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Travel broch
April 17-20,

McNamara paper



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WBG Archives

Tokyo Office
4/18/73

Mr. McNamara

Mr. McNamara's Schedule

- April 18 (Wed) 16:40 Arrive at Tokyo via PAA#801
- 18:00 Meeting with Sir Denis, Mr. Clark and Mr. Soejima
- 19:30 Dinner with General and Mrs. Pursley at Hotel Okura
- April 19 (Thu) 9:00- Meeting with Mr. Kashiwagi at Hotel Okura
9:20
- 9:40 Arrive at Tokyo Office and meet with the Tokyo
Office Staff
- 10:00- President Sumita, Ex-Im Bank (accompanied by Sir
10:45 Denis, Mr. Clark and Mr. Soejima)
- ✓ 11:00- Finance Minister (accompanied by Sir Denis,
11:50 Mr. Clark and Mr. Soejima)
- ✓ 11:55- Prime Minister (accompanied by Sir Denis, Mr. Clark
12:05 and Mr. Soejima)
- 12:15- Press luncheon (accompanied by Sir Denis, Mr. Clark
14:00 and Mr. Soejima)
- 16:30- Foreign Minister (accompanied by Sir Denis, Mr. Clark
17:30 and Mr. Soejima)
- 19:00 Dinner hosted by Minister of Finance (accompanied by
Sir Denis, Mr. Clark and Mr. Soejima)
- April 20 (Fri) 7:30- TV interview by NHK (Studio 102) for 15 minutes
8:15 (accompanied by Mr. Clark and Mr. Soejima)
- 10:00- President Okita, OECF (accompanied by Sir Denis,
11:00 Mr. Clark and Mr. Soejima)
- 11:30- Governor Sasaki, BOJ (accompanied by Sir Denis and
12:00 Mr. Soejima)
- 12:20- Lunch with Presidents of underwriters (accompanied
13:40 by Sir Denis, Mr. Clark and Mr. Soejima)
- 16:30 Leave Japan via JAL#002

Mr. McNamara's Schedule

April 18 - 20, 1973

HANEDA ARRIVAL - April 18, 1973 (via PAA #801, 16:40)

1. Mr. Asami of the Tokyo Office will be at the airport to clear the customs and immigration in advance.
2. Following people will meet Mr. McNamara at the airport:

<u>From the Bank</u>	<u>From IFC</u>	<u>From the Japanese Government</u>
Mr. A. Soejima	Mr. Nishihara	Mr. S. Kuriyama, MOF
Mr. J. Stewart		Mr. H. Sakomizu, MOF
Mr. T. Asami		

The office car (No.1) will be at the plane site with Mr. Soejima. Another car (No. 2) is reserved during Mr. McNamara's stay.

3. Mr. McNamara will stop at the Office of the Director of the Haneda Customs to greet with the representatives of the Japanese Government.
4. Then Mr. Soejima will accompany Mr. McNamara to the Hotel Okura in Car No. 1.
5. Messrs. Stewart and Asami will ride in Car No. 2 along with Mr. McNamara's luggages.

HOTEL ARRIVAL - April 18, 1973

1. Miss Chiga will make all necessary arrangements and registration at the Hotel in advance.
2. Following people will await the party at the Hotel to greet Mr. McNamara:

From the Bank

Sir Denis Rickett
Mr. William Clark
Mrs. Keiko Atsumi
Miss Yukiko Chiga

3. The room numbers at Hotel Okura are as follows:

Mr. McNamara - Room 820
Sir Denis Rickett - Room 826
Mr. William Clark - Room 833 (on arrival)

MEETING WITH THE BANK STAFF - April 18, 1973

1. Attendants:

Mr. McNamara
Sir Denis Rickett
Mr. William Clark
Mr. A. Soejima

2. On arrival at the Hotel in Mr. McNamara's Suite on the 8th floor.
-

DINNER WITH GENERAL & MRS. PURSLEY - April 18 (7:30 p.m.)
(Private - Mr. McNamara only)

1. At the Continental Room of the Hotel Okura (10th floor)

MEETING WITH MR. YUSUKE KASHIWAGI - April 19 (9:00 - 9:20)

1. Attendants:

Mr. McNamara Mr. Kashiwagi

2. At the Hotel in Mr. McNamara's Suite on the 8th floor.
-

VISIT TO TOKYO OFFICE OF IBRD - April 19 (9:40 - 9:50)

1. Mr. Soejima will come to the Hotel Okura at 9:20.
2. Mr. McNamara and Mr. Soejima will leave Hotel Okura in car No. 1 at 9:25
3. Sir Denis and Mr. Clark will leave Hotel Okura in car No. 2 at 9:25

MEETING WITH PRESIDENT SUMITA, - April 19 (10:00 - 10:45)
EXPORT-IMPORT BANK OF JAPAN at the Export-Import Bank of Japan

1. Messrs. McNamara and Soejima will leave the office at 9:50 in Car No. 1.
2. Sir Denis and Mr. Clark will leave the office at 9:50 in Car No. 2.
3. Attendants:

From the Bank

Mr. McNamara
Sir Denis Rickett
Mr. William Clark
Mr. A. Soejima

From the Export-Import Bank

Mr. Sumita

(Interpreter)

4. Mr. Soejima to take notes of the meeting.
5. Mr. McNamara and Mr. Soejima will leave the Ex-Im Bank at 10:45 to go to the Ministry of Finance in Car No. 1.
6. Sir Denis and Mr. Clark will leave the Ex-Im Bank at 10:45 to go to the Ministry of Finance in Car No. 2.

MEETING WITH FINANCE MINISTER - April 19 (11:00 - 11:50)
at the Ministry of Finance

1. Attendants:

From the MOF

Mr. Kiichi Aichi
(Interpreter)

From the Bank

Mr. McNamara
Sir Denis Rickett
Mr. Clark
Mr. Soejima

2. Sir Denis will take notes of the meeting.
 3. Mr. McNamara and Mr. Soejima will leave MOF at 11:50 for the Prime Minister's Official Residence in Car No. 1.
 4. Sir Denis and Mr. Clark will leave MOF at 11:50 for the Prime Minister's Official Residence in Car No. 2.
-

MEETING WITH PRIME MINISTER - April 19 (11:55 - 12:05)
at Prime Minister's Official Residence

1. Attendants:

<u>From the P. M.'s Office</u>	<u>From the Bank</u>
Mr. Kakuei Tanaka . (Interpreter)	Mr. McNamara Sir Denis Rickett Mr. Clark Mr. Soejima

2. Mr. Soejima will take notes of the meeting.
3. Mr. McNamara, and Mr. Soejima will leave the Prime Minister's Official Residence at 12:05 for the Imperial Hotel in Car No. 1.
4. Sir Denis and Mr. Clark will leave the Prime Minister's Official Residence at 12:05 for the Imperial Hotel in Car No. 2.

PRESS LUNCHEON - April 19 (12:15 - 14:00)
at Kame-no-ma, Imperial Hotel

1. Attendants:

<u>From the Bank</u>	<u>From the Press Club</u>
Mr. McNamara Sir Denis Rickett Mr. Clark Mr. Soejima (Mrs. Atsumi) (Interpreter: Mr. Kunihiro)	Mr. Hotta - Coordinator Mr. Wakamatsu Mr. Takeyama Mr. Haruhara About 60 journalists (both Japanese and foreign)

2. Mr. Clark will take notes of the meeting.
 3. Mr. McNamara and Mr. Soejima will leave the Imperial Hotel at 14:00 in Car No. 1 for Hotel Okura.
 4. Sir Denis and Mr. Clark will leave the Imperial Hotel at 14:00 in Car No. 2 for Hotel Okura.
-

Mr. McNamara and Mr. Soejima will leave Hotel Okura at 16:15 in Car No. 1 for MOFA.

Sir Denis and Mr. Clark will leave Hotel Okura at 16:15 in Car No. 2 for MOFA.

MEETING WITH FOREIGN MINISTER - April 19 (16:30 - 17:30)
at the Ministry of Foreign Affairs

1. Attendants:

From MOFA

Mr. Masayoshi Ohira
(Interpreter)

From the Bank

Mr. McNamara
Sir Denis Rickett
Mr. Clark
Mr. Soejima

2. Mr. Clark will take notes of the meeting.
3. Mr. McNamara and Mr. Soejima will leave MOFA at 17:30 for Hotel Okura in Car No. 1.
4. Sir Denis and Mr. Clark will leave MOFA at 17:30 for Hotel Okura in Car No. 2.

DINNER BY THE FINANCE MINISTER - April 19 (19:00 -)
at Kittcho Restaurant

1. Mr. McNamara and Mr. Soejima will leave Hotel Okura in a hired car at 18:45.
2. Sir Denis and Mr. Clark will leave Hotel Okura in Car No. 2 at 18:45.
3. Attendants:

From the Bank

Mr. McNamara
Sir Denis Rickett
Mr. Clark
Mr. Soejima

From the MOF

Minister Aichi
Mr. Inamura
Mr. Hayashi
Mr. Kashiwagi

From the BOJ

Mr. Yukawa

Mr. Hattori

TV INTERVIEW BY NHK (Studio 102) - April 20 (7:30 - 8:15)
at NHK Uchisaiwai-cho Center

1. Mr. Clark and Mr. Soejima will accompany Mr. McNamara to NHK in Car No. 1.
(6:45 a. m.)
2. Attendants:

From the Bank

Mr. McNamara
Mr. Clark
Mr. Soejima

3. Arrive at NHK at 7:00.
4. Discussion with the director and producer on arrival.
5. Interview by Mr. Ouchi at around 7:45 for 15 minutes (Mr. Kunihiro to interpret).
6. At 8:15, the Vice President of NHK will make a courtesy call.
7. Mr. McNamara, Mr. Clark and Mr. Soejima will leave at 8:30 for Hotel Okura in Car No. 1.

