three years, the "Nihon Keizai" reported today.

Prime minister Takeo Fukuda will spell out this policy in his summit talks with president Carter on Wednesday, the report said.

The Japanese government plans to increase Japan's ODA from $1,105 million in 1976 to at least $2,210 million or up to $2,500 million in 1979, the daily said.

It said the government previously considered raising ODA amounts to $2,980 million in 1979, but the original plan for a larger increment has been given up on the grounds that there is the uncertainty about the future of the yen's exchange rate.

Press Report 5/1 /78

7. Prime Minister Takeo Fukuda pledged at his recent meeting in Washington with President Carter that Japan would step up the government's previous policy of doubling ODA in five years, the daily says.

But the newspaper says the Foreign Ministry has disclosed that the new promise has already been met as the fiscal 1978 budget has earmarked 635.4 billion yen, or an equivalent of about $2.5 billion for ODA.

The conversion is based on the government's official exchange rate of 263 yen per dollar. The total in the U.S. currency, not to speak of the latest higher exchange rate, is more than double the 1976 amount of $1.105 billion, the "Mainichi" says.

It quotes a Foreign Ministry official as confirming in a lower House committee that the dollar-based ODA total in fiscal 1976 is the base for the doubling pledge.

1976 $ base

The "Mainichi" says Prime Minister Fukuda was equivocal about this point when he made clear the upgraded policy. The Foreign Ministry was quoted as commenting it did not know whether Mr. Fukuda had been aware that there would be no need to introduce a supplementary budget to implement the new policy.

Press Report 5/10/78

8. TOKYO: Foreign Minister Sunao Sonoda corrected a ministry statement in Parliament that the Japanese government would double its official development assistance over three years based on the amount in fiscal 1976, the "Mainichi" said today.

The minister was quoted as telling a parliamentary panel there was an understanding among other ministries that the two-fold increase was based on the dollar-converted ODA amount in fiscal 1976. But this would run into public criticism, Mr. Sonoda said.

"The Foreign Ministry will do its best in doubling ODA over three years after fiscal 1977 based on the actual yen amount," he was quoted as adding.

FY 77 yen

Mr. Sonoda told the panel his ministry would call for a supplementary budget to provide additional ODA, the "Mainichi" said.

Press Report 5/11/78

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

May 16, 1978

Mr. Koch-Weser:

Japan's ODA

Attached is the note Mr. McNamara requested on Japan's ODA for inclusion in his Press Brief. We have kept the statement fairly low key in order not to offend Japanese sensitivities unnecessarily, while still making the points he wished to make. Also, in view of Japan's relatively recent emergence as a developed country, we think it inappropriate to measure its performance by the standards one might apply to other industrial countries.

K. Georg Gabriel

Attachment

Japan's ODA

1. The World Bank is encouraged by Japan's commitment to increase ODA, expressed in strong and repeated statements by top government officials. During his recent visit to South East Asia, the Minister of International Trade and Industries promised that Japan would double its ODA in three years. The budget proposal of the government for FY78 (April 1978 - March 1979) contains appropriations for ODA amounting to ¥635.4 billion (US$2.8 billion at an exchange rate of ¥225 per US dollar), 15% higher than the ODA appropriations in the FY77 budget (the Tokyo Office Bulletin, No. 81, January 31, 1978). The intention of the government to improve the ODA terms is reflected in a 90% increase in the allocation for bilateral grants (excluding technical assistance) from ¥30.6 billion in the FY77 budget to ¥58 billion (US$258 million at ¥225/US$), with the share in the total ODA appropriation rising from 5.6% in the FY77 budget to 9.1%.

2. We are projecting that Japan's ODA will reach 0.30% of GNP by 1980. Our analysis of the Japanese economy, balance of payments, and fiscal position indicate that Japan would be able to achieve this. Moreover, there is support from the public for increases in ODA. We have learned that in a recent public opinion poll conducted by the Asahi Newspaper, 61% of the respondents expressed the view that Japan should strengthen its ODA performance.

3. However, the actual ODA performance appears to suffer from difficulties in increasing disbursements. In 1977, the volume of bilateral loan commitments alone rose 62.6% over 1976 and reached ¥380.7 billion (on an exchange of note basis), equivalent to 0.21% of GNP, but the net ODA disbursement during the year is estimated as only about 0.20% of GNP, compared to 0.25%

in 1974. We do not know what the sources of the difficulties are, but three factors are likely to be contributing to the problem:

(a) the weakness of aid administration;

(b) the time-consuming procedures that prevent quick responses to unexpected changes in the requirements of developing countries; and

(c) the emphasis placed on financing the foreign exchange costs of projects.

4. We believe that these problems are largely attributable to the fact that Japan has had relatively little experience with development assistance. IBRD should express willingness to cooperate with the government towards solving disbursement problems. But improvements appear to be required also in the aid administration. At present, the government has no cabinet member solely responsible for development assistance. The experience of other countries suggests that the creation of such a position is conducive to strengthening aid administration.

5. The low levels of ODA disbursements in recent years appear also attributable to unexpected developments in the world economy. High rates of inflation have caused considerable cost overruns in development projects. Our analysis suggests that some countries had to delay or suspend projects assisted by Japan because the original agreements had contained inadequate provision for contingency and the time-consuming ODA procedures prevented quick supplementary funding.

6. Moreover, developing countries' capacity to absorb aid designed to finance foreign exchange costs of projects has weakened in recent years. The rates of economic growth have declined in the majority of developing countries, and therefore, their capacity to generate domestic savings suffered. Their

capacity to secure financing for development projects is further constrained by increasing claims of external debt service payments on their limited savings.

7. We have learned that some steps have been taken to reduce constraints on ODA disbursements, including increased allowances for contingency and greater flexibility towards local cost financing and program loans.

Financial Studies Division, P&B
May 16, 1978

JAPANESE STAFF

Japanese Staff

Tokyo Office
May 10, 1978

JAPANESE STAFF IN THE BANK

There are 35 Japanese professional staff in the Bank. This is only 1.5% of the total number of professionals (2,284). Unfortunately, there are only two staff on the director's level and 83% of them are L level or lower.1/

Problems of Recruitment

The main problems are:

(i) the virtually universal "life long career" system whereby Japanese serve only one employer from leaving school until retirement, thereby giving the individual total security but leading to a total immobility of labor. This long entrenched custom is further reinforced by the compensation structure and a rigid seniority system. There are very few signs of change and then only among the younger, inexperienced employees. Thus, the main form of recruitment is 3 year fixed term appointments with leave of absence from their employer;

(ii) the lack of reasonable fluency in English, particularly among the older, more experienced staff who constitute some three quarters of our total recruitment needs. The Bank provides language training but there are limits, particularly for those on relatively short fixed term appointments, since managers have an understandable preference for recruits who can become fully operational without delay;

(iii) compensation in the case of more experienced staff, despite a subsidy equivalent to 70% of Japan base pay AND all allowances for those on leave of absence from the civil service. The Bank of Japan (a fruitful source of economists) has a similar policy and we suspect the private sector does likewise. There is no problem of compensation for Young Professionals who have the added attraction of far greater responsibility than would be possible at this age in Japan;

(iv) differences in work environment. The Japanese are most effective in a highly structured organization with rigid lines of communication. The fact that our operating staff in particular operate largely independently, especially in the field, and the Bank's emphasis on performance rather than seniority run counter to the Japanese concept of organizational behavior;

(v) except in the case of technical specialists, the Japanese emphasis on the generalist (to a far greater extent than the British) with automatic

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1/ Statistics on the Japanese Staff are in Table I.

rotation, usually to a completely different type of assignment, every two years makes it difficult for Japanese to acquire the depth of experience we seek e.g. in financial analysis. This is compounded in elitist institutions, such as the Ministry of Finance, by the concentration of their recruitment on graduates of the prestigious Tokyo University Law School with little or no economics or financial training.

(vi) the cultural shock, especially for families, of adjusting to the Washington environment. This is made worse by the lack of a Japanese school, the nearest day school being in New York and the nearest boarding school in England. In most cases the desire to return home after a few years in Washington is very strong.

(vii) status. Some otherwise first class Japanese will not consider a position below the rank of Division Chief or higher despite their lack of suitability for appointment directly to that level.

Recruitment Strategy

In these circumstances normal recruitment devices such as advertising are fruitless and personal contacts are essential. Thus, for the past several years our recruitment efforts have been mainly directed to:

(i) the Young Professional Program. 10 of the 36 Japanese now on board entered through the Program (3 in FY78 alone). About two-thirds have completed their education outside Japan; for the remainder we have taken 2/3 years relevant work experience as equivalent to a post graduate degree which is a normal criterion for the Program. The flow of candidates is increasing as a result of promotional efforts to universities in Japan and overseas.

(ii) obtaining experienced staff on fixed term appointments. This is extremely time consuming, involving first persuading top personnel executives (who typically command greater weight in Japan than is usual in the West) or general management of the benefits to their institution from releasing first class people for a period in the Bank. This requires repeated visits at least annually, partly because such is the Japanese custom but partly because the incumbents change frequently under the automatic rotation system. Only then is it possible to try to identify qualified staff from the institution. This frequently requires tactful handling since the rejection of a candidate officially proposed can cause serious "loss of face" to the employer as well as to the candidate. Essentially the same approach is used for Ministries and other public sector organizations and for the private sector (e.g. Mitsubishi, Kansai Electric, engineering companies, consulting firms etc.) The need to rely heavily upon fixed term staff sharply increases the recruitment burden. In FY78, for example, the Bank has so far recruited 7 staff and IFC 1 but we have lost 6, 4 of whom had completed their 3 year appointments.

The all powerful Ministry of Finance is extremely helpful to our efforts and Matsukawa himself is fully aware of the difficulties, although his less knowledgeable political masters may well press for far greater recruitment of Japanese, including one or two at VP or Director levels.

Table I

STATISTICS ON THE JAPANESE STAFF

A. Professional Staff (Bank) on Duty as of June 30

	1968	1972	1973	1974	1975	1976	1977	1978(Est)
No.	5	28	28	28	28	34	35	36
% of total	0.7%	1.8%	1.7%	1.6%	1.5%	1.7%	1.5%	1.5%

The number in IFC has been 1 except in 1976 & 1977 when 0.

B. Professional Staff by Level: Bank & UNHQ as of March 31, 1978

Level	Q	P	O	N	M	L	K	J	TOTAL PAD	A-I	TOTAL
Bank	-	2	-	1	3	14	14	2	36 1/	29 2/	65
UN HQ	1	-	1	8	12	13	6	4	45	14 2/	59

1/ Of which 6 women
2/ Including in Tokyo Office: Bank 4 UN 7

C. Promotion of Professional Staff (Bank)

	1972	1973	1974	1975	1976	1977	1978
No.	9	3	8	3	5	8	4 1/
% of all Promotion	3.0%	0.9%	2.6%	0.8%	1.9%	2.7%	2.0%

1/ To March 31

Tokyo Office
May 6, 1978

Tokyo Office Staff

Name	Position	Date of Joining
Tarao Maeda	Director	July 1975
Willem Struben	Deputy Chief of Mission	June 1970
Tamio Kobayakawa	Capital Market Specialist	June 1977
Keiko Atsumi (Mrs.)	Senior Information Officer	November 1971
Keiko Akatani (Miss)	Secretary/Administrator	July 1976
Kiyoe Nakahashi (Miss)	Secretary	June 1974
Kazuko Tojima (Miss)	Secretary	April 1972
Saburo Yamaguchi	Driver	October 1970
Sadako Yokota (Miss)	Part-time Consultant (Japanese editing)	
Yumiko Baba (Mrs.)	Part-time Translator	
Kumiko Asai (Miss)	Secretary - Temporary	

Tokyo Office
May 6, 1978

Telephone Numbers

Tokyo Office	03 (214) 5001
	03 (214) 1001
Residence	
Mr. Maeda	03 (445) 5842
Mr. Struben	03 (952) 0596
Mr. Kobayakawa	045 (472) 9517
Mrs. Atsumi	03 (586) 0560
Miss Akatani	03 (353) 1513
Miss Nakahashi	03 (957) 8615
Miss Tojima	03 (649) 4328
Mr. Yamaguchi	03 (308) 2835
Miss Yokota	03 (447) 4051
Mrs. Baba	045 (621) 1592
Imperial Hotel	03 (504) 1111

DRAFT SPEECH
POSSIBLE QUESTIONS

DRAFT
May 24, 1978

Remarks of Robert S. McNamara
To the Press Club of Japan
Tokyo, Japan, June 8, 1978

It has been nearly five years since I last ~~visited~~ made an official visit to Japan. Seeing its vitality then, I was convinced that this country would become one of the financial centers of the world. I am pleased to see that my impressions of five years ago have turned out to be correct.

In the interval, the world was, of course, faced with the so-called "oil crisis" which -- together with related events -- triggered off the most severe economic readjustment since World War II. It is not difficult to imagine the enormous impact it has made on Japan, in view of its very heavy reliance on imported oil. That Japan has been able to overcome these major economic disturbances in just three years time is itself eloquent testimony to the drive and determination of the Japanese people.

Needless to say, reconstruction of the Japanese economy, which had been completely demolished in World War II, required extraordinary efforts. Japan's industrial production started from zero in 1945. You recovered to the pre-war level by 1960, and after a decade of vigorous growth, you have become one of the world's strongest economies. It is little wonder that it is called a miracle.

Now, there are four principal points I would like to discuss briefly with you this afternoon.

First, the relationship the World Bank has had with Japan;

Second, the current economic situation in the developing world;

Third, what needs to be done to address that situation;

And, finally, Japan's own role in assisting the roughly 100 countries and the two billion people of the developing world.

In looking back over the history of the World Bank, the case of Japan is unique.

Japan became a member of the Bank in 1952. Between 1953 and 1966, the World Bank made 31 loans to Japan totalling $862 million. As you know, among other important projects, these loans helped finance the new Tokaido Railway and the Tokyo-Kobe Highways. I am delighted to see that these facilities continue to make significant contribution to your domestic economy.