PRIVATE BREAKFAST AT HOTEL OKURA - April 20

MEETING WITH PRESIDENT OKITA OF OECF - April 20 (10:00 - 11:00)
at OECF office

1. Mr. McNamara and Mr. Soejima will leave the Hotel Okura at 9:45 in Car No. 1.
2. Sir Denis and Mr. Clark will leave at 9:45 in Car No. 2.
3. Attendants:

From the OECF

Dr. Saburo Okita

From the Bank

Mr. McNamara
Sir Denis Rickett
Mr. William Clark
Mr. Soejima

4. Mr. Soejima will take notes of the meeting.

5. Mr. McNamara, Sir Denis and Mr. Soejima will leave OECF at 11:00 in Car No. 1 for The Bank of Japan.
6. Mr. Clark will leave OECF at 11:00 in Car No. 2 for the Tokyo Office.

MEETING WITH GOVERNOR SASAKI OF THE BANK OF JAPAN - April 20 (11:30 - 12:00)
at The Bank of Japan

1. Attendants:

From the Bank of Japan

Mr. Tadashi Sasaki

From the Bank

Mr. McNamara
Sir Denis Rickett
Mr. Soejima

2. Mr. Soejima will take notes of the meeting.
3. Mr. McNamara, Sir Denis and Mr. Soejima will leave BOJ at 12:00 in Car No. 1 for Hilton Hotel.
4. Mr. Clark will leave the Tokyo Office at 12:00 in Car No. 2 for Hilton Hotel.

LUNCH WITH PRESIDENTS OF UNDERWRITERS - April 20 (12:20 - 13:40)
at Oshidori-no-ma (2nd floor),
Tokyo Hilton Hotel

1. Attendants:

From the Bank

Mr. McNamara
Sir Denis Rickett
Mr. Clark
Mr. Soejima
(Interpreter: Mr. Shimada)

2. Guests: (alphabetical order)

Mr. Teru Hidaka, Chairman, Yamaichi Securities
Mr. Kiichiro Kitaura, President, Nomura Securities
Mr. Isao Masamune, President, Industrial Bank of Japan
Mr. Toshio Nakamura, President, Mitsubishi Bank

(Cont'd)

Mr. Senichi Okudaira, President, Sumitomo Trust & Banking Co.
Mr. Binsuke Sugiura, President, Long-Term Credit Bank of Japan
Mr. Shogo Watanabe, President, Nikko Securities
Mr. Takehiro Yamauchi, President, Daiwa Securities
Mr. Soichi Yokoyama, Vice President, Bank of Tokyo

3. Mr. McNamara and Mr. Soejima will leave for Hotel Okura after the meeting at 13:40 in Car No. 1.
4. Sir Denis and Mr. Clark will leave for Hotel Okura in Car No. 2.

DEPARTURE FROM TOKYO - April 20 (JAL #002, 16:30)

1. Mr. McNamara and Mr. Soejima will leave Hotel Okura for airport at 15:00 in Car No. 1.
2. Mr. Stewart and Mr. Asami will leave the Tokyo Office in Car No. 2.
3. Following people will see Mr. McNamara off at the airport.

From the Japanese Government

Mr. Kuriyama, MOF
Mr. Sakomizu, MOF

From the Tokyo Office

Mr. Soejima
Mr. Stewart
Mr. Asami

4. A room is reserved at the airport by JAL for the party.
-

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Aritoshi Soejima
SUBJECT: Mr. Kashiwagi

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DATE: April 18, 1973
Letter No. 84

C O N F I D E N T I A L

According to Mr. Yokoyama, Executive Vice President of the Bank of Tokyo, who will be nominated as President in its shareholders' meeting on May 19, Mr. Kashiwagi will be nominated at the same time as the Executive Vice President of the Bank. However, since Mr. Kashiwagi's cooling-off period will continue until the end of May, he will not express his acceptance until June 1.

Since most of the leading newspapers reported the news during the past several weeks, it is now an open secret that Mr. Kashiwagi will join the Bank of Tokyo as the Executive Vice President. But Mr. Kashiwagi will be embarrassed, if the subject is mentioned, since a mere indication of his attitude is a violation to the cooling-off period.

AS:mm

OFFICE MEMORANDUM

TO: Mr. Aritoshi Soejima
FROM: John H. Stewart
SUBJECT: ADB - ECAFE Meeting

DATE: April 18, 1973

As I mentioned to you last evening the highlight of today session was the short and strongly worded statement by the Chinese delegation.

"As ECAFE is now discussing the activities of the Asian Development Bank, the Chinese delegation deems it necessary to solemnly point out that up to the present the Chiang Kai-shek clique still remains as a member of the organization. This state of affairs is impermissible. ECAFE should urge the ADB to expel the Chiang Kai-shek clique".

A matter for our members. The question had not been raised at the General Meeting.

JHS:kt

Recent Developments in Japan's
Balance of Payments

The Ministry of Finance announced, on March 16, preliminary figures of Japan's international balance of payments in the fiscal year ending on March 31, 1973 (FY 1972) as per attached table.

According to the announcement, Japan's overall balance in March 1973 will run into a deficit of about US\$1.1 billion, marking a record high monthly deficit. The overall balance in FY 1972 is estimated at about US\$3.0 billion surplus as compared to US\$8.0 billion surplus in FY 1971, resulting in a reduction of US\$5.0 billion or about a 60% decrease.

The sharp decrease in the overall balance surplus in FY 1972 from that in FY 1971 is mainly due to the following two factors:

- (1) A sharp increase in the Long-Term Capital Balance deficit from US\$1.6 billion in FY 1971 to nearly US\$6.0 billion in FY 1972.
- (2) A decrease in the Short-Term Capital Balance surplus from about US\$3.4 billion in FY 1971 to US\$2.6 billion in FY 1972.

The March balance of payments statistics show these two elements decreasing at even more accelerated rates. In addition, the March figures show the trends of slowdown of exports and sharp expansion of Japan's imports, resulting in a decrease in trade surplus. Should this trend continue, Japan's trade surplus in FY 1973 will only amount to about US\$3.8 billion or less than 50% of that in FY 1972. ^{1/} Under such circumstances, if short- or long-term capital balance runs into a sizable deficit in FY 1973, Japan's overall balance will register a large deficit and, thus, her foreign exchange reserves, which stood at US\$19.1 billion on February 28 and US\$18.1 billion on March 31, 1973, may decrease considerably in FY 1973.

It may be too early to say that these recent developments in Japan's balance of payments will keep on going in FY 1973. There are some seasonal factors to be taken into account. Furthermore import price increases due to inflation and the fact that the de facto second yen revaluation pushed up the March imports in dollar terms. However, the Ministry of Finance takes the view that the recent trend of narrowing trade surplus is a result of some structural changes in Japan's foreign trade and therefore is likely to continue because of the Government's measures to reduce such surplus and the de facto yen revaluation of about 16%.

^{1/} The Government's economic outlook for FY 1973 anticipated a surplus of US\$8.1 billion in the trade balance.

Japan's International Balance of Payments
(in millions of dollars)

	<u>March 1973</u> <u>1/</u>	<u>February 1973</u>	<u>FY 1972</u> <u>1/</u>	<u>FY 1971</u>
<u>Current Balance</u>	60	709	6,268	6,323
Trade Balance	320	758	8,386	8,422
Exports	2,930	2,692	29,470	24,661
Imports	2,610	1,934	21,084	16,239
Invisible Trade and Transfer Account Balance	-260	-49	-2,118	-2,099
<u>Long-Term Capital Account Balance</u>	-790	-633	-5,917	-1,647
<u>Short-Term Capital Account Balance</u> (including errors and omissions)	-360	818	2,612	3,367
<u>Overall Balance</u>	-1,090	894	2,963	8,043

1/ MOF's preliminary figures

Source: Ministry of Finance

4/19 10:00 - 10:50

AGENDA FOR MEETING WITH PRESIDENT SUMITA
EXPORT-IMPORT BANK

April 19, 1973
10:00- 10:45

1. Brief account on EX-IM activities.
2. Brief account on Bank Activities.
3. Closer relationship between EX-IM and Bank (Vice President Maekawa said that since both EX-IM and OECF are short staffed and inexperienced, the two institutions have to rely heavily on the Bank for country reports, identifying projects and project appraisals. It is normally the practice of EX-IM to extend credits only after the studies from the Bank are sent. There was a case, recently, in the steel project in Mexico, in which EX-IM was forced to get involved without having any background material from the Bank. Mr. Maekawa feels that this reflects slowness of Bank procedures.)
4. India, Pakistan, Bangladesh debt problem may be raised by Mr. Sumita.

Satoshi Sumita
President
Export-Import Bank of Japan

Born on September 4, 1916, Mr. Sumita graduated from the Faculty of Law of the Tokyo University in 1940. He joined the Ministry of Finance the same year.

After serving in various offices, Mr. Sumita was appointed as the First Secretary in the Embassy of Japan in Belgium in 1952; First Secretary in the Embassy of Japan in France in 1955; Director of the Coordination Division, Financial Bureau in 1957; Deputy Director General of the Budget Bureau in 1963; Deputy Vice Minister of the Economic Planning Agency in 1965; Director General of the Banking Bureau in 1966; Vice Minister of Finance in 1969.

Mr. Sumita retired from the Ministry of Finance in June 1971 and in October 1972 he was appointed as the President of the Export-Import Bank of Japan.

Mr. Sumita is married, has one son and one daughter.

The Export-Import Banks of Japan (EXIM)

Historical

The Export-Import Bank of Japan was established in 1950. At that time it was known as "The Export Bank of Japan" an independent governmental institution designed to facilitate exports of heavy machinery. In April 1952, the Bank was renamed "The Export-Import Bank of Japan", and its function expanded to include financing of imports and overseas investment. In 1958 its activities were further expanded to include yen loans to foreign governments.

Budget

The proposed budget for FY 1973 shows no increase in Government contribution over the previous fiscal year. As can be seen from the following table the provision for shipping export financing has been severely curtailed. The largest increase appears in the import financing reflecting the government's intention to stimulate import oriented industries. Details of the proposed budget, which passed the Lower House of the Diet in March and received Upper House approval on April 12 is as follows:

(in ¥100 million)

<u>Budget of the Export-Import Bank</u>	<u>Fiscal Year</u>		<u>% increase</u>
	<u>1972</u>	<u>1973</u>	
<u>Income</u>			
Government Contribution	630	630	--
Loan from Postal Savings Fund	4200	4865	15.8
Ex-Im Own Capital	<u>1520</u>	<u>1805</u>	<u>18.8</u>
	6350	7300	15.0
<u>Distribution</u>			
Vessels	2550	1990	-22.0
Plant	1780	1960	10.1
Import Loans	950	2330	145.3
ODA	<u>850</u>	<u>1020</u>	<u>20.0</u>
	6130 <u>1/</u>	7300	15.0

1/ Excludes ¥220 million exchange risk.

Co-operation - Ex-Im Bank/Bank

As part of a continuing dialogue with the World Bank, a team of EXIM Bank experts visited Washington from February 6-16, 1973 (see attachment 1). This visit was prompted by the seminars arranged for Tokyo in June 1972, when Mr. Adler spoke on the work the Bank was doing to improve its ability to assess the growing debt servicing problems of the LDCs. As is the case with OECF we arrange discussions between the staff of the EXIM Bank and senior level visitors from head office. A regular exchange of view between working level Bank staff and their opposite numbers in the EXIM Bank is also a worthwhile feature of this continuing co-operation.

Untied Aid

On November 15, 1972 the EXIM Bank Law was amended to permit loans on an untied basis for both project and commodity lending. Till that time EXIM, unlike OECF, were prohibited from granting any untied loans. To date no untied loans have been made. Under the second yen credit to Thailand signed on April 12, 1972 only one project agreement has been signed, April 2, 1973 with the Telephone Organization of Thailand for ¥18 billion. This loan is on a tied basis as all contracts had been won by Japanese suppliers, however, all future loans to Thailand will be considered by EXIM on an untied basis.

Co-Financing

The EXIM Bank has joined IBRD as a partner in the following countries:

		<u>EXIM</u>
<u>MEXICO</u>	Electric Power Stage III	unlimited
	do IV	¥10 billion
	Lastruchas Project	¥21 billion

EXIM

<u>Columbia</u>	Medellin Electric Power	¥2.2 billion
	Bogota Electric Power	¥ 760 million
	ISA distribution	¥ 208 million
<u>Brazil</u>	SAD - Simad Electric Power	¥7.2 billion
	Ceming Itumbiara - Furnas <u>Elic</u>	under discussion
	Brazil steel - CSN	¥15.0 billion
	- COSIPA	¥20.0 billion
	- USIMINAS	¥20.0 billion

A summary of the EXIM Banks outstanding loans as of November 30, 1972 is shown in Attachment 2.

Visit of Representatives of the Export-Import Bank of Japan, Feb., 6-16, 1973

1. Representatives of the Export-Import Bank of Japan met with members of the Bank Staff from February 6-16, 1973 to discuss the Bank's views on external debt policy questions, its system for preparing and reporting external debt statistics, its work on debt and growth models, and its estimates of the creditworthiness policies and prospects of 17 individual developing countries.^{1/} The visitors were Messrs. Yoshio Kono and Masashi Ishii, Assistant Managers of the Economic Research Department of the Export-Import Bank (a level roughly equivalent to that of Division Chief). Both are responsible for research involving the international economy, with Mr. Kono specializing in IBRD and Mr. Ishii in Latin American matters.

2. The meetings were arranged at the request of the Japanese Executive Director, Mr. Hattori, partly as a follow-up to Bank Staff discussions on external debt matters in Tokyo last June, and partly as a result of the Export-Import Bank's concern with the mounting debt burden of developing countries. The particular countries selected for review were said to have been chosen to obtain the Bank's views on a broad spectrum of LDCs, some of which had managed their external indebtedness without notable difficulties and a larger number which had not. In addition, certain countries were selected for review where the exposure of the Export-Import Bank was already substantial or where new Japanese lending and investment were envisaged.

^{1/} Argentina, Brazil, Chile, Ghana, India, Indonesia, Iran, Korea, Malaysia, Mexico, Nigeria, Pakistan, Peru, Philippines, Thailand, Turkey and Yugoslavia.

3. By and large, the visitors were well briefed and said they had regular access to the Bank's Economic Reports in Tokyo. Both in their prepared script and through occasional additional inquiries, they exhibited a broadly-based interest in the mix of economic, social and political policies of individual countries, and sought replies to such questions as what the Bank was doing to help remove bottlenecks to development and ease the burdens of external indebtedness. They indicated that the Bank's credit evaluations and its programs of assistance weighed heavily in their own agency's lending decisions, occasionally reflecting through their questions a point of view somewhat less sanguine than that of the Bank's Staff on particular countries. In several instances, they expressed interest in specific investment possibilities mentioned by the Bank's regional representatives (i.e. a Nigeria power project). All in all, these meetings, apparently the first of their kind, provided the Bank with an insight into Japanese thinking on both development and external debt and some of the countries to which they attached importance, and with an opportunity to broaden working contacts between the two institutions.

4. More specifically, certain points emerged from the discussions which seemed to reflect the dominant concerns of the Export-Import Bank-- and presumably those of the Japanese Government. For example, the visitors were particularly interested in LDC attitudes towards private enterprise and especially toward foreign investment; their policies with respect to export promotion, exchange rates and import control; and the effectiveness of their administrative apparatus for debt management and the collection of debt data. They attached considerable importance to the Bank's

evaluation of the current and future creditworthiness of the 17 LDCs, its plans to assist in cases of heavy indebtedness or to forestall the emergence of debt service problems, and the Bank's criteria for the allocation of IDA credits. They expressed concern about the accumulation of private debt in a number of countries, and, in one instance, of military debt (Iran). They wondered whether such non-directly economic aspects as the political and social climate and educational systems were taken into account by the Bank in evaluating creditworthiness. They voiced skepticism at the over-riding importance often accorded in many quarters including the Bank to the debt service ratio. They inquired whether the maturity or the rate of interest was the more critical factor in assessing the concessionality of a loan and whether short-term credits which expanded export earnings were desirable even in cases where external debt was already burdensome. In instances where debt relief seemed to be required, the Japanese representatives asked about the Bank's policy toward rescheduling. (The Bank's official position on this question was carefully outlined to them by Mr. Adler at the final meeting.)

5. The Export-Import Bank's lending position as of the end of November 1972 in the 17 countries reviewed is listed in Attachment 2. This exposure relates to direct loans of the Export-Import Bank to foreign governments and corporations. In this sector, its lending responsibilities apparently overlap with those of the Overseas Economic Cooperation Fund, which acts as Japan's official concessional aid agency, although the Export-Import Bank also extends some concessional financing. An indication of the relative size of the two institutions and their recent growth is indicated in Attachment 3. In addition to direct loans, the Export-Import Bank provides credit

facilities to domestic firms for export and import financing and for foreign investment. According to the visitors, terms applied on direct loans are determined on a case-by-case basis, but as a general rule, maturities fall within a range of 6 to 25 years (inclusive of grace periods of 2 to 7 years), with interest rates from 4.0 to 7.5 percent.

Export-Import Bank of Japan - Lending Positions

(in millions of yen)

as at November 30, 1972

<u>Country</u>	<u>Existing Commitments</u>	<u>Of Which Disbursed</u>	<u>Terms</u>
1. <u>India</u>	217,575	154,766	10 to 20 years inclusive of 3 to 7 years of grace, 4.75 to 6.25% interest
	<u>not yet signed</u>		
	a. 11,774 (resched- uling)	--	25 years inclusive of 10 years of grace, 4.0% interest
	b. 13,226		25 years inclusive of 7 years of grace, 4.5% interest.
2. <u>Chile</u>	--	--	--
3. <u>Peru</u>	17,600	2,127	20 years inclusive of 5 years of grace, 5.5% interest
4. <u>Korea</u>	23,900	7,832	13 to 15 years inclusive of 3 to 5 years of grace, 5.0 to 6.25% interest.
5. <u>Thailand</u>	10,800	8,504	15 to 18 years inclusive of 5 years of grace, 5.75% interest.
	<u>not yet signed</u>		
	22,000 (two loans)	--	20 years inclusive of 7 years of grace, 5.0 and 5.25% interest
6. <u>Turkey</u>	--	--	--
7. <u>Yugoslavia</u>	11,040	913	7 to 15 years inclusive of 2 to 3 years of grace, 5.5% interest
8. <u>Pakistan</u>	93,125	72,199	6 to 20 years inclusive of 3 to 7 years of grace, 4.0 to 6.0% interest

<u>Country</u>	<u>Existing Commitments</u>	<u>Of Which Disbursed</u>	<u>Terms</u>
9. <u>Iran</u>	6,120	5,425	18 years inclusive of 3 years of grace, 5.75% interest
10. <u>Nigeria</u>	10,800	3,875	18 years inclusive of 5 years of grace, 5.75% interest
11. <u>Philippines</u>	10,800	9,299	19 years inclusive of 5 years of grace, 5.125% interest
12. <u>Ghana</u>	--	--	--
13. <u>Argentina</u>	3,681 (refinancing)	--	7 years inclusive of 2 years of grace, 5.75% interest
14. <u>Brazil</u>	61,907	211	10 to 15 years inclusive of 3 to 5 years of grace, 6.0 to 7.0% interest
15. <u>Indonesia</u>	27,260 (of which 6,093 represents refinancing)	24,503	refinancing terms in accordance with Paris Club agreement of 1970; other terms: 11 years inclusive of 3 years of grace, 4.0% interest
16. <u>Malaysia</u>	30,000	6,650	15 to 18 years inclusive of 5 years of grace, 5.5 to 7.75% interest
17. <u>Mexico</u>	15,943	7,817	11 to 15 years inclusive of 1 to 3 years of grace, 6.0 to 7.0% interest

Financial Resources Available for Lending by the
Export-Import Bank of Japan and the
Overseas Economic Cooperation Fund

	<u>FY 1971</u>	<u>FY 1972</u>
	(Millions of \$)	
<u>Export-Import Bank</u>		
Budget	192.2	215.9
Borrowing (from Gov't. Trust Fund)	872.2	1,363.6
Total	<u>1,064.4</u>	<u>1,579.5</u>
 <u>Overseas Economic Cooperation Fund</u>		
Budget	91.7	136.4
Borrowing (from Gov't. Trust Fund)	111.1	198.1
Total	<u>202.8</u>	<u>334.5</u>

(1971 at 360 yen/\$, 1972 at 308 yen /\$)

Finance Minister
4/19 11:10-12:00

AGENDA FOR THE MEETING WITH THE FINANCE MINISTER

April 19, 1973

11:00-11:50

1. Appreciation for Japan's cooperation to Bank's borrowing program.
2. IDA Fourth replenishment.
3. Brief account on World Bank's present and future.
4. Japan's aid policy with particular emphasis on ODA.
5. Aid to Indochina reconstruction.