The fact that we were able to play a role in assisting in the reconstruction of the Japanese economy is a source of pride to us in the Bank. Japan is in fact a model of what we would like to see happen elsewhere in the world. For in the time-span of a single generation, Japan has moved from being one of the Bank's largest borrowers to one of the Bank's largest suppliers of capital. Japan is indisputably the Bank's model graduate.

And Japan itself has clearly benefitted from this. As of June 30, 1977, expenditure in Japan by World Bank borrowers for equipment to be used on projects financed by the Bank totalled more than $2,994 million. This illustrates Japan's keen sense of competition and its ability to take advantage of the immense market potential in the developing world.

In 1969, the Bank began its borrowing program in Japan, which has now become one of our largest. As of today, the Bank has borrowed from both the Bank of Japan, and the public market, a total of ¥761 billion, of which ¥598 billion is outstanding. By today's conversion rate, this is more than $3 billion, and accounts for approximately 11% of the Bank's total outstanding obligations.

Further, Japan has strongly supported the International Development Association (IDA), our affiliate institution which makes available low interest, long maturity credits to the poorest developing countries which cannot afford conventional World Bank terms. IDA resources are derived principally from contributions by the Bank's affluent member countries, and are periodically replenished. Since the founding of IDA, there have been five replenishments of its resources. In the last two replenishments, Japan contributed more than 10% of the total despite the fiscal deficits it had at the time. What is more, Japan has always been among the first countries to enact IDA legislation, and to accommodate us with advance contributions. Though Japan currently has about a ~~6%~~ 4% share in the votes in the Bank, it has accepted a much heavier responsibility than this voting share would indicate. I will return to this point later.

But Japan's contribution to the World Bank is more than just financial. The Bank has learned a great deal from Japan's own development experience. Your productive small-scale agriculture, your fisheries, your efficient small-scale industries, as well as your success in family planning, can all serve as models for developing societies. The Bank has made studies on Japan's development experience, and we are applying the lessons we learned in our advice to member governments.

So there can be no question that the relationship between the World Bank and Japan, over the past quarter of a century, has not only been mutually beneficial, but has significantly helped to serve the needs of the developing world at large. We immensely value the support the Japanese people, and their government, have given the Bank, and we continue to count strongly on it.

Now, let me comment briefly on the current economic situation in the developing countries.

It is of course affected by the situation in the industrialized world.

As you know, the progress of the OECD nations in adjusting to the shocks experienced in the mid-1970s has been uneven. Their initial recovery from the recession in 1975 proceeded more smoothly than many observers had expected. But beginning with a brief pause in 1976, and then again in a more pronounced way during 1977, their economies seemed to lose momentum. Growth in their output and in their international trade during 1977 was well below historical norms, and also below what had been anticipated as recently as a year earlier.

In many of these industrial countries, growth in domestic demand has also been disappointingly slow, and has left unused a considerable part of these countries' productive capacity. Moreover, the modest growth which has been achieved in the past two or three years has been accompanied by persistent and increasingly severe imbalances in their international payments, imbalances which have confronted policy-makers with the difficult task of striking an appropriate balance among domestic priorities and international responsibilities.

These countries are making great efforts to recover from the global recession. But there are inherent dilemmas in this. If an expansion policy is pursued, inflation may follow. This creates worsening imbalances in international payments. And the severe imbalances make it difficult for deficit countries to adopt an expansion policy.

The problems of the industrial world act to compound the already difficult economic issues faced by the developing countries.

As I pointed out last year in Washington, the developing world's economic record during the past quarter century had been impressive. It surpasses the performance of the present industrialized nations -- other than,of course, Japan -- for any comparable period of their own development. But the high average rate of economic growth in the developing world achieved over these 25 years obscures significant differences between countries, and within countries.

The poorest nations among them, mostly in South Asia and sub-Saharan Africa, have done only half as well as the group as a whole. And the economic gains in all the developing countries have too often failed to reach the poorest individuals in their societies. Roughly 40% of the total population of the developing countries the Bank serves -- some 800 million people -- are neither contributing significantly to the economic growth in their nations, nor sharing equitably in its benefits. These are the absolute poor. In most developing societies they form a huge group at the lower end of the income spectrum.

Economic growth is a necessary condition for development in any society, but in itself it is never a sufficient condition. And the reason is clear. Economic growth cannot assist the poor if it does not reach the poor.

The absolute poor are those trapped in conditions so limited by illiteracy, malnutrition, disease, high infant mortality, and low life expectancy as to be denied the very potential of the genes with which they were born. Their basic human needs are simply not met.

It is not a scene that any of us here -- so favored, so fortunate, so surrounded in our personal lives by privilege and advantage -- can contemplate without compassion and resolve.

We must try to grasp the magnitude of this poverty. Of the two billion people in the developing world:

- 1.2 billion do not have access to safe drinking water, or to a public health facility;
- 700 million are seriously malnourished;
- 550 million are unable to read or write;
- 250 million living in urban areas do not have adequate shelter;
- hundreds of millions are without sufficient employment.

Most tragic of all, almost half of the two billion are children -- 860 million are under the age of 15. They are the chief hope of their societies' future. And, yet nearly 50% of them suffer from some debilitating disease likely to have long-lasting effects. Well over a third of them are undernourished. And 290 million are not in school.

The blunt truth is that absolute poverty today is a function of neglect -- and of our neglect in the affluent world as much as of anyone's.

Poverty tends to perpetuate itself, and unless a deliberate intervention is designed and launched against its internal dynamics, it will persist and grow.

The responsibility for such an effort lies, first of course, with the governments of the poorest countries themselves. It is clear that no degree of outside assistance can solve the internal problems of social inequity in developing countries unless the governments of those countries themselves are willing to take the steps that are necessary. An outstanding example of success in this matter can be found, again, here in Japan, which has worked so hard to rebuild its war-shattered society. Japan has clearly demonstrated that social equity and economic development are compatible.

If we are to expect, however, the developing countries to undertake these efforts -- efforts that often call for a great deal of political courage and leadership -- it is essential that the affluent nations must themselves provide more support for poorer nations.

The international community must help the developing countries to meet such objectives. There are two principal ways that help can be provided:

(1) Through financial assistance:

(a) by additional transfers of concessional finance to the poorest countries;

(b) by expansion of the flow of capital from both public and private sources to the middle-income countries;

(2) Through expanding the opportunities of the developing countries to earn more foreign exchange through exports.

I have spoken frequently on these matters, and all of you here are familiar with the overall case.

Let me, now, briefly mention what role the World Bank has played in assisting the developing countries. Although the ~~Bank's~~ contribution can only be a part of the larger effort of the international community as a whole, it has not been insignificant. From its inception, through FY1977, the Bank Group has loaned over $50 billion. It plans to commit an additional $8.5 billion during this fiscal year. And it is reasonable to expect that the Bank Group will begin the decade of the 1980s at a level of operation in excess of $10 billion per year.

In recent years we have greatly increased our efforts to help the poorest of the developing peoples advance economically. This can only be done by helping them to raise their productivity. Since most of the poor live in the rural areas we have given increased attention to rural development. In northern Nigeria, in West Bengal, in Mali, Thailand, Kenya, northeastern Brazil, southern Sudan, Upper Volta, and many other places in the developing world we are helping to design and finance rural development projects targeted specifically to increase the productivity of the subsistence farmer.

Tailored specifically to local needs, these projects put together a broad mix of economic ingredients: feeder roads, rural electrification, functional literacy programs, veterinary stations, small-scale irrigation, storage and marketing facilities, health and family planning clinics -- the content of the package varies, but the principle remains the same everywhere: involve the poor, invest in their potential, enhance their productivity.

Now, as I pointed out in my address to the Board of Governors at the World Bank's Annual Meeting last September, a prerequisite for a more effective approach to the many development problems that face our member countries -- and which have been under discussion recently in many international forums -- is a better understanding of the impact of internal and external policies on social and economic issues in these countries at different stages in their development.

Accordingly, as a first step in what we expect will be an ongoing assessment of development problems, we have undertaken in the Bank what has been termed the World Development Report. Its objective is to integrate the diverse components of development experience into a more understandable pattern; to explore and evaluate the critical linkages among such components, linkages that often interact in strongly supportive or seriously disruptive ways not readily apparent; and to provide an analysis of the costs and benefits to both developed and developing countries of alternative ways of dealing with the principal development issues.

We have undertaken this analysis because despite the many uncertainties about the future, decisions must in fact be made by our member governments day after day. The World Bank, with its broad-based membership, its broad experience with the development problems faced by these governments, and its daily involvement with investment choices, is in a unique position to see the interrelationships between the major components of the development process. To the extent that these components are more clearly understood, the Bank itself, and its member governments individually, will be able to cooperate more effectively in reducing the worst aspects of poverty, and in integrating their economies into an international framework that will provide an environment of enhanced and continuing growth for all its participants.

The World Development Report has just been distributed to our Board of Executive Directors and will soon be considered by them. We would then plan to submit it to the Development Committee for discussion at its Ministerial-level meeting in late September.

Not every development issue can, of course, be dealt with in this initial report. But as the work proceeds, and as more issues and problems are analyzed, it can provide a continuing basis for reviewing development progress in future years. The report will be revised annually as new data and new knowledge emerge, and it will be available for discussion by governments and in appropriate international forums.

Let me turn, now, to the role that Japan can, and is expected by the world, to play in today's situation. As Japan is now in a very privileged position, it can contribute to development in a number of important ways.

First, there is the issue of Official Development Assistance. Admittedly, Japan's past level of ODA has left a good deal of room for improvement. However, we in the Bank have been aware that as a relative newcomer to the rank of donors, and with many pressing domestic demands as yet unfilfilled, Japan has made an impressive effort.

Now, the Japanese Government has announced that it intends to double its Official Development Assistance in three years. For the poorest countries that is welcome news indeed. in the WB We estimate that would raise its ODA from a level of ~~381~~ about 380 billion yen in 1977 to ~~762~~ about 760 billion yen in 1980. As a per cent of GNP, we estimate ODA would increase from .21% in 1977 -- among the lowest of any of the 17 OECD countries -- to approximately .29% in 1980.

In addition, the recent and rapid evolution of the Tokyo capital market has enabled -- and will increasingly enable -- the middle-income developing countries to mobilize financial resources there through private channels. As we all know, greater access to capital markets has been one of the most urgent requests made by these nations.

Further, during the past two days' discussions with a wide range of Japanese officials, I was pleased to receive the impression that the Government is determined to stimulate the domestic economy so as to accelerate the recovery from the protracted recession. The 7% growth target, set out under the leadership of Mr. Fukuda, is very encouraging.

We all know that Japan's economic growth has a tremendous impact on the world's economy. No country is in a better position to appreicate the interdependent nature of the world's economy than Japan. In 1977, the developing countries accounted for almost 47% of Japan's exports. And Japan in more dependent on imported natural resources than any other major industrial country.

These linkages indicate that the health of the Japanese economy is affected by what happens in the LDCs. Their advance, therefore, can work to Japan's advantage. Some have suggested that Japan can act as a "locomotive" to stimulate growth in the OECD countries. But what is often forgotten is that the developing countries can serve as "locomotives" as well. The fact is that they offer export markets larger than those of Western Europe, Eastern Europe, the Soviet Union and the Peoples Republic of China combined. In this context, the "global new deal theory", now being discussed in Japan, is of great interest to us in the Bank.

For, despite their own domestic problems, if the developed nations do not make available a more realistic degree of development assistance to the LDCs to alleviate the difficulties of the developing world, there is a danger of further shrinkage in the world's economy.

In its relations with the Bank Group, in particular, Japan has been more than cooperative. We in the Bank highly esteem the fact that Japan's recent IDA contribution of over 10% far exceeds its voting share in the IBRD of about ~~6%~~ 4%. That too, is an indication of Japan's genuine concern with the moral issues of development assistance. Let me emphasize that we are very grateful for Japan's cooperation.

Needless to say, many factors other than economic determine subscriptions and voting rights in international organizations. A gradual increase is being made in the IBRD in Japan's voting rights in order to more fairly represent your economic strength. I, for one, am convinced that given Japan's sincere determination to improve its Official Development Assistance both quantitatively and qualitatively, Japan should eventually accomplish its objective of "harmonization".

The magnitude of Japan's current account surplus has been a major international concern. There are those who believe that Japan must attain a prompt equilibrium in its current account balances. But in view of Japan's economic structure, reducing the current account surplus overnight is, understandably, infeasible.

Japan's decision, however, to first attain equilibirum in the basic balance, in part through recycling a portion of the current account surplus into development assistance, is both feasible and welcome.

By extending more ODA, by increasing capital exports, by greater overseas investments, and by providing greater access to the developing countries into the Tokyo capital market, Japan is contributing positively to the economic progress of the world. But as I mentioned earlier, Japan's contribution should not be confined to financial assistance alone. As a dynamic example of economic progress and social equity, Japan's unique experience should be made available as well.

We are confident that Japan can attain the goal to double its ODA in three years. And we in the Bank stand prepared to cooperate with your Government in its efforts to achieve that goal through increased co-financing arrangements in Bank projects.

I personally am convinced that, given Japan's determination, it will, in the long-term, do even more than double its ODA. During the past two days' discussions, I was most happy to discover that the strong resolution to increase ODA, even under the circumstances of deficit financing and the protracted recession, is supported by all circles -- government, business and the press. There are very few industrial countries where such general goodwill towards development assistance exists. I am confident that this goodwill in Japan will soon be transformed into a strong national consensus.

I am very happy to have made this visit to Japan. It has given me the opportunity to exchange views, to observe your sincere commitment to the task of development assistance, and to be reassured of your warm support for the World Bank Group.

Let me conclude by adding that we are always looking for a larger number of Japanese nationals on our Bank staff. We deeply value the ones we have. And we would like to have more.

Thank you very much for inviting me here to the Press Club. It is a pleasure to chat with you. And I would be happy now to try to answer any questions you may have.

<u>Anticipated Questions at the Press Luncheon</u>

Please refer to the background brief on the press lunch.