Kiichi Aichi

Finance Minister

Born on October 10, 1907 in Miyagi Prefecture, Mr. Aichi graduated from the Faculty of Law of the Tokyo University in 1931. He passed the senior civil service examination in May 1930 and upon graduation he joined the Ministry of Finance. After serving in various offices including an assignment as financial attache in London and Paris, as well as Deputy Vice-Minister, Mr. Aichi resigned from the Ministry of Finance as Director General of the Banking Bureau in 1950.

He was elected a member of the House of Councilors the same year, appointed to the Parliamentary Vice Minister of Finance, 1952-1954; Minister of International Trade & Industry in 1954.

In 1955 Mr. Aichi was elected to the House of Representatives and appointed to the State Minister in charge of Cabinet Affairs, 1957-1958; Minister of Justice in 1958; State Minister in charge of Local Autonomy Agency, 1958-1959; Minister of Education, 1964-1965; State Minister in charge of Cabinet Affairs, 1966; Minister of Foreign Affairs, 1968-1971.

Mr. Aichi was appointed to the Minister of Finance in December 1972.

Telex to Mr. McNamara

April 14, 1973

(Copy to Mr. Adler)

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One I am glad to inform you that MOF made the following final Japanese position on IDA IV replenishment for your visit. It will be aligned with the German position which is 9.76 percent of 1.5 billion Smithsonian dollars. This means Japan's contribution in current dollar terms will be 162.7 million dollars (Japan calculates her contribution in terms of U.S. dollars and not in yen). Japan is prepared to maintain this amount in line with Germany if the total level drops, but she will not increase her share beyond 11 percent in any circumstances. (This maximum percentage is based on Japan's GNP share of the total part I countries in 1970, as referred to in IDA document RPL/73-4 of February 15, 1973. Moreover Japan wants to avoid having to say that she had doubled her share which would be the case if her contribution increased to 12 percent.) MOF authorities informed me that they made this decision on premises that (1) the Bank will accept it as the final figure from Japan, (2) the Bank will not press Japan for further increase whatever the U.S. stand towards fourth replenishment may be, and (3) it is likely that the final target will be agreed at 1.5 billion current dollars, in which case, a 5 percent increase in Japanese share and more than 1 percent increase in German share would permit agreement to be reached provided that the U.S. would take up minimum of a third of the entire replenishment. They based this last point on information received from the Japanese Ambassador in Washington that the U.S. may agree to take up a third of the total share at 1.5 billion current dollar level. They believe that the Bank should now persuade the U.S. to accept this formula.

- Two Since the Japanese government strongly support a higher level of replenishment in view of the important role IDA plays in development assistance, it is their wish that the total level will not fall below 1.5 billion current dollars. Should that occur, the Japanese contribution in absolute amount would have to decrease. But since 11 percent will be maintained in any case, they feel that despite the decrease in aggregate amount it should still be possible to reach agreement on the fourth replenishment.
- Three In view (1), the Japanese new position will meet with the minimum acceptable requirement of the Bank as mentioned in your letter (2) this has the full blessing of the entire ministry of finance won by the lone and hard work of Mr. Maeda, thus avoiding a situation in which the minister overruled a proposal made by top policy makers and (3) the decision was made without pressure from the U.S. which had been regarded as necessary for any increase beyond 9 percent, I strongly urge you to accept this new stand and suggest that you not only drop the 12 percent figure but also not even mention the 10 to 12 percent range that I had suggested in my memo of March 24 when you meet the Finance Minister. Any further pressure could have adverse effect.
- Four In view of the above stand, I suggest that we should not touch on the 3 percent OECF money until IDA IV replenishment comes through.
- Five Since Japan agrees to the above figure as her basic share, there will be no need for the Bank to break Japan's contribution down into the basic share and balance of payment adjustment.

COPY

Six Needless to say, this new position will only be disclosed to you when you meet the Finance Minister and please bear in mind that above information is strictly confidential until that time.

Seven I believe that proposals contained this cable will meet your agreement but would like to inform Maeda in advance that you find them acceptable so that he can tell his Minister. Would therefore appreciate your response by telex.

Regards.

Soejima

STRICTLY CONFIDENTIAL

Telex to Mr. Soejima

April 16, 1973

McNamara agrees with Japanese proposal provided Rickett does. If Rickett has any problems with it he should telephone McNamara Monday Morning our time before you inform Japanese Government. Regards.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433 U.S.A.



OFFICE OF THE PRESIDENT

Letter No. 57

CONFIDENTIAL

DECLASSIFIED

April 5, 1973

APR 08 2013

WBG ARCHIVES

Mr. Aritoshi Soejima
Director, World Bank Tokyo Office
Kokusai Building
1-1, Marunouchi 3-chome
Chiyoda-ku, Tokyo, Japan 100

Dear Mr. Soejima:

Thank you very much for your letter of March 24th from which I am glad to see that you have made such excellent progress in your discussions with the Japanese Government. I hope that as a result I shall be able to reach a satisfactory agreement with the Minister in the course of my visit later this month.

Your letter raises three points. First, you ask whether I shall be able to give the Minister an assurance when I see him that if the Japanese commit themselves to a certain increase in their share this will enable me to persuade the US to agree to a replenishment at a satisfactory level and that this can be followed up by agreement with the other member countries. You said that the Japanese were afraid that if they made an offer before the US had committed themselves they might be faced subsequently with a further request to increase their commitment.

The answer to this is that we cannot be certain at this stage whether the US will be able to state a firm position at the Tokyo meeting. It follows that we do not know what level of replenishment they will support and with what reduction in the US share they would be satisfied. These matters depend on consultations with Congress which have only just begun. I intend to have a discussion with Mr. Shultz in the very near future.

What I can say is that, if the Japanese Government accepts an increase in its share which we regard as satisfactory, we shall not press them for a further increase whatever the US attitude may be. (This relates, of course, to a contribution of IDA funds and is not intended to prejudge the question of 3% money from the Economic Cooperation Fund, which we do not wish to discuss at this stage.)

Your second question was whether, as a matter of tactics, we should be willing to propose a certain range, say, between 10% and 12% for the increase in the Japanese share. I fully understand that it would be more tactful to put my request in this form and a range of 10 to 12% seems to me to be suitable.

Finally you asked what is the minimum increase in the Japanese share with which we should be satisfied. On this I can say that I hope that their

CONFIDENTIAL

Mr. Aritoshi Soejima

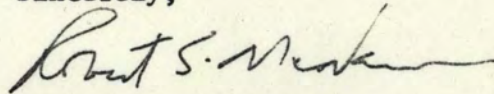
- 2 -

April 5, 1973

contribution can be aligned with the German contribution. They have made it clear that they will not increase their present share at a level of 1.5 billion Smithsonian dollars. If, however, the target drops to 1.5 billion current dollars, we expect them to maintain their contribution at DM470 million. At the current rate of exchange this is approximately \$165 million and would, therefore, be equivalent to 11% of a replenishment of \$1500 million. We should like the Japanese Government to match this.

You also suggested that it would be prudent to break the increase in the Japanese share down into two categories consisting of an increase in their basic share and a further temporary balance of payments adjustment. I am not anxious to do this if it can be avoided since it seems to me that the Japanese position is strong enough to justify a 5% increase in their basic share. Nevertheless, if you think it essential, I am prepared to accept as an alternative a 3 or 4% increase in their basic share and a 1 or 2% temporary balance of payments adjustment.

Sincerely,



Robert S. McNamara

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APR 08 2013

WBG ARCHIVES

March 24, 1973
Letter No. 54

STRICTLY CONFIDENTIAL

Mr. Robert S. McNamara
President
International Bank for
Reconstruction & Development
1318 H Street, N. W.
Washington, D. C., 20433
U. S. A.

Dear Mr. McNamara:

It was indeed my pleasure to have the opportunity of discussing various matters with you during my recent visit to Washington. I am very grateful of the understanding you showed to the operations of the Tokyo Office and I am highly contented that many issues were clarified in the meeting.

I am writing today to report to you further developments in the Japanese Government with respect to their stand on the fourth IDA replenishment, particularly with respect to developments resulting from the London meeting. As Sir Denis has reported to you, we succeeded in persuading Japan together with 7 other countries to support the 1.5 billion Smithsonian dollar level for the fourth IDA replenishment at the London meeting.

Since my return from London, I have at all occasions tried to persuade, with the help of Mr. Maeda, the head of the Japanese delegation to IDA, all those concerned of the strong expectations placed on Japan with regard to the fourth IDA replenishment. My meetings included the Vice-Minister (No. 1 civil servant in charge of domestic affairs) and the Director-General of the Budget Bureau of the Ministry of Finance, among others. The Finance Minister, who has been extremely occupied with the FY1973 Budget in between the ministerial conferences in Paris and Washington, could not see me, but I had a lengthy discussion with his assistant who promised me that he would explain our expectation to the Minister in the plane to Washington today. In addition, I have maintained a close contact with Mr. Maeda.

...2/

The Budget Bureau now seems to be convinced that the Japanese position of the pre-London Meeting, as stated in my memo dated February 27, 1973, needs to be reconsidered. They fully understand every one of our arguments as to why Japan's share in the third replenishment was unreasonably low. In practical sense, however, they still insist that doubling of the share under the increased level (If the level is to be 1.5 billion Smithsonian dollar and if Japan is to double her share, this would mean quadrupling in terms of dollars and tripling in terms of yen) is an unprecedentedly large increase, whose magnitude is the "first case in the history of the Budget Bureau," and therefore would be almost impossible to accept.

Mr. Maeda, who is deeply impressed with your concerned devotion to the cause of IDA, reflected by the fact that you are making a long journey to Japan just for this purpose, tells me that he will do everything he can in his power to meet with your expectations. But he repeats to me that because of the attitude of the Budget Bureau, he is far from being able to assure us that Japan will commit 12% under the 1.5 billion Smithsonian dollar. Nevertheless, he does not want you to go back to Washington without a positively optimistic souvenir from the Japanese Government, and at the same time without leaving some feeling of satisfaction to the Ministry of Finance.

One worry that the Japanese Government has shown is whether or not you will come to Japan with some clear indication on the US stand. If Japan is to make a certain commitment when you visit here, but if the US is not to come through and Japan to be requested again to increase her commitment, the result will be unfavorable to the Bank. They are concerned as to whether or not you are coming here with a prospect that with the Japanese commitment on her burden sharing you can persuade the U.S., followed by the agreement to be reached by the other member countries. The Minister will probably pose this question to you and would expect some kind of assurance from you, when you see him.

As a desirable approach and a matter of strategy, Mr. Maeda suggests that you maintain some flexibility and propose a certain range of share, say, between 10% to 12% on the 1.5 billion Smithsonian dollar, rather than the definite 12%, to Finance Minister Aichi when you see him in April. Mr. Aichi then would give you an "acceptable reply." However, in order for the Japanese Government to give us an "acceptable reply," which would have the blessing of all those concerned in the Government, it is necessary that we inform them what is the minimum acceptable figure for us in advance.

It is still difficult for me at this stage to find out what the maximum tolerable figure for the Japanese Government may be. But from the various meetings I had, I received the impression that the maximum acceptable figure to Japan under the 1.5 billion Smithsonian dollar level would be 9.76%, the same with the German share. This would mean Japan's annual contribution to the fourth replenishment at 162 million current dollar. This is of course on the assumption that Japan agree to an increase of her share within this amount in parallel with Germany, when the total level is decreased. Therefore, for example, in case the total level is 1.5 billion current dollar, Japan's share will become 10.8%. Needless to say, it will take some hard negotiations with the Japanese Government as well as strongly convincing persuasion on my part, but I am quite sure that I can persuade the MOF authorities in this line.

Of course, we have every reason to ask for a higher figure from Japan, taking various factors in mind, and I will continue my best to press Japan to come up with a higher figure. My experience with the MOF, however, makes me tend to feel that we should be eventually satisfied with 9.76% of the 1.5 billion Smithsonian dollar level and regard the figure of 162 million current dollar as an "acceptable" one for us. I know that if we insist on a higher figure and if you make a tough negotiation with the Minister (in such case, I will not hesitate to do so), we might get it, but I cannot regard it as a sound investment on our part in view of our future relationship with the Japanese Government.

May I add that since the MOF authorities are concerned with the effect this will have on Japan's other contributions, rather than flatly stating the Japanese share singularly, it would be prudent to break the total down into two categories; namely, the basic share and the balance of payment adjustment.

Mr. Maeda will try to reach the final agreement with Minister Aichi before your arrival here, but as I stated earlier, he needs to know the final stand of the Bank with respect to our expectations from the Japanese Government on the fourth IDA replenishment before he can do so. I would therefore appreciate it very much, if you could inform me of the final position of the Bank by April 7th at the latest. Of course, that does not mean that I will stop pressing for 12% until the last moment.

With my best regards,

Sincerely yours,

Aritoshi Soejima
Director - Tokyo Office

cc: Sir Denis Rickett

OFFICE MEMORANDUM

TO: File

DATE: Feb. 27, 1973

FROM: A. Soejima

SUBJECT: Meeting with Mr. Maeda, Deputy Director General,
International Finance Bureau, MOF, on
February 26, 1973 (11:00 to 12:00 noon)

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STRICTLY CONFIDENTIAL1. Japanese ODA

The Japanese authorities are currently reviewing Japan's 5-year program for ODA, but the target apparently differs by different ministries. The Economic Planning Agency, for example, has formulated a plan to increase the ODA up to 0.5% of the GNP by 1977 as against the DAC forecast of 0.47% and the IBRD forecast of 0.48%. On the other hand, the MOF's plan, the most conservative of all ministries, is to increase it only up to the DAC average of 0.35%. However, Mr. Maeda pointed out that if Japan is to maintain the current increase rate, her ODA would only be 0.2% by 1977 and the 0.35%, though appears very conservative, requires a substantial effort on their part.

2. Japanese Contribution to the Fourth IDA Replenishment

During the past weeks Mr. Maeda has been negotiating with the Budget Bureau officials on the Japanese contribution to the fourth IDA replenishment. He told me that he would be prepared in the London Meeting to make more positive statements on the level of the fourth replenishment with some of the other progressive countries. However, if no other government would take any positive stand to support a higher level of replenishment, Japan would not act alone in bringing up that level.

The Budget Bureau, manifestly, has been persuaded to double Japan's contribution to the third replenishment for the fourth replenishment; which is almost triple in terms of dollars as illustrated in the following formulas:

- a. Yen equivalent of Japan's contribution in the third replenishment
(at the old exchange rate of \$1 = 360)

$$¥360 \times 144 \text{ million} = ¥51.8 \text{ billion}$$

b. Doubling this amount for the fourth replenishment

$$¥51.8 \text{ billion} \times 2 = ¥103.6 \text{ billion}$$

c. Contribution per year

$$¥103.6 \text{ billion} \div 3 = ¥34.53 \text{ billion}$$

d. This amount in terms of dollars (at the current exchange rate of \$1 = ¥260)

$$¥34.53 \text{ billion} \div 260 = \underline{\$133 \text{ million}} \text{ per year}$$

Therefore, if the total level of the replenishment is to be agreed upon \$1,500 million, the share of the Japanese contribution would become approximately 9%, but if it is to be agreed upon ¥1,200 million, Japan's share would become 11%.

Mr. Maeda emphasized the fact that although ¥34.5 billion is exactly double the Japanese contribution in the third replenishment, in terms of dollars, \$133 million is almost triple (277% up) her contribution in the third replenishment, which was annually \$48 million (\$144 \div 3). Mr. Maeda repeated to me that this is the maximum amount of contribution that can be made by Japan.

For strategical reasons, Mr. Maeda will not mention this final figure at the London meeting, though in the private meeting with Sir Denis, he would be prepared to explain the Japanese stand. The Budget Bureau officials have informally agreed to this figure, but they insist that, since this is the maximum figure, Mr. Maeda wait to make this figure known even to the Bank until the Tokyo Meeting. They fear, otherwise, that Japan would be asked to further increase her share at the Tokyo Meeting.

Excerpt from Finance Minister Aichi's Press Conference Upon His Return
from the C-20 Ministerial Conference in Washington, March 29, 1973

..."My statement as the Japanese delegate attracted significant attentions of the other delegates and I am glad that it contributed not little to the communique. There was an expression of appreciation by President Nixon on Japan's earnest efforts in stabilizing the international monetary crisis. These are the manifestation of the increasingly important role Japan plays in the international community and are the fruit of Japan's past efforts in international cooperation.

However, the point to be remembered is our future course. The Japanese economy which attained a spectacular growth has become one of the major pillars of the international monetary system. Japan is demanded to share a responsibility suitable to its economic strength. With our national interest well in mind, we would still like, as a responsible partner, contribute to stabilization of the international monetary system.

During the recent monetary crisis, I felt keenly the rapidly changing international monetary system which we had become so familiar with during the past quarter of a century.

As you can observe from the joint floating of the EC currencies, the changing monetary system which had centered around the US dollars, is an inevitable historical flow. U. S., EC and Japan have clearly emerged as three pillars out of this crisis.

Of course, the US dollars still occupies a great share of reserve assets and a large portion of trade is still based on the US dollar.

The impending need, therefore, is the recovery of credits to dollars. However, I strongly felt that we must not stop there and that we need to review the roles and responsibilities of our nation in the international monetary scene from a renewed viewpoint. Since our relationship with U. S. has been heretofore close, we will have to study this problem with a long-term vision.

With Japan's geographic environment in mind, I strongly felt during the conference that we have to pay a greater attention to the special problems of the developing countries. It is my opinion that we will have to pursue increasingly friendlier relationships with our neighboring Asian countries.

I would like to explain the "One World Economy" which I touched in my statement at the C-20 Conference. Although it is my wish, as a matter of long-term set-up, to establish a monetary system that enables the true one world economy which includes China and USSR, the current problem is how we should interpret the phenomenon of multi-polarization. It is a fact of life that every country pursues some degree of regionali-

zation with the nations who possess common interests, in accordance with the respective economic situations. However, at the same time, it is also a fact that all nations recognize the importance and need of progressing without forgetting the principle of one world. It was a great harvest for me to confirm this fact at the Washington conference. I will try my best henceforth so that this recognition deepens."

Finance Minister Aichi's Statement on Japanese View on Monetary Reform
at the C-20 Ministerial Conference
in Washington on March 26

Mr. Chairman, members of the Committee, let me first of all commend the Bureau and the Deputies for their dedicated work in this vital task of monetary reform. I also want to thank you, Mr. Chairman, Mr. Schweitzer, and Mr. Morse, for your thought-giving statements.

The Report on the Work of Deputies presented by Mr. Morse, covers all important points on monetary reform in an excellent manner, and I wish to describe in broad terms the Japanese view on these important subjects.

I will put it bluntly. We want a reform that will preserve a "one world" economy. A world economy where restrictions will wither and controls languish. An economy in which the poor, as well as the rich, can give full rein to their economic potential and aspirations. An economy where the flow of aid from the affluent to the impoverished is further increased. And an economy which will eventually pave the way to the realization of a global economy, crossing the borders of different ideologies and extending to major economies not yet fully participant in our joint endeavors.

This is crucial, not only for economic, but also political and social considerations as well. Our mutual success in that task will guarantee continued world economic growth and friendship. Our failure in it will spell rupture in international relationships and disaster in domestic affairs.

This then is, in my mind, the test of a good or bad monetary system: is the system likely to help or hinder in the preservation and smooth functioning of a "one world" economy?