1. Considering the low level of Japan's overseas aid, do you think Japan could contribute more to development efforts?

2. Do you have any requests for the Japanese Government regarding the issue of development efforts?

3. In what way could Japan cooperate with the World Bank?

4. What do you think of the Carter Administration's aid policy as it relates to human rights?

Refer to discussion of
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Oncho.

5. During your terms of office, the Democrats and the Republicans have taken turns in the American administration. Has that influenced the Bank in any way?

6. What is your view on development aid to Asia and the Bank's relationship with the ADB concerning this issue?

7. What would you say to Japan's continued surplus in the BOP?

8. What is your long-term perspective on the Japanese economy?

9. May I have your comment on the generally low level of ODA?

10. How effective, in your opinion is the UNCTAD in promoting North-South Dialogue?

11. Recently the Bank seems to have shifted more emphasis on agricultural credit. What has brought this change? Will it continue to be an important component in the Bank operations?

INCOMING TELEX From Tokyo Office

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MR. MERRIAM

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HAD DISCUSSION WITH DIRECTOR OF NHK STUDIO 102. QUESTIONNAIRE HAVE CHANGED AS FOLLOWS:

1. PLEASE TELL US ROLE AND RECENT ACTIVITIES OF THE WORLD BANK
2. COULD YOU EXPLAIN YOUR PHILOSOPHY ON DEVELOPMENT AID, I.E. SOCIAL ASPECT OF AID, BASIC HUMAN NEEDS, SELF-HELP EFFORTS ETC.
3. HOW DO YOU SEE ROLE OF JAPAN AS THE ONLY INDUSTRIAL COUNTRY IN ASIA AND WHAT IS EXPECTED OF HER?
4. SOME OF HIS PERSONAL ASPECT OF HIS LIFE I.E. WORK HABITS, HOBBIES ETC.

√/30

INTERVIEW IS EXPECTED TO LAST 12 MINUTES INCLUDING CONSECUTIVE INTERPRETATION. REGARDS

ATSUMI

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Anticipated Questions at TV Interview

Please refer to the background brief on NHK and Studio 102.

1. I heard that you usually work for 12 hours a day from 7:30 a.m. to 7:30 p.m. Is that true?

2. Does this mean how busy it is to be the President of the World Bank?

3. I believe that the Japanese government, the press, and the economists are aware of the importance of development aid and Japan's responsible role in it. Unfortunately, it is often difficult for the average public to understand aid problems. For example, I hear that you are having difficulty in obtaining the congressional support in the U.S. In order to mobilize support of the peoples in the industrial countries, what sort of measures are effective in your opinion?

4. There has been a report that the U.S. government has requested Mr. Fukuda to increase Japanese aid via more co-financing through the Bank. Is your visit to Japan this time connected to this issue?

5. Lastly, may I ask for your brief message to the people of Japan?

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | TOKYO OFFICE | INTERNATIONAL DEVELOPMENT ASSOCIATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
DATE: June 5, 1978

FROM: Tarao Maeda
Letter No. 86

SUBJECT: Most recent information

1. Political Scene

Prime Minister Fukuda was able to overcome one of his most serious political challenges by opening Narita Airport. He now faces another controversial issue, the resumption of negotiations with China on a peace treaty including an "antihegemony clause." He recently decided to resume the negotiations at the earliest possible time despite strong opposition from rightists in his Liberal Democratic Party. He intends to, if possible, submit the agreement to the extra-ordinary Diet session for ratification this fall.

As to the Summit talks in July, government officials expect that, as far as the North-South issue is concerned, Japan will be criticized for her poor aid performance in 1977; however, the officials do not yet know figures from other OECD countries.

2. Economics

Recent economic data have been encouraging:

(a) GNP rose 2.4% in real terms over the January-March period compared to the previous quarter. It was the sharpest quarterly increase since a 3.4% leap in the first quarter of 1973. Leading this solid growth were consumer spending with 2.1%, government fixed investment with 2.4% and exports with 7.5%. The 2.4% quarterly growth was equivalent to an annual rate of 10%, which means that GNP will grow at 7% in FY1978 if it would gain 1.75% each in the coming four quarters.

GNP growth in FY1977 thus increased to 5.4% in real terms, slightly better than the government's estimate of 5.3%.1/

(b) Industrial production in FY1977 increased by 3.2%, 0.6% more than originally estimated by the government;

(c) Consumer prices increased by only 3.9% over the period April '77-'78, the lowest rate since October 1972; [In Tokyo, prices increased by 4.3% on an annual basis in May, the fifth consecutive month with an increase of less than 5%.] and

(d) Department store sales indicated a slow but steady growth of personal consumption this year, increasing by monthly 3.4%, 4.7%, 5.6%, and 6.2% respectively over the period January-April.

1/ The updated figures for FY1977 are in Tables I and III.

Minister Miyazawa recently again emphasized that :

(i) the GNP growth rate of 7% for FY1978 will be achieved; and

(ii) the balance of payments' current account surplus will be reduced to some degree. Export growth will decline because of the appreciation of the yen and administrative control measures, but import growth is not expected to increase much (at May 31, Japan's foreign exchange reserves amounted to $27.7 billion).

However, private forecasters still doubt that the 7% target will be achieved. Although some research agencies have slightly upgraded their growth estimates, these still range around 5% (Nikko increased its estimate from 5.1% to 5.3% and Nomura from 4.6% to 5.4%). In addition, the unemployment rate increased in April to 2.20%, the highest since August 1959.

3. <u>Financial Operations</u>

The Asian Development Bank has decided to float a bond issue in Tokyo. The issue in June will amount to ¥15 billion, with an interest rate of 6.3%, a price of 99.75, and a maturity of 15 years (12.3 years on average).

cc: Mr. William Clark

Attachments

Table I (updated)

JAPAN: BASIC ECONOMIC DATA

	FY72	FY73	FY74	FY75	FY76	FY77	FY78*
Economic Growth Rate (Real)	9.8%	6.4%	-0.2%	3.4%	5.7%	5.4%	7.0%
Growth Rate of Government Fixed Capital Formation (Real)	12.9%	-8.4%	2.2%	7.8%	1.1%	15.9%	16.2%
Growth Rate of Private Equipment Investment (Real)	8.4%	13.9%	-14.5%	-9.3%	5.4%	1.0%	6.7%
Balance of Current Account ($ Billion)	6.2	-3.9	-2.3	0.1	4.7	14.1	6.0
Foreign Exchange Reserves ($ Million)	18,125	12,426	14,152	14,182	16,997	29,208	-
Wholesale Prices Increase	3.2%	22.6%	23.4%	2.1%	5.8%	0.4%	2.7%
Consumer Price Increase	4.5%	11.7%	24.5%	11.8%	9.3%	6.7%	6.8%
Wage Increase Rate (Nominal)	16.5%	21.9%	29.1%	12.4%	12.1%	6.1%*	-
Unemployment Rate	1.4%	1.3%	1.5%	1.9%	-2.0%	2.1%	-
Mining & Manufacturing Index Increase	10.1%	12.4%	-9.7%	-4.4%	10.8%	3.2%	6.8%

* Government estimates

Table III
(updated)

Forecast of Economic Growth Rate for FY78
(Growth rate in real terms)

	FY76 Actual (¥billion)	FY77 Actual	Economic Planning Agency FY78 Forecast	Japan Economic Research Center FY78 Forecast	Keidanren FY78 Forecast	Nikko Research Center FY78 Forecast	Nomura Research Center FY78 Forecast	Mitsubishi Research Center FY78 Forecast	Industrial Bank of Japan FY78 Forecast
Private Consumption	96,173(3.9%)	3.6%	5.3%	3.6%	4.9%	4.5%	5.1%	4.2%	3.6%
Private Fixed Investment	34,961(4.2%)	1.6	-	3.7	-	4.2	1.4	-	-
Housing	12,284(1.6%)	2.8	9.8	7.3	12.4	6.5	6.4	1.4	6.3
Equipment	22,677(5.4%)	1.0	6.7	2.1	5.0	3.2	1.4	0.4	1.5
Government Current Expenditure	18,422(2.8%)	4.5	5.7	3.3	4.1	4.4	4.0	3.4	4.5
Government Fixed Assets Formation	14,926(1.1%)	15.9	16.2	15.6	21.1	18.4	21.2	18.8	16.0
Increase in Inventory	3,258(47.6%)	0.04	21.3	1.1	18.8	26.3	-11.9	-16.1	15.6
Total Doemstic Demand	167,739(4.2%)	4.3	7.4	4.8	-	6.3	5.9	-	-
Overseas Current Surplus	1,470(40.2%)	25.8	-	1.2	-9.9	-10.1	-3.2	-	-
Exports	24,578(17.4%)	8.5	2.9	1.6	1.2	-1.5	-0.2	0.9	1.4
Imports	23,108(9.4%)	0.7	4.2	1.9	6.8	3.3	1.6	2.7	6.0
GNP	169,209(5.7%)	5.4	7.0	4.6	6.5	5.3	5.4	4.1	4.5
Reference:									
Current account of BOP (in $billion)	4.7	14.1	6.0	8.6	9.0	10.5	17.1	10.0	
Consumer price index(%)	9.3	6.7	6.8	6.8	6.0	5.0	4.3	5.8	

Peter F. Drucker

JAPAN: THE PROBLEMS OF SUCCESS

Everyone I met in Japan last fall, during my tenth long trip to that country in 18 years, talked economics and only economics. Even the theoretical mathematician and the elderly abbot of the famous Zen temple were obsessed with the dollar/yen exchange rate, the export surplus, and the cost of petroleum. Japan is indeed undergoing traumatic economic changes. Yet the basic issues facing Japan are not economic. They are changes in social structure and social values. Social policies that have served Japan superbly well for a century are rapidly becoming untenable. These policies were designed to change Japan from a poor, and poorly educated, rural society with low life expectancies into a wealthy, highly educated, industrial society with high life expectancies. Their very success is rendering them obsolete and is turning them into dangers to Japan's social cohesion and her ability to compete economically.

This is true with respect to the Japanese seniority-wage system, under which incomes of all three kinds of employees—manual workers, clerks, and managers and professionals—are determined solely, or at least primarily, by length of service, with an employee at the entrance level getting about one-third of what the same employee, regardless of his job or title, will receive as income after 25 years of service, that is, in his forties. But equally obsolescent is Japan's traditional linkage of education to career opportunities, under which people who finish their formal schooling with "middle school," that is, at age 15, are slotted for a lifetime as manual workers in manufacturing, farming, or service work; with high school graduates becoming clerks or technicians for their entire working life; and with university graduates becoming managers and professionals—and with practically no crossover from one group into the other. The employee's lifetime commitment to one employer and one place of employment—often, and misleadingly, called "lifetime employment"—may equally turn into a serious threat to social harmony, rather than remain its strongest pillar. And equally untenable by now is the policy, as old as "modern

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Japan," of preventing social dislocation by using economic measures to shield the social order of the "old Japan" while building a radically different "new Japan."

II

The villain is not the petroleum cartel, Japan's dependence on raw material imports, or the "world recession"—the monsters of today's popular Japanese demonology. If the world recession were really the serious threat to Japan that almost any Japanese maintains it to be, Japan could hardly export enormous quantities of advanced and technologically complex near-luxuries, such as motor cars, color TV sets and calculators, to practically every market in the non-communist world. And while Japan's petroleum bill has, of course, gone up sharply since 1973, her bill for *all* industrial raw materials, including petroleum and petroleum products, has actually gone down as a percentage both of industrial production and of gross national product. For the petroleum cartel has had the impact cartels always have had, and have been known to have for over 70 years, since a German economist, Arthur Spiethoff, first studied cartels around the turn of the century. Every cartel depresses the prices of other goods competing for a share of the same income category—e.g., other raw materials in the case of petroleum—by as much as, if not by more than, the percentage increase in the price of the product the cartel controls. The drop in raw material prices is altogether a major contributory cause of Japan's record balance-of-trade surplus. Since Japan imports virtually all her raw materials, and since petroleum is a fairly small fraction of total material needs—less than ten percent—Japan, in her terms of trade and in her balance of payments, has actually benefited from the high petroleum price and from the resulting depression in the prices of all other raw materials. (Conversely, the fact that the United States is most nearly self-sufficient of all major developed countries in raw materials means that it is the country hardest hit in its trade accounts by higher petroleum prices. We pay more for imported petroleum while getting less for the raw materials that we produce for export.)

Rather, the villain in Japan's story—if "villain" be the right word—is Japan's population dynamics, and especially Japan's great success in raising life spans faster than any country has ever done before. Seventy-five years ago, the average life expectancy was age 42. Fifty years ago, it was still only 53. It was, therefore, completely realistic for the Japanese to set their "official" retirement age in government service at age 55 in the 1880s and to extend this retirement age to most private employees in the 1920s. Japanese life expectancies, by now, are 73 years for men and 78 for women—the same as in the West. Infant mortality rates in Japan fell sharply in the 1920s to the low levels of the developed West. But the birthrate stayed high until World War II. And after World War II, Japan, very much like the United States or Western Europe, experienced a short-lived, but sharp, "baby boom." A policy that based economic growth on a large supply of young workers—the policy that is expressed in the seniority-wage system—therefore made abundant sense as late as 1965. But the "baby boom" in Japan ended in a "baby bust" in the mid-1950s—some six years before a similar "baby bust" in the United States and ten years before the birthrate dropped sharply in Germany. And as in the West, the birthrate in Japan has stayed at, or below, the net reproduction level ever since.

As late as 1946, at the end of World War II, three-fifths of the Japanese population lived on the land and almost half the labor force worked in farming, and yet Japan had to import rice. Japan reacted by giving top priority to higher rice production regardless of costs. Japan has more than doubled her farm output in the last 30 years and has an unsalable rice surplus. Yet only one-eighth of the Japanese population now lives on the farm, and less than one-twelfth of the labor force is employed in farming.

The Japanese people have shifted drastically the educational structure of the population. As late as 1938—the last "normal" year before Japan began to mobilize for war—only four to five percent of the young men—one of every 20—went to the university, and half of the young men went to work after graduating from middle school. Today, more than half of the young men go to the university. There are literally no middle-school leavers of either sex. Practically every Japanese, whether male or female, goes on to high school. Yet Japan's social structures and policies still push heavily the expansion of college education.