Let us apply this measuring rod to the problem of the exchange rate system. We are now in a period where many major currencies are floating. Although I am aware of views that favor a system based on floating rates rather than on par values, I do not share them. I believe that an adjustable par value system is more conducive to the promotion of world trade and international finance. I am, of course, not against more flexibility in the exchange rate regime than existed in the past.

What about the balance of payments adjustment process? Among the various alternative policy measures to cope with a disequilibrium in a country's balance of payments, I contend that exchange rate adjustment

should be treated as a "later" resort, if not a "last" resort measure. I fully share the view expressed in the report that changes of par value would not be made, voluntarily or under pressure of speculative capital flows, in the absence of serious imbalance. I, hence, believe that each nation should initially make every effort to deal with an imbalance through policy measures other than exchange rate adjustment.

We fully support Mr. Morse's summary on the desirability of improved international consultation. We also agree that the use of certain objective indicators for reference purposes, appropriately adjusted where necessary, could be useful provided the method is suitable and is agreed on by all countries. Objective indicators basically relate to the past, and although useful for diagnosis, they are not an adequate measure of the effect of corrective actions.

Let me now turn to the problem of liquidity. For the uninhibited growth of a unified world economy, liquidity should not be either too little or too much. This implies the need for increasing the importance of the SDR as the principal reserve asset, for better international management of global liquidity. This will not happen, however, unless the SDR comes to be preferred as a reserve asset, particularly over any reserve currency. To this end, we must enhance the attractiveness of the SDR, particularly in its value.

It is now apparent to all of us that a continued accumulation of U.S. dollar liabilities by the U.S. is not acceptable either to the U.S. or to other countries. The resumption of convertibility by the U.S. dollar, in the form of asset settlement in one form or another, is a precondition for the new monetary system. In order to give the system necessary elasticity, we are basically in favour of providing short-term credit facilities including swap facilities for financing reversible flows in periods of stress.

We are aware, in this connection, of the problem that the existing dollar overhang poses for restoring dollar convertibility. We are prepared to participate in discussions on resolving it, through consolidation or otherwise.

We have learned from the painful experience of the past weeks that improved control over disruptive capital movements is needed to preserve stability in exchange rates. Our knowledge in this respect is clearly inadequate, and I welcome the formation of a study group on this subject. Mr. Morse states in his summary that, although it was generally agreed among the Deputies that capital controls are a necessary evil, some would stress "necessary" and some "evil". I belong to the group that would stress "necessary".

All of us know that divergence of positions is inevitable among countries on such a vital and complex issue as world monetary reform. It seems that despite the devoted efforts of our Deputies, countries'

views are not converging. The recent currency crisis appears to have even widened the differences.

Let me say that I see no need to abruptly change course in mid-stream. Setting our sight on our ultimate goal, we should not falter at each turn of events. Let us discuss an accelerated work program in the firm conviction that "we shall overcome".

Before concluding these remarks on monetary reform, I wish to make a general observation on discipline in economic policy.

Mr. Chairman, members of the Committee, I am concerned that there appears to be a prevailing lack of economic discipline in the past years.

No monetary reform, however well-conceived, can survive without the underpinning of economic discipline. With discipline, much of the problems in the long-term and short, will fade away. Without discipline, no amount of debate will produce an enduring monetary system.

Let us, accordingly, reconfirm our resolve today to maintain and recover discipline in the conduct of our economic affairs.

FISCAL POLICY SPEECH BY

FINANCE MINISTER AIICHI

The Japanese economy now has three major aims. The first aim is people's welfare promotion. Next is the stabilization of commodity prices. The third is promotion of international cooperation in various fields and reduction of Japan's balance of payments surpluses.

It is very difficult for the Government to achieve these aims. The difficulties ahead are unprecedented challenges to Japan's financial and monetary policies.

I have determined to tackle the challenges with the aim of achieving our goals by all means.

With this in mind, I will carry out financial and monetary policies for fiscal 1973 with emphasis on the achievement of the aims mentioned above.

Promotion of People's Welfare

In a quarter century since the last war, the Japanese economy has achieved outstanding growth. Japan's gross national product is expected to reach the ¥100 trillion level in fiscal 1973.

The high economic growth has brought about high employment and improvement of people's living standards. But today the Government must comply with growing demand from the public for the creation of a society with a balanced economy.

To build such a society, I think that social welfare promotion is, first of all, a pressing need so that all Japanese may enjoy equal benefits of the high economic growth achieved in the past years.

In addition, the improvement of social overhead capital centering on facilities directly related to living conditions (such as housing, water supply/sewerage systems, parks, green zones, etc.), social welfare facilities and gymnasium, is also necessary.

Furthermore, the elimination of pollution and stepped-up efforts to maintain as much of the natural environment as possible are very important in creating comfortable living conditions.

As the Government is expected to increase its role in financial administration in carrying out various welfare promotion measures, the effectiveness of financial policies must be enhanced. At the same time, the effective functioning of financial resources and income distribution

in the state and local budgets must be taken into full consideration.

In view of this, I am determined to re-examine what people's tax burdens should be from a long-range point of view.

As to the national bond flotation policy, I will issue public construction bonds under the same direction as we did in the past for the purpose of economic adjustment as well as proper distribution of financial resources in private and public sectors.

Stabilization of Commodity Prices

Looking at recent price moves, we cannot have optimistic prospects on the matter, because wholesale prices have been edging up from the latter half of last year. Nevertheless consumer price moves show signs of stabilization.

For Japan and other advanced countries, the combination of efforts to maintain economic growth, makes changes in economic structures and simultaneously stabilizing prices a very difficult problem.

However, the stabilization of commodity prices is indispensable in improving living conditions. Price raises influence national welfare. The Government will intensify its measures in the processes of production, distribution and consumption to stabilize consumer prices.

Trying to stabilize skyrocketing land prices is a matter of urgent concern. The Government will provide financial and monetary assistance to solve the land price problem, while promoting overall policies to rearrange current land systems.

Promotion of International Cooperation

In parallel with the strengthened status of its economy, Japan's influence in international society is not small. Acknowledging its increasing responsibility to the international scene, our country must deepen mutual understanding with foreign countries to facilitate international cooperation to achieve stable growth of the world economy.

What should be done at first to promote such cooperation is to participate in negotiations to make new regulations on international trade and monetary systems.

With regard to international monetary problems, I think that the establishment of a new multinational system is vital to the stabilization of international currency relations. At present, Japan participates in efforts by the Group of 20 Committee to build a new monetary system.

In connection with expansion of international trade, Japan plans to positively take part in talks to start later this year at the General Agreement on Tariffs and Trade (GATT) for initiating a new round of tariff reductions.

Aiming at creating one world of freedom and non-discrimination, our country will continue to participate in such international talks and oppose any movements towards protectionism and exclusive economic blocs.

The promotion of Japanese economic assistance to developing countries is our responsibility as a matter of course. The economic growth of such poor countries will doubtlessly contribute to world peace and prosperity.

By continuing to expand economic assistance and improve preferential tariff systems, Japan will play a role befitting its national power in helping the growth of developing countries.

Meanwhile, Japan's balance of payments enjoys huge surpluses despite the yen revaluation of late 1971. The payments surpluses not only affect the sound growth of the world economy but also the effective use of financial resources to promote people's welfare. Utmost efforts to reduce the large surpluses must be made by all concerned.

To promote its external economic policies, the Government reduced across-the-board tariff rates and expanded import quotas. But of various measures to reduce payments surpluses, the most important is the shift of the export-oriented economic structure to a structural pattern with emphasis on welfare promotion. In this sense, more efforts to promote tariff reductions and capital liberalization must be made.

Monetary Policy

Encouraged by the Government's tight money policy, the Japanese economy has been following an upward trend. However, as unfavorable elements such as wholesale price increases began to be felt, the Government recently took action to raise reserve deposit requirement rates.

Taking care of internal and external elements of the economy, the Government must go ahead with proper monetary measures to achieve stable growth of the economy.

At the same time, the Government must do something to cope with the growing internationalization of Japan's capital market. Especially, concerning extraordinarily high stock prices, more proper measures must be taken to restore order in stock transactions.

Outlines of Fiscal 1973 Budget

Taking into account the basic direction of financial and monetary policies, mentioned above, the Government compiled the budget for fiscal 1973 to start from next April.

Major features of the fiscal 1973 budget are as follow:

(1) The general account of the budget amounts to ¥14,284,073 million (\$46,376.9 million) up 24.6 percent over that of the fiscal 1972 budget. The fiscal loan and investment program will be expanded by some ¥200,000 million over the Finance Ministry's initial proposal to a total of ¥6,924,800 million (\$22,483.1 million). To help back up budgetary expenditure, the fiscal 1973 budget calls for flotation of public bonds and debentures totaling ¥2,340,000 million. The amount of tax reductions for fiscal 1973 is about ¥460 billion. Emphasis is on tax reductions for small and medium income class people.

(2) Following is the outline of the policies on which the Government wishes to lay emphasis.

Firstly, the revision of the taxation systems in fiscal 1973 will include raising the minimum taxable level of income with a view to reducing the tax burden on low and middle income earners. Besides, exemptions from income tax will be largely expanded for wage earners. The minimum taxable portion of income has already been increased to a level comparable to American and European standards. The current revision of the taxation system will mean a further increase of 10.7 percent in the lowest taxable level of income. It will be ¥1,149,000 for a couple having two children.

The revision will also include reduction of inheritance tax, rationalization and reduction of commodity tax, reduction of admission tax as well as an increase in securities transaction tax rate.

Some of the Special Taxation Measures will be subject to either revision or abolition. Those involved will include the special tax reduction system concerning depreciation of equipment and rationalization in the important sectors of industry. The system concerning reserves to be pooled for parity change will also be involved. On the other hand, taxation measures for promotion of welfare, reduction of pollution, buildup of assets by workers as well as housing will be contrived, and a system in favor of returns for smaller entrepreneurs will be introduced.

Heavier taxes will be levied on corporate profits obtained through selling land in order to check speculation in land and curb the increase in land price. The measure, coupled with the planned land holding tax as one of the local taxes, is expected to restrain provisional demand for land and at the same time promote land supply.

Improvement of Social Welfare

(3) Next, the expenditure plan will be explained.

Firstly, improvement of social welfare will be promoted.

Pensions will be boosted remarkably in line with the fact that Japan is fast becoming a society of the aged at a tempo which has never been experienced in American and European countries. Pensions will be raised to ¥50,000 per year, by making use of the Welfare Annuity System and the National Pension System which is based on subscription by would be pension recipients. Besides, the pensions will be adjustable to increasing prices. The Welfare Pension for the Aged will also be raised considerably and the maximum allowable level of income of the supporters of those who have reached the age of eligibility for the national pension will be raised. The measures to improve the well-being of the aged will also include the lowering of the age limit to 65 for persons who are confined to bed to receive medical fare free of charge.

Measures to improve the quality of the people's well-being will also include increase in social welfare facilities, increase in pensions for handicapped persons and mother-child families, a raise of the income level entitled to livelihood subsidies, improvement of welfare measures for the physically handicapped children and mother-child families as well as improvement of measures for those suffering from malignant and unusual diseases. Also planned are an increase in special night-shift allowances for nurses and re-granting of national bonds, this time larger in amount, for wives and parents who were bereaved of their husbands and sons by war.

The medical insurance system will be so revised so that the proportion of the refund will be raised from the present 50 to 60 for charges payed for medical care of family members other than the head of the family. Subsidies will also be raised for extra-high medical charges. At the same time, necessary steps for improvement and rationalization will be taken in order to attain sound health insurance financing.

Second in point is the improvement of social capital.

Improvement of Social Capital Required

It is needless to say that positive improvement of various types of social capital is required for development of national land in a deliberate and steady manner, and programs should be mapped out so that balanced development is attained, through improvement of communication facilities, relocation of factories, development of cities and towns in rural areas as well as improvement of conditions in farming villages.

In order to achieve these aims a Comprehensive National Land Development Agency, which will plan and adjust national land development plans will be created, and the Corporation for the Location of Industry and the Development of Coal Mine Areas will be reorganized into a Comprehensive National Land Development Corporation which will be in charge of carrying out various projects.

Improvement of housing and living conditions will be given priority in the programs aimed at improvement of social capital. The program will also include those designed for improvement of educational, both school and social, as well as sports facilities and river conservation, as well as traffic facilities including roads will also be increased considerably.

Long-ranging development programs, starting from fiscal 1973 will be introduced for improvement of roads, fishing ports and land.

National subsidies will be increased for reconstruction of the financial situation of the Japanese National Railways in line with programs to promote thorough rationalization of the management of the railways. Railway rates will be raised. The business scale of the national railways will be largely expanded in order to promote construction of additional trunk lines.

Thirdly, reduction of pollution and environmental protection are among the key policies in compiling the national budget.

In order to make the life of the people richer and healthier, environmental facilities for people's life, such as sewage systems and the facilities for waste disposal, will be expanded, counter measures against air and water pollution and noise will be strengthened, and measures to protect nature will be improved. The new taxation steps will include a special depreciation system for anti-pollution devices installed at production facilities and reduction of the commodity tax for low-pollution vehicles.

Fourthly, it comes to promotion of price control.

The fiscal 1973 national budget is designed to stabilize prices by encouraging increasing productivity in the low productivity sectors, rationalization of distribution systems, enhancement of labor fluidity and encouragement of competition. Construction and expansion of generalized retail center of foods enlargement of funds to be available for modernization of retail business of perishable foodstuffs and promotion and modernization and rationalization in retailing sectors underline the thoughtful consideration for consumers.

Fifthly, emphasis is being placed on modernization of forestry and fishery industries as well as modernization of small and medium enterprises. In order to bolster forestry and fishery industries by keeping

pace with changes in demand, and raise productivity in these sectors, steps are being drawn up for improvement of basic conditions of these industries, easier conditions of financing, including lowering of loan interest rates, encouragement for building agricultural complexes and improvement of distribution systems for agricultural, dairy and fishery products.

Necessary costs will be covered for production adjustment of rice, which is to be carried out in accordance with demand, and non-increase of rice prices.

For elevation of smaller businesses, loans to be available at such financing organs as the Small Business Promotion Corporation, People's Finance Corporation, Small Business Finance Corporation, Central Co-operative Bank for Commerce and Industry, will be increased, and a system to provide loans for improvement of management will be created. These measures are intended for modernization of smaller enterprises.

Promotion of Education, Science, Technology

Sixthly, the national budget is designed for promotion of education and science and technology.

Funds are reserved to raise the wages of teachers, increase in the number of teachers to be dispatched overseas, increase in subsidies for private educational institutions, expansion of public educational facilities, improvement of social educational and sports facilities, substantiation of national schools, including creation of a national medical university, and so forth. Various financial steps are also taken for promotion of art and culture, as well as protection of cultural assets.

Steps projected for promotion of science and technology include development of the uranium enrichment technology, space development, and promotion of technology of electronic computers.

Seventhly, overseas economic cooperation is being promoted.

By taking into account the fact that greater expectation is placed on Japan's role in the international society, financial measures will be taken for expansion of economic assistance for developing countries and increase in Japan's contribution for the Asian Development Bank and United Nations development projects, and increase in economic cooperation through international organizations. In regard to the return of peace to Vietnam, the Government will take positive steps for stabilization and improvement of the people's life in Indochina.

Eighthly, promotion of defense buildup and implementation of base problem countermeasures are being planned.

Defense-related expenditures will cover the costs to be required for defense build-up based on the Fourth Five-Year Defense Buildup Plan which was authorized at the National Defense Council. Besides, realignment and consolidation of military bases will be strongly promoted and positive steps will be taken for promotion of various undertakings to solve problems related with bases.

Lastly, policies concerning local finance will be described.

Out of the Trust Fund Bureau funds, ¥95,000 million will be extended to the account for distribution of local allocation tax, since the special measure enforced in this connection in fiscal 1972 will not be adopted in fiscal 1972. The borrowing will be made by taking into consideration the expected considerable increase of local tax and local allocation tax revenues. Also projected are elimination of "excessive" financial burden to be shared by local autonomies in carrying out public undertakings (the excessive burden is being created by Government's estimate of the costs required for such projects which is often lower than the practical cost requirement), reduction of local burden in building elementary and middle schools by lifting the rate of subsidies, increased issuance of local bonds which is intended to realize healthy local finance.

Conclusion

Japan is now facing a period of severe ordeal and turnabout, and a new chapter of finance is about to be unfolded.

Fiscal policies should be designed so that resources may be distributed selectively and efficiently. This means that the economic growth, which has been sustained by exports and plant and equipment investment, is increasingly oriented by Government investment.

Utmost efforts will be made for execution of fiscal and monetary policies to stabilize prices and simultaneously recover the equilibrium in balance of payments with promotion of people's welfare being given basic priority.

Press Luncheon
4/19 12:15-14:00

NIHON KISHA CLUB
(Japan Press Club)

Nihon Kisha Club, established on November 1, 1969 with the joint cooperation of the Japan Newspapers Association and Japan Broadcasting Federation, is the only national press club in Japan.

Since its establishment, the Club has invited many guests, both domestic and foreign to enable multilateral contacts for its members with various news sources. The Club also conducts seminars, lectures and study-trips for its members.

The Club membership is composed with 133 news media corporations and 880 leading editors and commentators, and publishers. The Club has a secretariat office and the club room in the Imperial Hotel for the use of its members. Preparations are under way for the construction of the New Press Center

Its management are the following people:

Managing Director

Mr. Seiki Watanabe (Managing Director/Editorial of Asahi Shimbun)

Born in 1914, he graduated from the Tokyo University of Agriculture and joined Asahi Shimbun (largest national daily in Japan with the circulation of 7 million) in 1939. After various posts, he was elected to a director in 1968; Executive Director in 1969; Managing Director in 1971.

Director

Mr. Shiro Hara (Vice President/Managing Editor of the Yomiuri News Papers)

Born in 1907, he graduated from the Hosei University and joined the Kokumin Shimbun. After a decade, he entered the Yomiuri in 1936; elected to a director in 1957; Managing Director in 1970; Vice President in 1971.

Director

Mr. Yasuo Takeyama (Director and Managing Editor of Nihon Keizai Shimbun)

Born in 1923, Mr. Takeyama graduated from Hitotsubashi University and joined Nihon Keizai Shimbun (Japan Economic Journal) in 1947. After serving as a New York correspondent, economic editor, and editor-in-chief he was elected to the present post in 1970.

Director

Mr. Ichiro Hotta (Director and Representative Head of the Tokyo Head Office, Chunichi Shimbun)

Born in 1925, Mr. Hotta graduated from the Tokyo Commerce College. He joined the Chunichi in 1949. After various posts, including a London correspondent, he was elected to director in 1969, and the current post in 1971. Will chair the luncheon.

Director

Mr. Susumu Ejiri (Secretary General of the Japan Newspapers Federation)

Born in 1907, Mr. Ejiri graduated from the Tokyo University. After 15 years of journalism, Mr. Ejiri was elected to the managing director of the Japan Newspapers Federation in 1947; Assistant Director General in 1962 and the current post in 1969.

Deputy Secretary-General

Mr. Akihiko Haruhara was born in 1927 and earned his M. A. from the Keio University. He joined the Japan Newspapers Association in 1953 and was appointed as the general manager of the Nihon Kisha Club in 1969. He was elected to the present post in Feb. 1973.

Masao Kunihiro

Professor of International Commercial College

Born in Tokyo in 1930, he 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 Woman's College as well as Professor of Cultural Anthropology at the International Commercial College.

He is the most prominent interpreter in the field of economics.

OFFICE MEMORANDUM

TO: Mr. William Clark
FROM: Keiko Atsumi *ka.*
SUBJECT: Mr. McNamara's Press Luncheon

DATE: April 18, 1973
Letter No. 87

Below is the summary of the meeting we had with Mr. Haruhara of the Japan Press Club on the procedures for Mr. McNamara's press luncheon to be held on April 19 from noon to 2:00 p.m. at the Kame-no-ma of the Imperial Hotel.