In 1970, less than ten years ago, Japan was still the youngest of all developed countries. People over 65 amounted to less than seven percent of the population, which meant that only one out of every 15 Japanese was 65 years or older. And for every Japanese over 65, there were about seven to eight adult Japanese employed and working. The comparable U.S. figures for 1970 were ten percent of the population over 65 and five people in the labor force for every one past retirement age. In Sweden and France, the two oldest Western countries, the comparable figures were then 12 percent and one retired to three-and-a-half working people, respectively. By 1977, Japan had moved to the U.S. level of 1970. By 1990, just a little more than ten years hence, Japan will be beyond the Swedish level of 1970 and will have close to 15 percent of her population in the over-65 age bracket, with a ratio of only three people in the labor force to every one over 65 and past traditional Western retirement age. Japan will, by then, be one of the very oldest of the developed countries—somewhat older even than the United States is likely to be.

The overwhelming majority of Japanese who reach retirement age now are middle-school graduates who therefore have spent their entire working lives as manual workers. At least half the males entering the labor force in Japan are now university graduates and too highly schooled to be employed in any but managerial or professional jobs.[1] At the same time, the reservoir of surplus labor on the farm available for manufacturing and service jobs in the cities has by now completely dried up.

III

Similar developments have taken place in every single developed country. However, they have taken place much faster in Japan than in the West—much faster than in any country on record. The transformation of the Japanese age structure, for instance, required 25 years. The same transformation took 70 years in the United States, 100 years in Germany, and 200 years in France. The educational shift that Japan performed in 30 years took well over 60 years in the United States and a century in Western Europe. And the shift that Japan performed in 30 years, from a near-majority of the labor force employed in farming to agriculture being the employer of the smallest group in the working population, took almost a century in the United States and is not yet complete in some West European countries.

Above all, the impact of these shifts is infinitely greater in Japan than in any country in the West. For the basic policies on which Japan's society is based presume yesterday's age structure, yesterday's educational structure, yesterday's rural society, and yesterday's consumption pattern.

In particular, Japan's economic growth and competitive strength are based on the availability of large numbers of manual workers at the entrance age—that is, on the availability of young middle-school graduates. Under the seniority-wage system, productivity

[1] The best available Japanese study concludes that university graduates make up 58 percent of the males now entering the labor force in Japan. This is the highest percentage in the world. The comparable U.S. figure is 48 percent.

automatically increases, the more young people are being employed. It makes little sense to talk of an "average Japanese wage" or "average Japanese labor costs." Two plants of the same company, using the same equipment and the same methods, turning out the same products and paying exactly the same wages and benefits to workers of the same age, may still have labor-cost differentials of 100 percent, depending on the age distribution of their work force. For every year by which the average age of the labor force in a plant goes up, the plant's labor costs rise by five to seven percent.

This explains why Japanese businesses have put the emphasis on sales volume and have seemed to neglect profitability. If sales volume goes up sufficiently so that young people in large numbers can be hired, profitability takes care of itself. Conversely, if sales volume does not go up, or goes down, so that no young workers can be hired, profitability will inexorably go down—no matter how high the profit margin. And now Japan faces a period in which the labor force will inevitably become older. The more labor-intensive any particular Japanese industry is—and even the most modern steel mill is still highly labor-intensive—the more serious will be the drop in productivity from population dynamics.

No one, to my knowledge, has tried to separate productivity increases in Japanese industry that resulted from improved working methods and modernization from productivity increases that resulted from population dynamics. The best guesses I can find credit population dynamics with about half of the productivity increases of the last 20 years. For during these last 20 years, young people were available in very large numbers, as a result of the "baby boom" and of the large-scale migration of young people from the farms into the cities. On that basis, real productivity growth in Japanese industry—as against the impact of population dynamics—would work out at no more than five to seven percent a year for the postwar period—still respectable by any Western standard, but barely enough to offset the downturn in productivity caused by the imminent aging of the Japanese labor force. And for Japan to maintain her competitive position against such newcomers as South Korea or Brazil, with their lower labor costs, would obviously require an even greater growth rate in real productivity.

This leads to what would appear to be an insoluble growth dilemma for Japan. A growth rate of six percent is the minimum for Japan to sustain her competitive position in the world, given the seniority-wage system and its impact on productivities and competitive position. But the Japanese population, and especially the population available for manual work—that is the middle-school leavers—is not going to grow at anywhere near that rate. A six-percent growth rate in the traditional industries is simply not sustainable on the basis of available manpower and existing retirement policies.

But the population dynamics also threaten Japan's traditional capital supply. Japan has, for 100 years, had the highest rate of savings and capital formation of any industrial country in the world, with personal savings of 35 percent of gross personal income being the norm rather than the exception. This, too, very largely rested on the simple fact that until recently few Japanese survived to retirement age. We have learned, in the West, that as life expectancies go up, capital formation inexorably goes down. A larger and larger share of personal savings becomes "transfer payments" to the older retired people and to "survivors," that is widows of retirees who have died. These "transfer payments," through social security taxes and through payments into employers' pension funds, look like savings. But older people—that is the recipients of these "savings"—do not save; they consume.

Japanese government economists calculate that the Japanese personal savings rate would be lower by at least one-third, if not a full half—that is, it would run at 17–24 percent of gross personal income—if Japan today had the same age structure the United States has, where there are 32 million people who are on social security, including eight million "survivors," as against a working population of 92 million. This would still be one of the highest savings rates in the world, and on a par with those of West Germany and Switzerland. But it would be a low savings rate for Japan, and perhaps too low a savings rate in the light of Japan's future needs. For Japan, to offset the impact on productivity of an aging labor force under the seniority-wage system, will have to step up capital investment tremendously to obtain the real productivity increases she needs to remain competitive. Yet capital formation will almost certainly drop sharply, just when Japan needs capital formation the most.

IV

There is one category of young people in which Japan will experience no shortage: university-educated people, prepared to be managers or professionals, either in the private or the public sector. In fact, there is already a surplus. Despite the sharp drop in the birthrate, the supply of university-educated young people in

Japan during the next ten years will be many times what it was only 20 years ago. It is still likely to increase, for a university degree is the only way to have career opportunities in Japan.

Knowledge workers will thus be Japan's major, and most important, resource. And Japan's economic strategy will increasingly have to be to export knowledge work and its fruits, rather than manual work and its fruits. Increasingly, Japan will have to go in for the form of economic integration that, for want of a better term, I have called "production-sharing"—that is, for economic integration under which the developed country performs those stages in the productive process that are management-intensive, capital-intensive, and technology-intensive, while the abundant labor resources of young manual workers in the developing country perform the stages that are labor-intensive, with the final product sold and consumed in the large markets, that is in the developed countries. Japan, alone of all the developed countries, has seen the need for systematic work on "production-sharing." The Ministry of International Trade and Industry (MITI), several years ago, switched to a policy of encouraging the export of entire manufacturing plants rather than of the products of such plants. And while MITI so far still expects these plants, e.g., a petrochemical plant designed and built by Japanese in Algeria, to sell its products in other markets, MITI is increasingly willing to accept payment for such a plant in the products of the plant—that is, payment for the Japanese-designed and Japanese-built petrochemical plant in Algeria in the form of petrochemicals to be sold in Japan.

Increasingly, this will mean that Japanese managers and professionals will design, build and perhaps manage consumer goods plants in developing countries—plants for shoes, textiles, automobiles and electronic products—that are going to be paid for by their own output, to be sold to the Japanese consumer in Japan. It is hard to see any other way of finding employment for the one resource in which Japan will have a continuing surplus—that is, highly schooled people, qualified under the Japanese system only for managerial and professional work.

Such a policy is obviously exceedingly difficult in any country, and likely to run into determined opposition on the part of unions, old industries and politicians alike. It is doubly difficult in Japan because of the traditional policy under which the employee is committed to one employer and cannot easily find other employment, once he is past the entrance age. Under the Japanese seniority-wage system, an employee, and especially a low-paid and low-skilled employee, such as a manual worker, cannot normally find a job past age 30 or 35. At that age, he would have to be paid twice the entrance wage. But since wage is based on seniority, he can only be paid the entrance wage. He is, therefore, basically unemployable. If he loses his job, he becomes a "problem worker," very much the way in which the *samurai* of old became a *ronin* and reduced to banditry if his lord dismissed him or if the lord lost his fief. The worker of 35 who loses his job cannot, normally, expect to become a "permanent employee" anyplace. He becomes a "casual employee," who will never again have employment security, never again have seniority, never again have a good job, and never again, in fact, work for a major company.

"Lifetime employment," that is the right of the worker to his job, developed as an answer to the burden that lifetime commitment to the job imposed on the Japanese worker. At that, only about one-quarter of the Japanese labor force has the security of lifetime employment. Women, by definition, are "temporary employees," who are expected to leave the labor force when they marry—and are expected to marry by their mid-twenties. And employees in the "old industries"—that is in the service industries, the small shops, the small artisans' factories and on the farm—have no lifetime employment either. It is reserved for the male employees in government and large businesses—and is not even universal there. But precisely because of the Japanese worker's constant and nagging fear of becoming a *ronin,* lifetime employment has been the core of Japanese labor relations and the pillar of social order and harmony in Japan.

Now it is rapidly becoming a threat, both to the Japanese worker and to Japanese society. But any effort to change the system would not only cause the labor unions directly involved to fight very hard indeed in opposition, but would engage a host of other groups that are in one way or another taken care of by the economic enterprises or institutions in which they work, albeit on a basis that falls short of strict lifetime employment. In essence, the practice reflects a whole concept of responsibility in the society, as well as a symbol of fairness. Any attempt to modify or to eliminate it would strike at deep emotional roots throughout Japanese society.

Today, to deploy her one abundant resource—highly educated people—Japan needs to be able to liquidate fast the most labor-intensive and least productive stages of production, i.e., old low-skill industries. But these industries—whether textile industries or shoe factories—are, of course, precisely the industries that employ the largest number of low-skilled and older workers. Even without the barrier to reemployment that lifetime employment and the seniority-wage system together create, these workers, while relatively small in numbers, would present a serious economic and social problem. These workers will, of necessity, cling the more tenaciously to lifetime employment, the less productive they and their industries become. Yet, unless they can move out of their old employments and into new ones, Japan will find it increasingly difficult to find work for the tremendous potential of highly schooled knowledge workers who constitute Japan's major and potentially most productive capital investment.

The alternative—and one that is hardly realistic anymore—is dumping high-cost, labor-intensive products, at a loss, in foreign markets that are bound to have surplus capacity and redundant over-aged labor in precisely the same industries as Japan.

V

No other country has had as purposeful and as successful an educational policy as has Japan. That career opportunities are dependent almost entirely on educational attainment was deliberate and planned. It was meant to make economic progress the engine of educational advancement. A famous story is told of Shibusawa Eiichi (1840–1931), the Meiji statesman who left a high government post to become Japan's leading industrial entrepreneur and her first banker. When approached for a loan by a successful businessman, Shibusawa turned the application down because the man was not a university graduate. This was not snobbery. And Shibusawa knew perfectly well that success in business does not depend on a sheepskin. But he had decided earlier to make managerial positions the monopoly of university graduates so as to give young Japanese an incentive to stay in school and to acquire higher education.

As a result, Japan has become the only genuine "meritocracy" around, in which birth and wealth count for almost nothing and educational attainment for almost everything. By now this has outlived its usefulness. School is turning into a nightmare. There is increasingly an oversupply of university graduates. But this has not, at least so far, resulted in a lessening of the pressure on young people to get into the right educational track and to acquire the university degree that is the passport to all opportunity and preferment.

On the contrary, during the last few years the pressure has reached a fever pitch. It now begins with the child's application to nursery school, that is before the age of three. There is an entrance examination—and little tots, barely able to walk, are being pushed into taking ballet lessons, into learning arithmetic, and into learning a few words of English. And the pressure keeps on building up. More than half of all middle-school students in Japan attend *juku*—afternoon and evening cram schools that drill for the exams. According to a study that the Ministry of Education released last fall, middle-school students aged 12–15 spend almost nine hours each day *after* school doing homework and going to the *juku*. It is normal for a middle-school child to work until two o'clock in the morning each day, and to take a sample test of the high school examinations every Sunday for years on end. Senior high school students spend "only" eight hours a day in after-school work and *juku*. The pressure is becoming more and more intense with the suicide rate among teenagers, and even among preteens, reaching alarming proportions.

But worse, school instead of being accessible to everyone on the basis of merit is becoming increasingly expensive. To be sure, school—from kindergarten on—is nominally free. But to get into the "right" school requires larger and larger "voluntary contributions." The most expensive school to get into is medical school. A candidate, even if his father is a physician, will have to pay about $100,000 in "voluntary gifts" and "voluntary presents" to the faculty members on the admissions' committee to have his application even considered. A friend of mine, the widow of a Japanese clergyman, who is working as an administrative assistant in a small government agency, will have to find $4,000 by next April to have her son admitted to the entrance examination of a supposedly free public high school. If he fails, she will not get the money back—and only one out of every ten candidates passes. Then the boy will have to go for a year to a *juku*—at a cost of about $7,500—pay another $4,000 in "voluntary contributions" and try again. And the Ministry of Education study referred to above makes clear that these are not unusual but, on the contrary, fairly standard fees and financial contributions. For not to get into the "right" high school means not to get into the "right" university four years later; this would debar the boy forever from access to better jobs and career opportunities. Not to go to high school at all is a life sentence to manual labor, from which there is no appeal.

At the same time, the rewards are beginning to lose their luster. With the shortage of middle-school leavers, and therefore of manual workers, and the abundance of university graduates, the differential in the pay of the two groups is bound to shrink. In the

1950s and 1960s, when the demand for university graduates was high while the supply was still low, the differential became greater than it had been traditionally. It is already back to where it was before World War II. It is bound to go down, and fairly rapidly. University graduates are already beginning to have difficulty finding "good" jobs, and in many cases jobs of any kind—especially if they have no technical qualifications. And while the salaries of university graduates, once they have found employment, still go up with seniority, the promotional opportunities are rapidly shrinking as most organizations find themselves well supplied with highly schooled people in their early and mid-thirties.

Again the lifetime employment system aggravates the problem. The university graduate can, as a rule, not leave the employer with whom he starts. And more and more of the graduates even of the "prestige" universities have to start in dead-end jobs with employers who have no future themselves—without hope of being able to switch jobs, no matter how well they perform. For the time being, these conditions are likely to increase the premium on going to the "right" schools, and with it both the emotional and the financial pressures. But there is a distinct possibility of a collapse of the system, or of an explosion—and surely a system that puts such extreme pressure on children and literally forbids them to have any leisure time, any interests of their own, any learning of their own, can hardly produce educated adults. It is likely to produce people who can take examinations, but who do not know how to learn.[2]

VI

Japan is considered the most "protectionist" country by foreigners—and of all the complaints foreigners have about Japan, this is the one the Japanese themselves understand the least. For, what to the foreigner seems to be economic protection, appears to the Japanese to be self-defense of Japanese society against the Westerner's cultural imperialism.

From the early days of "modern Japan," after the Meiji Restoration of 1867, Japan has always defined her policy as using Western instrumentalities to maintain the essence of Japan. And

[2] So far as I can tell, there are as yet few signs of the kinds of explosion of resentment and rejection that I am suggesting is possible. During this visit to Japan, I heard for the first time of apparently qualified students dropping out of the university—but these appeared to be only among members of families with such strong connections that the children would still have substantial advantages. My hunch is that the system may not show many signs of erosion up to a certain point, but that it may then change very rapidly once, so to speak, it boils over.

economic policy is the foremost Western instrumentality thus used. "Old Japan" means the distribution system in which large numbers of people are employed at rather low wages by small wholesalers, in "Papa, Mama and Rosie" retail shops, and in small workshops making traditional goods and acting as suppliers to modern industry. It also means a system of small family farms growing rice. But while there was once a cultural rationale for the farm policy, it has long become economic insanity. The underlying economic premises of Japan's farm policy are the fear of a rice shortage; the belief that a country as dependent as Japan on imported raw materials has to keep as large as possible a proportion of the population on the farm and out of the consumer society; the conviction that as poor a country as Japan has to discourage its people from eating anything but rice and fish; and finally the notion that the fish catch is capable of being expanded indefinitely while the rice crop is finite and will always be inadequate. All these premises have been proven fallacies during the last ten years.

It has been Japanese farm policy to encourage rice growing and to discourage growing anything else. A Japanese farmer gets a larger subsidy, the less suitable his land is for growing rice. The origin of this policy was the fear that Japan could not produce enough rice for her own domestic demands—which was still a rational fear 25 years ago. By now the policy has produced an unmanageable rice surplus, while at the same time the cost of the rice subsidy has become so high that the rice subsidy fund has become bankrupt. And since the rice that the subsidy produces is grown on land not suitable for growing rice, the surplus rice is of poor quality and could not possibly be sold on the world market. In respect to proteins, Japan has similarly pursued a policy that, however rational its origins, has become bankrupt. It has been national policy to encourage fishing and to discourage and to penalize every other production of proteins, whether vegetable, such as oil-bearing crops, or animal, such as livestock or poultry. But the fishing yield has long been stagnant and is now going down fast, with the growing resistance of other nations against Japanese fishing practices that threaten to overfish and to destroy the fish population of major fishing zones. The extension of sovereignty, and with it the control of fishing 200 miles from the shore, which by now has become general, was directed in large measure against the Japanese threat to marine ecology, whether real or perceived.

These policies were designed to ensure low-cost food for

Japan—they have had the opposite effect for at least ten years now. Japan has, without doubt, the highest food costs of any major country—twice those of the United States and perhaps 50 percent higher than those of the most expensive and most protectionist countries of Western Europe. Meat costs about four times what it costs in the United States or in Western Europe—and even twice what it costs in the Soviet bloc countries. Fish, at the same time, has become almost as expensive as meat, and food costs are still rising fast. The Japanese inflation rate in the last few years has rarely fallen below ten percent a year. Food prices have been rising at a rate of 30 percent a year. At the same time, food production—other than rice production—has remained stagnant, and in some cases has actually gone down.

The high cost of animal proteins has acted like a suction pump on the cost of all other food products. 1977 was a year of bumper harvests of such things as Japanese oranges and vegetables—with crops so large as to be almost unsalable. Yet the costs of these products have kept going up. There is now virtually no dish—even *soba* (buckwheat noodles), which used to be what peanut butter sandwiches are to the American diet—that can be bought for less than $1.50 a portion.

Food and education are basic economic costs. They are the costs of forming the human resource. Both, in Japan, are out of control. And as they keep rising, the real income of the Japanese family is going down. Even well-to-do people, during my last trip to Japan, had begun to ration food. Even well-to-do people are hard pressed to find the increasing sums to finance their children's access to education. That the basic costs of the Japanese economy are going up so fast will endanger the long-range basic cohesion of Japanese society. It is the greatest threat, both to Japan's economic position in a competitive world and to her social order.

VII

Some of the policies that Japan will have to develop—including some that only a few years ago were unthinkable—are emerging with reasonable clarity, and are beginning to be discussed in Japan. The government is beginning to press for delayed retirement—at age 60 instead of 55. There is talk of retraining redundant workers and of placing them in new employments where there is demand for labor, e.g., shipyard workers in automobile plants. There are the beginnings of mobility for highly qualified young professionals. And there is some slight movement toward tempering the seniority-wage system with wage measures based on productivity.

But the policies that are most needed—and needed most urgently—are still beyond Japanese political will and social imagination. What is needed most is a sharp cut in prices for the domestic consumer. Japan suffers from excess inventory, both of raw materials and of finished goods. Her policy, these last few years, has been to maintain domestic prices—if only to protect the domestic distribution system—by conducting a gigantic clearance sale abroad. That policy has to come to an end—it can only destroy Japan's capacity to export altogether. Now is the time to bring prices down in the domestic market, both to answer the charge of "dumping" and to boost the domestic economy.

There is need for a shift in agricultural policy from one that encourages the production of unsalable high-cost rice to one that, like the British farm policy, maintains farm incomes while giving the consumer low food prices. Especially there is need for a shift to a farm program that encourages farmers to take poor rice land out of rice production and to shift it into producing feed crops, oil-bearing crops, and animal proteins. Japan could probably supply far more—one estimate is at least two-fifths—of her growing demand for animal and vegetable protein, other than fish (which is likely to keep on declining), by domestic production on land that today produces rice at high cost.

There is need to encourage "production-sharing"—that is, the offshore performance of labor-intensive work, with the product sold on the Japanese market, in exchange against export of knowledge and technology.

Seventy years ago, the general manager of the Mitsui Group, then as now one of Japan's leading industrial concerns, worked out the solution to the seniority-wage conundrum. When some of the Mitsui companies had to lay off employees in the recession that followed the Russo-Japanese War, he organized their systematic placement with other Mitsui companies, in which the new employer would pay the wage befitting the employee's seniority, i.e., the entrance wage, while the Mitsui Group itself would make up the difference between that wage and the wage befitting the employee's age. The sum that the Mitsui Group had to pay was ludicrously small, yet Mitsui could maintain employment security without employment rigidity. Some such policy will be needed on a national scale in Japan, together with a policy of systematically retraining and replacing employees of industries that cannot be maintained under Japanese labor costs, population structures and education structures.

What needs to be done is not so very difficult to discern, albeit difficult to do. The one area, however, in which no one in Japan can see a solution is that of education. At most, there is talk—and only talk so far—of loosening the linkage between the "right" university and the "prestige employments," under which careers in major companies, major universities, and practically all government agencies are reserved to the graduates of a few schools. But the "tracking" of people that reserves career opportunities to the graduate from the "prestige" university and that, in turn, creates what are increasingly unbearable emotional pressures and financial costs, is still beyond challenge, with no substitute for it in sight or even imaginable.

For the first time in 20 years, I left Japan not wholly confident about the country's future. So far, it seemed to me, few people in Japan have faced up to the fundamental issues. But Japan has shown unparalleled capacity throughout her history for the 180-degree turn and for forging, almost overnight, a national consensus to impose on herself radical change. Japan has also shown unparalleled capacity, throughout her history, for social innovation. This capacity, going back almost 1,500 years, may indeed be Japan's greatest strength. Japan may well suddenly face up to her problems of success and to the need to maintain the essence of Japan in new forms and through new policies. But also, Japan faces a turbulent, a difficult and a dangerous period—a period in which there will be surprises for Japan, as well as for the Western world, with which Japan is now so strongly linked, and on which she is so heavily dependent. The economic problems and needs—the resistance to Japan's trade offensive, the currency chaos, the petroleum cartel—may be the catalysts. But the real decisions will have to be on social structure, social policies and social values.

Tokyo Office
June 5, 1978

Schedule for Mr. Robert S. McNamara

(President-World Bank)

June 6 (Tue)	14:55	Arrive at Narita via JL071 (Imperial Hotel)
June 7 (Wed)	07:30-08:45	Breakfast with Foreign Minister Sonoda at Iikura Guest House
	09:00-09:45	Finance Minister Murayama
	10:00-10:15	Tokyo Office
	10:45-11:00	Briefing by the Imperial Protocol Office
	11:00-11:30	The Emperor
	11:45-12:15	External Economic Affairs Minister Ushiba
	12:45-14:15	Luncheon hosted by Minister Ushiba at Kitcho Restaurant
	14:30-15:15	President Ishihara, Overseas Economic Cooperation Fund
	15:30-15:45	(the Hotel) Former Prime Minister Miki
	16:00-16:30	Economic Planning Minister Miyazawa
	16:40-17:00	(the Hotel)
	17:15-17:45	Agriculture Minister Nakagawa
	19:00	Dinner hosted by Minister Murayama at Fukudaya Restaurant
June 8 (Thu)	07:40-07:55	TV interview (Studio 102), NHK
	08:05-08:20	Chairman Sakamoto, NHK
	09:00-09:25	President Kashiwagi, Bank of Tokyo
	09:45-10:30	President Sumita, Export-Import Bank of Japan
	10:40-11:30	Chairman Doko, Keidanren
	12:00-13:30	Press Luncheon at the Nippon Kisha Club
	14:00-14:40	Prime Minister Fukuda
	15:15-15:45	Governor Morinaga, Bank of Japan
	16:00-16:45	Meeting with Japanese economists
	18:30-20:30	Reception hosted by Mr. and Mrs. McNamara at Sakura-no-ma, Imperial Hotel
June 9 (Fri)	10:55	Departure from Narita via JL711

Tokyo Office
May 30, 1978

List for Mr. and Mrs. McNamara's Reception

Thursday, June 8, 1978 (18:30-20:30)

Sakura-no-ma, Imperial Hotel

Political Circle

Mr. and Mrs. Takeo Fukuda	Prime Minister
Mr. and Mrs. Tatsuo Murayama	Finance Minister
Mr. and Mrs. Nobuhiko Ushiba	External Economic Affairs Minister
Mr. and Mrs. Kiichi Miyazawa	Economic Planning Agency Minister
Mr. and Mrs. Ichiro Nakagawa	Agriculture Minister
Mr. and Mrs. Sunao Sonoda	Foreign Minister

Ministry of Finance

(Minister's Secretariat)

Mr. and Mrs. Shigeya Yoshise	Vice Minister
Mr. and Mrs. Michiya Matsukawa	Vice Minister for International Affairs
Mr. and Mrs. Takehiro Sagami	Deputy Vice Minister
Mr. and Mrs. Tomomitsu Ohba	Deputy Director-General
Mr. Kozo Yamamoto	Interpreter for Finance Minister (Deputy Director, Overseas Investment Division, IFB)

(International Finance Bureau)

Mr. and Mrs. Hirosuke Dan	Director-General
Mr. and Mrs. Tomoo Miyazaki	Deputy Director-General
Mr. and Mrs. Koichi Kakimizu	Deputy Director-General
Mr. and Mrs. Teruo Hirao	Deputy Director-General
Mr. Kenzo Sakai	Director, Co-ordination Division
Mr. Sadao Inose	Director, Overseas Investment Division
Mr. Toshisada Uchida	Director, Overseas Public Investment Division
Mr. Kyoichi Ohmura	Director, Overseas Private Investment Division
Mr. Toshihiro Kiribuchi	Director, International Organization Division
Mr. Toyoo Gyoten	Director, Research Division

(Securities Bureau)

Mr. and Mrs. Toyoki Watanabe	Director-General
Mr. Masami Kogayu	Director, Capital Market Division

MOF (con't)

(Financial Bureau)

Mr. and Mrs. Aritoshi Soejima	Deputy Director-General

(Customs Office)

Mr. Akira Kaya	Chief, Nagoya Office

(Tax Bureau)

Mr. and Mrs. Masataka Ohkura	Director-General

(Banking Bureau)

Mr. and Mrs. Kiichi Watanabe	Deputy Director-General

(Budget Bureau)

Mr. and Mrs. Minoru Nagaoka	Director-General

Ministry of Foreign Affairs

(Minister's Secretariat)

Mr. and Mrs. Keisuke Arita	Vice Minister
Mr. and Mrs. Hiromichi Miyazaki	Deputy Minister

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Mr. Goro Nakasone	Director, First Economic Cooperation Division
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Mr. and Mrs. Shigemitsu Kuriyama	ex Bank staff (Manager, Economic Research, IBM)
Mr. Kazuhiko Sakai	ex Bank staff-Tokyo Office (Bank of Tokyo)
Mr. and Mrs. Shinichiro Shimojyo	Member of the House of Councilors

STATEMENT BY HIS EXCELLENCY MR. SUNAO SONODA,
MINISTER FOR FOREIGN AFFAIRS OF JAPAN,
ON THE OCCASION OF THE SPECIAL SESSION OF
THE GENERAL ASSEMBLY DEVOTED TO DISARMAMENT

May 30, 1978

Mr. President,

On behalf of the Government of Japan, I should like to congratulate Your Excellency on your assumption of the high office of President of the Special Session of the General Assembly Devoted to Disarmament. I am confident that, under your impartial leadership, and benefiting from your excellent judgement and wealth of diplomatic experience, the Special Session will prove to be most fruitful.

Mr. President,

The Charter of the United Nations was adopted in San Francisco thirty-three years ago. It clearly states at the very beginning that the peoples of the United Nations have resolved to combine their efforts "to save succeeding generations from the scourge of war,'which twice in our lifetime has brought untold sorrow to mankind." All the nations which gathered to found the United Nations committed themselves to this solemn pledge, and all the nations which have since joined this august body have given the same solemn undertaking.

During

During these thirty-three years, however, the world has seen a great number of armed conflicts and continuous increase in armaments, including nuclear weapons. I cannot help but feel a sense of deep disappointment at this state of affiars.

At the same time, I am greatly encouraged that unremitting efforts have been made to bring lasting peace to the world, and that the present Special Session on Disarmament is being held as one concrete accomplishment of such efforts.

Mr. President,

Having recovered from the devastation of World War II with the understanding and cooperation of the other countries of the world, Japan now has one of the strongest economies in the world. In the past, an economically powerful country has invariably been a military power as well. However, Japan has rejected such a course, and has consistently endeavoured to use its economic capabilities for contributing to the stability and prosperity of the international community.

Mr. President,

The Constitution of Japan proclaims that, "We, the Japanese people, desire peace for all time.... and we have determined to preserve our security and existence, trusting in the justice and faith of the peace-loving peoples of the world."

world." It then states that "...the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes."

In the proud spirit of such a Constitution, which will hopefully open new vistas for humanity, Japan has maintained the fundamental policy of refusing to become a military power which may threaten other States. It has instead made international cooperation the foundation of its foreign policy.

At the basis of my country's decision to choose such a path, which is a challenging experiment without parallel in history, lies our firm determination that "such a war must never break out again " --a determination deeply rooted in the heart of each and every Japanese through bitter experiences in World War II. Today, more than thrity years since the end of the war, the Japanese people still hold firmly to this determiation. Japan will never act counter to it.

The fervent longing of the Japanese people for lasting peace, and their firm resolve to devote themselves to its attainment, coincide in every way with what the Charter of the United Nations demands of the countries of the world. Japan, aspiring to be a pioneer in the establishment of new standards of behaviour for sovereign states within the world community, is determined to strengthen still further its diplomatic efforts dedicated to peace and based on international cooperation.

Mr. President,

Mr. President,

As is well known, Japan is the only country which has experienced the indescribable horrors caused by nuclear weapons. In a flash, the atomic bombs which were dropped on the cities of Hiroshima and Nagasaki thrity-three years ago reduced those two cities to ashes and took the lives of nearly 300,000 people. Of those who luckily escaped death, the agony and suffering of some 370,000 men, women and children continue even to this day. This agony is not confined to nationals of Japan alone. For the sake of future generations of mankind, we must never forget the stark realities of the suffering and devastation caused by nuclear weapons.

Today, Mayor Araki of Hiroshima, and Mayor Morotani of Nagasaki, are present in this Hall, representing the citizens of those two cities.

Today's nuclear weapons have destructive capacity which defies comparison with the atomic bombs used against the cities of Hiroshima and Nagasaki. If nuclear weapons were ever to be used again, the ensuing devastation and suffering would be enormous -- quite beyond our imagination. The Japanese people are firmly united in the conviction that such a tragedy must never be repeated. I believe that this determination is shared today not only by the Japanese people, but also by the peoples of the entire world. In light of such a world-wide conviction, I think it would be highly significant to proclaim August 6 as Disarmament Day.

Today, the representatives of a variety of non-governmental organizations, which have for many years worked in Japan for the abolition of nuclear weapons, have come in great numbers to this Assembly. Their presence reflects the burning conviction of the Japanese people that our ultimate goal, the abolition of nuclear weapons, must be achieved at the earliest possible date.

Mr. President,

Based on the strong desire of the Japanese people for the abolition of nuclear weapons, my country has, as a matter of national policy, consistently upheld the three non-nuclear principles--of not possessing, not manufacturing, and not permitting the entry into Japan of nuclear weapons-- even though it possesses the capacity to develop such weapons. The reason for which my country became a party to the Nuclear Non-Proliferation Treaty was also our desire for the abolition of nuclear weapons.

Mr. President,

On behalf of the Government and the people of Japan, I wish to state yet again that my country is firmly committed to these three non-nuclear principles. At the same time, I strongly urge the nuclear-weapons States to make every possible effort to ensure that nuclear weapons will never be used, and to banish all nuclear weapons from the earth.

Mr. President,

The nuclear-weapon States ought to be in a position to understand better than any other country the horrors of nuclear weapons and the threat they pose to our survival. The non-nuclear-weapon States, whatever their ideology or political system, earnestly desire the removal of the ever-present threat posed by nuclear weapons. It must be concluded, therefore, that there should be no difference whatsoever among the nations in their desire totally to eliminate nuclear weapons. I am firmly convinced that if each and every nation resolves to strive yet harder on such a premise, the total abolition of nuclear weapons will come within our reach. This is our duty towards the generations to come.

Mr. President,

While the attainment of general and complete disarmament should undoubtedly be the common goal of all the countries of the world, one should not forget that, for each country, disarmament is a problem closely linked to the requirements of ensuring national security. In the present international community, the balance of power among countries, whether on a regional or a world-wide scale, is a significant factor in the maintenance of international peace and security. If we wish to move towards the realization of general and complete disarmament, there is no other way open to us than to keep this ideal always in mind and to proceed step by step with concrete and feasible measures.

Mr. President,

I have so far outlined my country's basic thinking on disarmament. Against this background, I should now like to give my Government's views on some of the main issues.

Mr. President,

First, I would like to reemphasize that progress in negotiations for nuclear disarmament, with the goal of eliminating all nuclear weapons, is the task facing us today to which the highest priority should be given.

To attain this goal, it is most essential to take feasible measures step by step in the direction of first halting the nuclear arms race and thereafter reducing the existing nuclear arsenals.

In order to arrest the nuclear arms race it is necessary to prevent any further increase in the number of nuclear-weapon-States. To this end, international efforts should be intensified to make the Nuclear Non-Proliferation Treaty truly universal and on that basis to strengthen further the non-proliferation regime. In this connection, I am firmly convinced that the imperatives of preventing further nuclear proliferation and of promoting the peaceful use of nuclear energy, an essential energy source, can, and must be pursued in harmony.

Mr. President,

The Government of Japan believes also that the establishment of nuclear-weapon-free zones where suitable conditions exist can be useful in preventing proliferation.

My

My country hopes that international endeavours to establish such zones will be continued and that the nuclear-weapon States will give their positive support, including assurances not to attack such zones with nuclear weapons.

Mr. President,

International efforts to prevent increase in the number of nuclear-weapon States can achieve little without the efforts of the countries now possessing nuclear weapons to achieve nuclear disarmament.

Positive contributions by all the nuclear-weapon States are indispensable for realization of the ultimate goal of the abolition of nuclear weapons. However, there has been little progress in the efforts so far made by the nuclear-weapon States for the reduction of their nuclear armaments. I cannot help feeling a sense of deep disappointment and strong frustrasion. The two major nuclear-weapon States have particularly heavy responsibilities in this regard. I strongly request that the United States and the Soviet Union, mindful of these responsibilities, should work for the earliest possible conclusion of an agreement in the Second Strategic Arms Limitation Talks, and should promptly follow it with further talks for the substantial reduction of their strategic arms.

Furthermore, my country urges China and France to become parties to such existing treaties as the Partial Test Ban Treaty and the Nuclear Non-Proliferation Treaty, and to participate in disarmament starting from the negotiations to conclude a comprehensive test ban treaty.

Mr. President,

The first concrete step to halt the nuclear arms race should be the realization of a comprehensive prohibition of all nuclear-weapon tests. It is indeed regrettable that more than one thousand nuclear-weapon tests have been conducted in the last thirty-three years and that at least eight tests have already been conducted this year. I should like to appeal strongly to the United States, the United Kingdom and the Soviet Union to reach agreement at the earliest possible date in their current trilateral consultations on a comprehensive nuclear test ban, and to make it possible for the Conference of the Committee on Disarmament to start multilateral treaty negotiations this summer. At the same time, I should like to request all countries to refrain from all nuclear explosions, whether for weapons purposes or for peaceful purposes, even before the conclusion of this treaty.

Mr. President,

Another realistic step in arresting the nuclear arms race would be the cessation of the production of fissionable materials for nuclear explosions. Japan has promoted this idea ever since 1969. I should like to take this opportunity to urge the nuclear-weapon States to halt the production of nuclear fissionable materials for explosive purposes, except for such quantities as are necessary for non-explosive and non-weapon purposes. In order to assure compliance with such measures the nuclear-weapon States should accept safeguards of the International Atomic Energy Agency similar to those which are applied to the non-nuclear-weapon States under the Nuclear Non-Proliferation Treaty and other international agreements.

Mr. President,

The establishment of effective systems of verification is no doubt indispensable in ensuring the concrete progress of disarmament. In the field of a comprehensive test ban, Japan, with its highly advanced seismological research, has been contributing to the establishment of a verification system of nuclear tests through seismological methods. It is our intention to strengthen our efforts further in this field.

Japan strongly appeals to the countries concerned to intensify the international efforts, including their efforts through the United Nations, for the purpose of developing effective systems of verification for a variety of disarmanent measures.

Mr. President,

Mankind will be able to reach the stage of making significant progress towards the substantial reduction of existing nuclear

weapons

weapons only when all nuclear-weapon States have proceeded with the concrete measures for halting the nuclear arms race which I have suggested. I am convinced that this is the road along which mankind must advance towards the abolition of nuclear weapons.

Mr. President,

Together with nuclear disarmament, the banning of chemical weapons, which are also weapons of mass destruction, is an urgent task. My country has, throughout the 10 year deliberations of the CCD, made strenuous efforts for the early attainment of this goal, including the submission of a draft treaty banning chemical weapons. I would like to request that, with the Convention banning biological weapons already concluded, negotiations for a treaty banning chemical weapons be promptly undertaken.

Mr. President,

The international community is today witnessing an enormous build-up of conventional weapons as a result of their production and international transfer. Such an accumulation is fraught with the danger of inducing the outbreak of armed conflicts and of escalating armed conflicts in areas of tension.

Based upon its fundamental position of devotion to peace, Japan refrains from exporting weapons to any part of the world,

thus

thus maintaining a unique position which is highly exceptional among the advanced industrialized countries. Further, my country has taken the initiative in advocating the commencement of international studies with the aim of restraining the unlimited international transfer of conventional arms, while appealing to the major arms suppliers to start consultations with a view to voluntary restraint in arms exports to areas of conflict. We appreciate the fact that, in positive response to this appeal, the United States and the Soviet Union have begun consultations aiming at curbing arms exports.

This question of the international transfer of conventional arms is undoubtedly a delicate and difficult one, as it has a direct bearing upon the security of a great number of countries. Nevertheless, we cannot by-pass this question simply because it is difficult.

While fully recognizing the complex nature of this problem, I earnestly hope that the first step towards achieving restraint in the unlimited international transfer of conventional weapons will be taken at this Special Session.

Mr. President,

It goes without saying that the prime aim of disarmament is the preservation of international peace and security. I should like to emphasize at the same time that as we move foreward with disarmament, the resources so far allocated to armaments should be released for the purpose of prosperity and development of the international community, in particular for the development of the developing countries.

World

World military expenditure, which is increasing year by year, has now reached the staggering figure of almost $400 billion annually -- this one day alone more than one billion dollars is spent for military purposes.

This amount, twenty times as much as the total amount of the Official Development Assistance from the developed to the developing countries, constitutes a serious obstacle to the economic and social development of the world community.

It is essential that all the countries of the world including the nuclear-weapon States, should bear this in mind and should make ever-greater efforts in the field of disarmament in order that we may devote our resources and energies to the prosperity of the whole international community, particularly for the development of the developing nations.

Mr. President,

Disarmament is a complex and difficult problem. Its progress can be achieved only through the unremitting concerted efforts of all the countries of the world for the common goal of attaining general and complete disarmament. I very much hope that concrete results will be attained at this Special Session for improvements in the disarmament machinery which will encourage such concerted efforts.

Finally, Mr. President, it must be emphasized that the aim of diarmament will not be achieved, in the final analysis, unless distrust among countries, which underlies the arms race, is removed.

We

We must break the vicious circle in which mutual distrust causes an increase in armaments and increases in armaments breed distrust. Instead we must build relationships in which mutual trust promotes disarmament and disarmament builds mutual trust.

Inspired by the wisdom born of its own bitter experiences in the past war, my country has decided to dedicate itself to peace and has placed the basis of its diplomacy in a policy of the avoidance of hostility with any country. It has striven to deepen exchanges and communications, thereby building a relationship of mutual trust with all countries of the world, regardless of their political systems, power or geographical distance.

I believe that it is precisely such efforts which will build a firm basis for efforts at disarmament.

Mr. President, distinguished delegates,

As I stated at the outset, the basic policy of Japan is to devote itself to peace. Japan has adhered firmly to the stringent policy of not possessing, not manufacturing and not permitting the entry into Japan of nuclear weapons. It has refrained from exporting weapons to the rest of the world. I therefore feel personally proud in stating that Japan occupies a highly advanced position in the field of disarmament.

It is our strong hope that specific progress will be made in nuclear disarmament and other disarmament fields through concerted international efforts. Various constructive proposals have been made, and will continue to be made, at the present Session of the General Assembly. The crux of the matter, however, is to achieve actual and concrete progress in our disarmament efforts.

I hope most earnestly that the present Special Session may prove to be a constructive forum leading to concrete achievements in the field of disarmament and may thus give a strong impetus to the international effort for general and complete disarmament.

Mr. President,

Before concluding my statement, let me share with this distinguished audience my deep convictions on the question of nuclear weapons.

Distinguished delegates who represent nuclear-weapon States,

I trust that you know better than anyone else the horrors of nuclear weapons, which could annihilate mankind. Nuclear weapons remind me of the tusks of the mammoth which ultimately caused its self-extinction. It is my earnest hope that nuclear-weapon States will give careful thoughts to the future of mankind and pursue responsible policies.

Distinguished delegates who represent non-nuclear-weapon States which are under the dark shadow of existing nuclear weapons,

<u>We</u>

We can never forget the horrifying holocaust which could be caused by nuclear weapons. Let us unite in our total committment and proceed together for the abolition of all the nuclear weapons.

I should like to conclude my Statement with this sincere appeal to all representatives gathered here today.

Thank you, Mr. President.

Excerpt from Speech at Yomiuri
International Symposium
held in Tokyo, May 10-12, 1978

GROWING INTERDEPENDENCE INDICATES NEED FOR CHANGE

By Kiichi Miyazawa
Director-General, Economic Planning Agency

I feel highly honored and pleased at being accorded an opportunity of speaking before this forum of intellectuals with much influence at home and abroad, concerning what I think about the future course of the world economy and the role Japan should play in it.

These days, we daily find such words as "crisis" and "disruption" in the headlines of various newspaper articles.

To cite several examples, the headlines with the connotation of "crisis" include those relating to our day-to-day concern like "Recession With No Sign Of Upturn," "Price Increases Afflicting Livelihood" and "Seemingly Endless Dollar Decline." They also include somewhat long-range problems such as "Natural Resources Exhaustion Looming" and "North-South Economic Gaps Remain Unchecked."

I, of course, do not deny that these headlines in fact reflect the actual aspects of the world, which I also acknowledge have substantially serious connotations.

Not Crisis

However, I cannot afford to agree with the standpoint of viewing the problems confronting us in terms of "crisis" or "catastrophe."

Rather, we are better advised to call to mind the history of mankind which is full of successful attempts to overcome most ordeals and difficulties.

As for the Japanese history, the nation's success in modernization since the Meiji Restoration, rapid rehabilitation from ruins of World War II and resuscitation from the impact of the 1973 oil crisis do support the fact that we can believe in our own ability to deal with adversity.

Should there exist in fact a "crisis," it might perhaps lie in the defeatist attitude itself in viewing and dealing with problems.

In my own interpretation, the fact that many people describe the current world situation as entering an "age of crisis" should be considered adequately as meaning that the present era is in fact an "age of major changes" where no reliable key to cope with them has yet been found.

Two major factors, I believe, can be cited concerning the current changing world situation.

Firstly, since no country can any longer exist without close interdependence with other countries, every nation has now found it impossible to always place first priorities on its own national interest in handling its domestic economy.

As a result of the evergrowing internationalization of economies and expansion of international division of labor, the world's total volume of trade has now reached the $1 trillion level per year in terms of exports, compared to some $100 billion twenty years ago.

Because of the deepening interdependence, Japan's growing trade surplus, for example, has effects on unemployment in other countries, especially its major trade partners, while rises in inflation rates in countries exporting to Japan are certain to immediately bring about changes in commodity prices in Japan and the yen's exchange rates.

Although I think the increasing interdependence is indispensable for further development of the world economy, economic cooperation among countries cannot always be successful since the nations tend to compete with each other to snatch as many benefits as possible from the interdependence.

The second problem is that the ongoing changes have caused some international economic arrangements created after World War II to be unable to function adequately.

Under the GATT rules for unconditional free trade and a fixed exchange rate system guaranteed by the IMF, the world trade witnessed a steady expansion for about 30 years after the war thanks to the stable values of the dollar on international markets.

No institution, however, can continue to exist unchanged for ever.

The present confusion is mainly due to the fact that the existing international rules cannot afford to cope effectively with various changes that have taken place in recent years.

One of these major changes in the world economy is the decline in the relative status of the US economy, although the US remains the world's strongest country in its industrial and technological capabilities.

The US dollar will be certain to continue to be the world's key currency in the future, but the economic influence of the US over world economies has ceased to be as absolute as it was until a few years ago.

The upsurge in the voices of developing countries over international relations is another change of great significance.

This is all the more conspicuous in the 1970s, as primary goods they produce have gained a growing importance on the international market.

The so-called North-South problem involving economic gaps between industrialized and developing countries has made us realize the urgency of modifications of the GATT, IMF and other existing international economic arrangements.

The world's economic changes are also a reflection of the economic-social transformation within each country, especially among the industrially advanced nations.

Typical of the changes of this kind are those involving priorities of values people place on different aspects of their daily life. More values are being attached to quality rather than quantity of products and to services rather than goods.

Sense of Values

These changes in the sense of values, particularly conspicuous in industrial countries, inevitably lead to the need for major changes in the respective countries' industrial structures as well as their economic organizations and institutions.

Industrially advanced countries are also finding their principles of free economy, pricing mechanism in particular, failing to function properly, mainly because of the ever-growing business corporations and powerful trade unions. This in turn exerts various pressures on commodity prices and wages, often constituting a major cause of the so-called stagflation.

These changes, many of which are common to industrialized countries, have resulted in the differences in productivity rates among them and also the differences in their economic growth rates, international balance of payments positions and inflation rates.

It is against this background that there have arisen international economic frictions giving rise to the danger of protectionist trade policies in these countries intent upon securing their vested interests.

In the course of our efforts in search of new international economic rules to adapt ourselves to the changing situation, the highest importance should be given to promoting dialogue among nations and mutual understanding between them.

The talks between the developing and industrial countries seem to be progressing slowly because of uncompromising attitudes on both sides. They are still harder between industrial countries despite their ideological similarities.

"Flexible" Order

In the quest for a new world economic order to make the existing IMF, GATT and other international arrangements more suitable to the emerging trend, I think the new order must be more "flexible" than conventional ones, as exemplifed by the switch from the fixed exchange rate system to the floating system.

Regarding the functioning so far of the floating exchange rate system, it still cannot be said that it is working satisfactorily, partly because of insufficient international cooperation and partly because of the failure on the part of the US to be fully aware of the serious influence that the dollar's fluctuations exert over the global economy.

On the trade front, the principles of free competition are no longer applicable to the current situation, but restraints on free trade should not be allowed to result in negligence of the need for efforts to enchance productivity.

Frankly speaking, the words "administered trade" are apt to cause unnecessary misunderstanding.

I would like to refer to the Japanese Government's economic policy at the end of my speech.

Japan, as you know, has set the goal of a seven-percent growth for fiscal 1978, compared to less than four-percent targets for many other industrial countries.

I am strongly confident of the possibility of Japan living up to the fairly high growth target, so that it will be able to solve the unemployment problem as well as make significant contribution to international economic cooperation through reducing its trade surplus.

In view of the ever-increasing international interdependence as I earlier mentioned, no country can expect to prosper at the expense of others. In other words, no country can enjoy its economic stability and development without fulfilling its international responsibility.

Japan, as an influential member of the world economic community, is determined to attain the seven-percent growth goal so as to play its own part without fail.

Look Japan

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7% Growth Can Be Reached

By Ki'ichi Miyazawa
Minister of Economic Planning

In response to the prolonged and severe economic recession which was kicked off by the oil crisis, the Government of Japan has taken many economic stimulative measures. The fiscal measures recently adopted include the compilation of an unprecedented large-scale budget with a heavy injection of public works projects for the current fiscal year. Besides, the Bank of Japan has reduced the official discount rate several times to its present post-war low.

But how is the Japanese economy going to respond? Will the recent pump-priming fiscal measures and the low interest rates really work to achieve the goal of 7% economic growth? Another problem involves the movements in Japan's balance of payments, which now is in large-scale surplus.

Look Japan recently asked Mr. Ki'ichi Miyazawa, Minister of Economic Planning, for his outlook on the economy.

The Japanese government has set a target of economic growth for the fiscal year 1978 at a level of 7%. With the economies of industrially advanced countries not likely even to reach a growth rate of 4% on the average in 1977, the reason why Japan chose such a high rate of growth is the high priority the government is placing on the problem of unemployment.

Japan was able to achieve its much-desired goal of a full employment society due to the high growth rates during the post-war period. But full employment has been shattered by the long recession. The most important goals of Japanese economic policy are stable prices and full employment, and thus it should be understood that the government has put a priority on improving the unemployment problem in setting the high growth target.

In addition, the 7% growth target should contribute to a reduction in the current account surplus through its effects of stimulating more imports and putting pressure to reduce exports. One of the current reasons for the present instability in the international economy is the imbalance in the balance of payments. Thus I hope that Japan's choice of a high economic growth level will be appreciated as one aspect of international cooperation.

From the beginning, most economists and private research institutes took the opinion that it would not be possible to reach a level of 7% growth, and such a view is still the majority one even today. But as time passes, I think that more will come to agree with the government's prediction. The latest economic indicators allow me more optimism, and account for my conviction that the economy can reach 7% growth.

First, the policies of fiscal stimulation that have been incessantly carried out since last fall are continuing to spread throughout the economy, making their effects felt in every sector. This can be seen not only with the rise in shipments of such construction materials as cement and structural steel, but also in capital investments in such outlays as bulldozers and power shovels. Furthermore, the government is now working to see that around 73% of the public works projects for fiscal 1978 will be contracted during the first half, and expenditures on these projects are beginning to take effect now.

Second, inventories are progressively being cut. Although inventories weakened the effects of the government's fiscal measures throughout last year, they are now being reduced in every sector, including raw materials, distribution and finished goods. Excess inventories in most industries are steadily being reduced, and the feeling of "excess inventories" is weakening among companies. While the burden on companies is lessening, the spending on public works projects will probably stimulate business productivity.

Third, the cost of borrowing has decreased remarkably. The Bank of Japan lowered the official discount rate three times last year, and coupled with another cut carried out this month, it stands at its lowest mark in the post-war period. Along with the moderate rises in wages recently, one can say that a favorable environment for business has been created.

Fourth, prices have continued the stability that they have shown since last fall. Due to the effects of a loosening of supply-demand and the yen revalution, the domestic wholesale price index is dropping below the levels of last year. Such a stable wholesale price index is also having favorable effects on consumer prices, which are recording increases of about 4% over the previous year. Price stability supports the government's resolve to carry out its policies of economic stimulation, as well as prompting greater buying among consumers and business.

Finally, production has continued to rise for the last five months. The actual growth in mining and manufacturing production in fiscal 1977 over the previous year came to 3.2%, which exceeded the government's prediction of 2.6%.

From the above, one can see that the omens for an improvement in the domestic economy and the government's resolve to reach 7% growth are steadily being seen. As regards the balance of payments, however, the current account surplus reached $14 billion in fiscal 1977, largely surpassing the government's forecast.

As previously stated, higher economic growth can be expected to suck in more imports and put the brakes on exports, thus bringing about an improvement in the balance of payments. There were some indications of such changes towards the end of last year. But the trend towards disequilibrium in the payments balance has become stronger at the beginning of this year. This may seem strange upon first glance because it was just at this time when the yen rose rapidly against the dollar. This is partly because Japanese industries are proceeding with their efforts to rationalize, but mainly we can see it is a kind of J-curve phenomenon. We think that the positive effects of the yen revaluation are finally beginning to surface, and that, coupled with increased domestic demand, will bring about visible changes in the balance of payments.

If the stability of the dollar and the development of world trade can be achieved through international cooperative efforts, especially those of the U.S., we believe that such a situation would have beneficial effects upon Japan's domestic economy. Moreover, the recovery of Japan's economy will contribute to an improvement in the balance of payments position of many countries. In the increasing interdependence of today's world economy, it is not possible to attain one's own economic growth by making a sacrifice of some other country. Moreover, it is impossible to expect the creation of economic stability if one country does not accept its responsibility. This is where the call of concerted action arises.

In this manner, the Japanese government is recognizing its role as one of the leading members of the world economy, and has resolved to take bold steps to attain a level of 7% economic growth.

In This Issue

NHK AND STUDIO 102

June 8, 1978
about 15 minutes
between 7:40-7:55

Nippon Hoso Kyokai (Japan Broadcasting Corporation): Established in 1925, it is the only public broadcasting organization in Japan with the nationwide network. NHK is a self-governing body, protected by law so as to be completely independent of all political authority and its source of financial funds are provided through audience fees.

Currently, NHK has five national broadcasting networks consisting of two medium-wave radio, one VHF-FM and two television networks. It conducts a total of 91.5 hours of educational cultural, entertainment and news broadcasts daily (total of 2,100 programs a day). The TV broadcasting is received by 95% of the Japanese household and that of radio by 100%.

Studio 102: Broadcast from 7:35 a.m. to 8:12 a.m. daily, is a live news show. It takes up current topics or the latest issues and presents them in the form of a commentary, inserting interviews of principal concerned with such events or topics. The program enjoys one of the highest ratings (30% in cities and 20% nationwide)--watched by 20 million people. All of the visiting foreign dignities are introduced to the Japanese public through this program, as you appeared 5 years ago. Since the program is watched by the average public, it is important to present your discussion in an easily understandable manner.

Anticipated Questions:

1. Please tell us the role and recent activities of the World Bank.

2. Could you explain your philosophy on development aid, i.e. social aspects of aid, assisting the poor to be productive, basic human needs, self-help efforts etc.

3. How do you see the role of Japan as the only industrial country in Asia and what is expected of her?

4. What role does Japan play in the World Bank?

5. Some personal aspects of your life, i.e. work habits, hobbies etc.

Comment: Please make sure to express your recognition of the Japanese effort (since subjectively they are doing their best) and appreciation for their support of the Bank as the pillar of the multilateral world.

Biodata:

Tomokazu Sakamoto, President, Nippon Hoso Kyokai (Japan Broadcasting Corporation). Born on March 28, 1919, Mr. Sakamoto graduated from the Waseda University in 1939. He entered the Nippon Hoso Kyokai (NHK) as a member of the production staff of Entertainment Section. After managing various programs, he became the Director of Entertainment Department in 1965; the Deputy Director-General of Broadcasting in 1968 and the Executive Vice President in July 1976. He assumed his present post in September of 1976.

Sueo Saito, Chief announcer. Born on March 19, 1935, Mr. Saito graduated from the Faculty of Economics, Keio University in 1957. He entered the NHK in 1959 and after serving in various regional offices became the staff of the announcer's office. He has been the chief announcer of Studio 102 since April of 1977.

MEETING WITH KEIDANREN

June 8, 1978 (10:40-11:30)
at Keidanren

Attendants:
KEIDANREN
- Mr. Toshiwo Doko, President
- Mr. Yoshizane Iwasa, Vice President
- Mr. Renzo Taguchi, Chairman of the Economic Cooperation Committee
- Mr. Nihachiro Hanamura, Executive Vice President
- Mr. Rikuzo Kotoh, Senior Managing Director
- Mr. Tokizo Okuhara, Senior Managing Director

World Bank
- Mr. Robert S. McNamara
- Mr. William Clark
- Mr. Tarao Maeda
- Mr. Caio Koch-Weser
- Mrs. Keiko Atsumi (interpreter)

KEIDANREN (Federation of Economic Organizations): Keidanren is the most powerful private institution embodying every sphere of economic activities in Japan. It was established in 1946 through a merger of all the major economic organizations. The membership counts 126 organizations and 789 corporations. Its objectives are (i) studying both domestic and international economic problems by maintaining close contacts with various economic sectors to find practical solutions, (ii) contributing towards a sound development of the national economy, and (iii) strengthening of friendly economic relationships with other countries.

Traditionally, the most influential business leaders in Japan have managed the Federation. Having strong influence on the Government's policy formulation, the management group is often called the "shadow cabinet". The current President is Mr. Toshiwo Doko, highly respected, conscientious, brilliant and sensible "old" man.

Background: The purpose of the meeting is to discuss present conditions of the Japanese economy and its problems as viewed by business leaders. In contrast to the general overseas impression that Japan has successfully overcome the oil crisis, the feeling of stagnation strongly prevails among the business leaders. Cooling-down of investment moods by entrepreneurs is regarded as the major factor in the slow economic recovery.

Points of discussion:

1. Environment for corporate earnings.

2. Investments in new machinery and equipment.

3. Over-employment.

4. Impact of the high value of yen.

5. Structured problems among industries.

6. Forecast for the FY78 economy.

7. Economic cooperation as viewed by business.

Suggested comments by Mr. McNamara: Because of their strong influence over politicians, please request their continued support of ODA in general and the World Bank Group, in particular.

Biodata:

Toshiwo Doko, President. Born on September 15, 1896, he graduated from the Machinery Engineering Department, Tokyo Technical College. He joined Ishikawajima-Harima Heavy Industries Co., Ltd. (IHI) in 1920. He served as the President of IHI from 1950 to 1960. From 1957 to 1965 he concurrently served as a director of Toshiba. He was the Chairman of the Board, IHI, in 1964-72. Concurrently he served as the President of Toshiba, 1965-1972; Vice President of Keidanren, 1968-1974; and the Chairman of Toshiba, 1972-1976. Presently, he is the President of Keidanren (since 1974), a director and Counsellor of Toshiba (since 1976), and a director of IHI (since 1972).

He has influenced Japan's policies on the economy, politics, finance, and science, in his capacity as the Chairman of Industrial Structure Council, Ministry of International Trade and Industry; Member of Science and Technology Council, Science and Technology Agency; Counsellor of the Bank of Japan; Chairman of the Board of Nippon Atomic Industry Group; Chairman of Japan Society for Promotion of Machine Industry; Chairman of International Development Center of Japan; Chairman of International Educational and Cultural Exchange Foundation.

Yoshizane Iwasa, Vice President. Born on February 6, 1906, he entered the Yasuda Bank, Ltd. in 1928 after graduating from the Dept. of Political Sciences, the Tokyo Imperial University. He became the Executive Director of the Fuji Bank Ltd. in 1948; the President in 1963; and the Chairman in 1971. He has served as the Vice President of Keidanren and the Chairman of its Committee on International Finance since 1974.

Renzo Taguchi, Chairman of the Economic Cooperation Committee of Keidanren. Born on February 3, 1906, Mr. Taguchi graduated from Yonezawa Higher School of Technology in 1929. He joined the Ishikawajima-Harima Heavy Industries the same year. He was appointed as a director in 1947; the Vice President in 1961; the President in 1964; and to the present Chairmanship in 1972. He also serves in the board of a number of companies and institutions. He is also a member of the Tokyo Chamber of Commerce and the Overseas Technical Training Association.

Nihachiro Hanamura, Executive Vice President. Born on March 30, 1908, he graduated from the Faculty of Economics of the Tokyo University in 1932. He joined the forerunners of Keidanren the same year and was appointed as the Director of the Administration Dept. in 1947. He became the Executive Vice President in 1975 and has concurrently served as a Vice President since 1976.

Rikuzo Kotoh, Senior Managing Director. Born in 1908, Mr. Kotoh studied at the Waseda University. In 1941, he joined one of the forerunners of the Keidanren. He became the Director of the Research Department in 1949, the Executive Director in 1960. He assumed his present post in 1966.

Tokizo Okuhara, Senior Managing Director. Born in 1913, Mr. Okuhara graduated from the Waseda University in 1937. He joined one of the forerunners of the Keidanren in 1941. He became the Director of the Economic Department of the Keidanren in 1959 and the Managing Director in 1966. He assumed his present post in 1976.

Comment:(confidential) Mr. Doko is most willing to pass any request you may have on to the Prime Minister and the others.

NIHON KISHA CLUB

(Japan National Press Club)

June 8, 1978 (12:00-13:30)
at the National Press Club

Nihon Kisha Club: The national press club in Japan, established on November 1, 1969 with the joint cooperation of the Japan Newspaper Association, Japan Broadcasting Federation and NHK (Japan Broadcasting Corporation).

Since its establishment, the Club has invited many distinguished guests, both domestic and foreign, to enable multilateral contacts for its members with various news sources. The Club also conducts seminars, lectures and press tours for its members.

The Club membership is composed with 140 news media corporations and 1,500 editors, commentators, and publishers. The Club has a secretariat office in the newly built Press Center completed in August of 1976.

Procedure: Approximately 70-90 journalists are expected to attend. The usual time allocation is 40 minutes for greetings, lunch, and introduction; 20 minutes for speech (without interpretation but with Japanese translation of the speech distributed); and 20-25 minutes for questions and answers (with consecutive interpretation.) Mr. Akinobu Kojima, Editor-in-Chief of Nihon Keizai Shimbun, will introduce you and Mr. Masao Kunihiro, a TV newscaster and interpreter at the previous occasion, will interpret for you.

Anticipated Questions:

Q1. Considering the low level of Japan's overseas aid, do you think Japan could contribute more to development efforts?

Q2. Do you have any requests for the Japanese Government regarding the issue of development efforts?

Q3. In what way could Japan cooperate with the World Bank?

Q4. What do you think of the Carter Administration's aid policy as its relates to human rights?

Q5. During your terms of office, the Democrats and the Republicans have taken turns in the American administration. Has that influenced the Bank in any way?

Q6. What is your view on development aid to Asia and the Bank's relationship with the ADB concerning this issue?

Q7. What would you say to Japan's continued surplus in the BOP?

Q8. What is your long-term perspective on the Japanese economy?

Q9. May I have your comment on the generally low level of ODA?

Q10. How effective, in your opinion is the UNCTAD in promoting North-South Dialogue?

Q11. Recently the Bank seems to have shifted more emphasis on agricultural credit. What has brought this change? Will it continue to be an important component in the Bank operations?

Q12. What is the status of Chinese membership?

Q13. What is the Bank's lending policy?

Biodata:

Akinobu Kojima, Editor-in-chief of Nihon Keizai Shimbun. Born on April 22, 1928, Mr. Kojima graduated from the Waseda Univeristy. He joined the Nihon Keizai Shimbun in 1951 and served in their New York and Brussels offices from 1960 to 1963. He returned to Tokyo as Assistant Foreign News Editor in October of 1963, became Foreign News Editor and concurrently Deputy Editor-in-chief in 1968. He assumed his present post in 1975 and was appointed to serve in the Board of Directors in 1977. He is the Chairman of the Special Event Committee of the Japan National Press Club.

Masao Kunihiro, NTV (Nippon Television Network Corporation) newscaster. Born in 1930, Mr. Kunihiro earned his M. A. from the University of Hawaii in 1955. He worked as an interpreter at the U. S. State Department from 1957 to 1962. He became a lecturer of Cultural Anthropology at the Chuo University in 1963. Since 1969 he has been a lecturer at Sophia University and Ochanomizu Women's College as well as Professor of Cultural Anthropology at the International Commercial College. He is a newscaster at NTV, a commercial television affiliated with Yomiuri Newspaper. He has authored many articles on US-Japan cultural differences. He is the most prominent interpreter in the field of economics.

Anticipated Questions at TV Interview

Please refer to the background brief on NHK and Studio 102.

1. Please tell us the role and recent activities of the World Bank.

2. Could you explain your philosophy on development aid, i.e. social aspects of aid, assisting the poor to be productive, basic human needs, self-help efforts etc.

3. How do you see the role of Japan as the only industrial country in Asia and what is expected of her?

4. What role does Japan play in the World Bank?

5. Some personal aspects of your life, i.e. work habits, hobbies etc.

<u>Anticipated Questions at the Press Luncheon</u>

Please refer to the background brief on the press lunch.

1. Considering the low level of Japan's overseas aid, do you think Japan could contribute more to development efforts?
2. Do you have any requests for the Japanese Government regarding the issue of development efforts?
3. In what way could Japan cooperate with the World Bank?
4. What do you think of the Carter Administration's aid policy as it relates to human rights?
5. During your terms of office, the Democrats and the Republicans have taken turns in the American administration. Has that influenced the Bank in any way?
6. What is your view on development aid to Asia and the Bank's relationship with the ADB concerning this issue?
7. What would you say to Japan's continued surplus in the BOP?
8. What is your long-term perspective on the Japanese economy?
9. May I have your comment on the generally low level of ODA?
10. How effective, in your opinion is the UNCTAD in promoting North-South Dialogue?
11. Recently the Bank seems to have shifted more emphasis on agricultural credit. What has brought this change? Will it continue to be an important component in the Bank operations?
12. What is the status of Chinese membership?
13. What is the Bank's lending policy?

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | TOKYO OFFICE | INTERNATIONAL DEVELOPMENT ASSOCIATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 7, 1978

FROM: Tarao Maeda

SUBJECT: Minister Ushiba's Press Conference

Just for your information, Minister Ushiba, in his press conference of yesterday, expressed the urgency of coming up with specific measures to increase external assistance and emergency import measures (such as importation of uranium) to reduce the current account surplus. Behind his statement is the anticipation that reducing the current account surplus to $6 billion is impossible.

cc: Messrs. Clark and Koch-Weser

BREAKFAST MEETING WITH FOREIGN MINISTER SONODA

June 7, 1978 (07:30-08:45)
at the Iikura Guest House

Attendants:
Ministry of Foreign Affairs
- Mr. Sunao Sonoda, Foreign Minister
- Mr. Toshiaki Mutoh, Director-General, Economic Cooperation Bureau
- Mr. Takayuki Kimura, Director, Multilateral Cooperation Division, ECB
- Mr. Ryojiro Watanabe, Personal Secretary to the Minister

World Bank
- Mr. Robert S. McNamara
- Mr. William Clark
- Mr. Tarao Maeda
- Mr. Caio Koch-Weser

Background: Foreign Minister Sonoda (a very close associate of Prime Minister Fukuda) is most anxious to exchange views with you. The Iikura Guest House (built in 1970) is the Foreign Ministry's official guest house to entertain only the state guests. It has a historical archives containing all of diplomatic documents since Japan opened to the West in the Meiji Restoration. Minister Sonoda is much committed on Japan-China relations and he would likely talk more as a politician than a foreign minister. He has just returned from the United Nations' Disarmament Conference in New York.

Points likely to be raised by Minister Sonoda:

1. Appreciation to the Bank's achievements as an international development financing institution as well as its expanded studies on various North-South issues under the leadership of Mr. McNamara.

2. General North-South issues - debt problems, primary commodity problems, etc.

3. Brandt Commission and World Development Report.

4. Future of the North-South problems.

5. Japan's policy towards doubling of ODA in three years.

6. China issue, and possibly Vietnam and Korea.

7. Briefly on co-financing (but this is likely to be left for Minister Ushiba).

Suggested Comments by Mr. McNamara:

1. In tone of general appreciation for the past cooperation of the Japanese Government, discussions should be kept in broad philosophical framework of development aid and North-South issues. (You may compliment on the Minister's speech at the UN which is attached).

Biodata:

Sunao Sonoda, Minister for Foreign Affairs. Born on December 11, 1913 in Kumamoto Prefecture, he became the village chief in 1946. He was elected to the House of Representatives in 1947 and after holding various posts within the Liberal Democratic Party, became the Parliamentary Vice Minister of Foreign Affairs in 1955. He attended the Eisenhower-Kishi meeting as an advisor to the Prime Minister in 1956. In 1957 participated in the Inter-Parliamentary Union Conference held in Geneva. He then became Deputy Secretary-General of the Liberal Democratic Party in 1961, the Minister of Welfare in 1967, the State Minister and Director of the Cabinet Secretariat in 1976, and the Minister of Foreign Affairs in November of 1977.

He is considered to be very strong in Japan-Russo/China relations. Having spent all of his life on politics, Minister Sonoda (along with Minister Nakagawa) typifies the enthusiastic, energetic and vigorous politicians.

Toshiaki Mutoh: Please refer to the briefing in Minister Ushiba's meeting.

Takayuki Kimura: Please refer to the briefing in Minister Ushiba's meeting.

Ryojiro Watanabe, Secretary to the Minister. Born on January 13, 1936, he graduated from the Faculty of Law, Hosei University in 1958. He worked as a journalist of NHK (in Sendai, Morioka and Tokyo) from 1959 to 1977. He became Secretary to the Minister in November of 1977.