1. Mr. Clark and K. Atsumi will be at the Imperial Hotel for any initial arrangements.
2. The luncheon will start at 12:00 as initially announced, although due to a change in appointment with the Finance Minister, Mr. McNamara, Sir Denis and Mr. Soejima will not arrive the Imperial Hotel till about 12:15.
3. Mr. Hotta will make a brief introductory remark.
4. Mr. McNamara will start to speak at 12:45 to be interpreted consecutively (paragraph by paragraph) and should be finished speaking by 1:30. (This means that Mr. McNamara has about 20 - 22 minutes to speak.)
4. The question and answer period will take place from 1:30 till 2:00.
5. Mr. McNamara will speak from the main table where he eats (on the same level with the rest). The other members of the main table are Messers Takeyama, Hotta, Soejima and Kunihiro. There will be a microphone in front of Mr. McNamara and the interpreter.
6. They will limit the photographing time to about 5 minutes at the beginning.
7. The entire session will be tape-recorded, and some portion will be broadcasted.
8. The printed text will be distributed after the meeting.
9. The luncheon will be attended by journalists representing all the leading Japanese press as well as such foreign correspondents as New York Times, Chicago Tribune, Christian Science Monitor, Washington Post, Reuters, ABC, VOA and others. All together, some 70 journalists should attend the luncheon.

Prime Minister
4/19

AGENDA FOR MEETING WITH THE PRIME MINISTER

April 19, 1973
11:55 - 12:05

1. Relationship between World Bank and Japan with particular emphasis on our appreciation for Japan's immense cooperation

2. Japan's position for IDA IV Replenishment
(Avoid detailed discussion and merely request for the Prime Minister's warm consideration)

3. The Prime Minister's appreciation for the role the World Bank played in Japan's economic recovery

As of April, 1973

New Tanaka Cabinet

Prime Minister	Kakuei Tanaka
Justice Minister	Isaji Tanaka
Foreign Minister	Masayoshi Ohira
Finance Minister	Kiichi Aichi
Education Minister	Seisuke Okuno
Welfare Minister	Kunikichi Saito
Agriculture & Forestry Minister	Yoshio Sakurauchi
International Trade and Industry Minister	Yasuhiro Nakasone
Transportation Minister	Torasaburo Shintani
Post & Telecommunications Minister	Chuji Kuno
Labor Minister	Tsunetaro Kato
Construction Minister	Shin Kanemaru
Home Affairs Minister	Masumi Ezaki
State Minister	Susumu Nikaido
"	Shinzo Tsubokawa
"	Takeo Fukuda
"	Keikichi Masuhara
"	Zentaro Kosaka
"	Kazuo Maeda
"	Takeo Miki
Director General of Cabinet Legislative Bureau	Ichiro Yoshikuni

Kakuei Tanaka

Prime Minister of Japan

On July 6, 1972, the Diet designated Kakuei Tanaka, newly elected president of the ruling Liberal-Democratic Party, as the 65th Prime Minister at plenary sessions of both Houses.

Tanaka is the 40th man to assume to premiership since the establishment of the Cabinet system in Japan in 1885.

The new Prime Minister Tanaka is said to be a unique personality compared with the past Prime Ministers of Japan. First, he has no connection with any so-called "academic clique" or connections.

Many of the postwar Prime Ministers were ex-bureaucrats, who were graduates of national universities. Even those Prime Ministers who were not bureaucrats had all graduated from universities. (The only exception was Toshihiko Higashikuni, a member of the Imperial Household.) In stark contrast, Prime Minister has no such schooling and occupational record.

Tanaka was born on May 4, 1918, in Futada Village (now Nishiyama Town), Kariwa County, Niigata Prefecture. Now 54, he is the fifth youngest Prime Minister in modern Japan and the youngest since the end of World War II. It is thus an unusual event in Japan's political world that a man in his fifties has assumed the premiership. Tanaka was born to a farming household.

At the age of two, he contracted diphtheria, and as a result, he was of rather delicate health during his childhood. Moreover, he was a stammerer. But in an effort to overcome this affliction, he devised a special elocution pattern using rhythm and melody, and throughout his primary school years, he was always at the top of his class. His present way of talking rapidly in one breath is traceable to his childhood effort to overcome stammering.

Impressed with his excellent school record, Tanaka's primary school teacher advised him to advance to a middle school. But he gave this up as his father's business ended in failure. In 1933, he finished a higher primary school (a two-year course after the six-year compulsory education) and became a construction laborer at the age of 15 in the summer of that year.

In 1934, Tanaka, then 16, came up to Tokyo to study while working. He attended a private night school, the Central Technological School, while working as a clerk for a building contractor, reporter for a small insurance business magazine, and then an employee of a trading house and later at a construction firm.

Charmed by literature from childhood, Tanaka has always been fond of writing, and once entered his work in a prize novel contest. Seeing his mother working so hard to provide for her family, Tanaka decided to become economically independent as soon as possible, and set up a private, though small, construction firm in 1936. He thus changed from employee to entrepreneur at the age of 18. His love and respect for his mother, who is still living in the family town, remain as deep as in those days.

On March 3, 1942, he married Hana, the only daughter of the owner of the lodgings where he was staying. By that time, his enterprise had been expanding gradually, and in 1945, his firm was among the top 50 construction companies in Japan in terms of business volume.

On April 4, 1946, the first postwar general election was held to choose members of the House of Representatives, and Tanaka was one of a large number of "new faces" who stood in the election. When he ran in his home constituency in Niigata Prefecture, he was only 28 years old. Although he campaigned energetically under the slogan of "Cries of Young Blood," he ended as runner-up.

In the next general election held in the following year or 1947, Tanaka again stood as candidate -- this time, successfully. Since then, he has been successively elected to the Lower House a total of 10 times.

In 1948, he was named Parliamentary Justice Vice Minister.

In 1957, Tanaka assumed the posts and telecommunications portfolio at the age of 39. In this post, he proved his political acumen in granting licenses for the start of commercial television broadcasting. As a result, he was clearly recognized as an able young politician both within and without the ruling Liberal Democratic Party.

While he was Posts and Telecommunications Minister, Tanaka once appeared on a public entertainment radio program and recited "naniwa-bushi," a form of popular entertainment which had endeared itself to the general public since the Edo Period (1603-1867), consisting of story recitation to the accompaniment of the "samisen," Japan's traditional stringed instrument. This brought on a lively public discussion on the propriety of a Cabinet minister appearing on popular radio program for public entertainment, and he received both criticism and praise. However, this incident left with the public a deep impression that here was a government minister capable of directly mingling with the masses -- a characteristic never before possessed by any Cabinet officer.

In 1962, Tanaka, then 44, was appointed Finance Minister, and assumed this key post successively in the two ensuing Cabinets. In the meantime, he attended a Board of Governors' session of the International Monetary Fund (IMF) along with Prime Minister Ikeda in 1962

and other international conferences, including the Cabinet-level Japan-United States Joint Committee on Trade and Economic Affairs and the Japan-Canada ministerial conference on economic problems. He thus played an active role in international political negotiations. In July 1971, he was named Minister of International Trade and Industry. Meanwhile, he earned the nickname of "computerized bulldozer" because of his resolute decision and implementation, which he demonstrated with the quick normalization of the Japan-China relationship within 2 months after his appointment as the Prime Minister.

In between the above-mentioned Cabinet posts, Tanaka assumed key executive posts in the Liberal Democratic Party, such as Secretary-General (a total of five terms) and chairman of the Policy Affairs Research Council, and contributed largely to the parliamentary passage of important bills, including the Gasoline Tax, Road Traffic Law, Local Development Law, Law for the Promotion of Development of Hydroelectric Resources, Law for the Construction of New Industrial Cities and Law for the Development of Water Resources.

While serving as chairman of the party's Urban Policy Research Council, Tanaka came up with a "plan for remodeling the Japanese archipelago." A gist of the plan follows:

In the past, Japan has been endeavoring to expand its gross national product (GNP) and national income through the concentration of population and industry in urban areas. But today, the merits of such a highly dense society have become demerits. That is, big cities are ailing and panting as if in overly congested crucibles, while the population in rural areas is growing old in general owing to a heavy outflow of young people, thus gradually losing viability. These two evils -- namely, excessive congestion and excessive scarcity of population -- must be eliminated simultaneously so that the nation may restore a beautiful land comfortable to live in and thus follow an affluent life without anxiety about the future. This is the very thing the Japanese people are seeking before anything else.

In response to such a wish of the people, it is essential to change boldly the direction of the torrent of urban concentration and to deploy the vitality of the Japanese people and the surplus of Japan's robust economic power through the length and breadth of the Japanese archipelago. In line with this basic concept, the gap between urban and rural areas should be eliminated with a set of measures as leverage, such as the nationwide redistribution of industries, knowledge intensification such as a thinktank, construction of nationwide networks of expressways and superexpress railways, and establishment of an information communications network.

Recently, Tanaka published this plan in book form under the title of "Theory of Remodeling the Japanese Archipelago" in a move to seek the people's support.

Tanaka and his wife Hana at first had a son and a daughter, but the son died in 1947. At present, his family comprises his wife, his daughter Makiko and her husband and one grandson. He and his wife like to play with their grandson, and this gives a big respite to the busy Prime Minister.

As for his hobbies, he has been fond of writing since childhood, and for a time, he even aspired to be a novelist. Moreover, he likes very much to sing songs, including "naniwa-bushi" recitation as noted earlier.

Tanaka drinks only a little and prefers dishes cooked in a country fashion, using such special products of his native Niigata Prefecture as salmon and bean paste.

His moustache, known as Tanaka's trademark, has been worn since 1942 when he was 24.

Prime Minister Tanaka asserts that Japan's future should be sought in "peace" and "welfare." That is, externally, Japan should firmly continue to walk the path of a peace-loving nation consistently pursued through the past 25 years and seek to develop cooperation and harmony with the international community.

Internally, Japan should give top priority to the people's welfare and insure a balanced growth of national economy through such means as the buildup of social infrastructure and the improvement of the social security standards. And it is Prime Minister Tanaka's project for "remodeling the Japanese archipelago" that serves the very purpose of meeting these needs both external and internal.

Opening Address
by His Excellency Mr. Kakuei Tanaka,
Prime Minister of Japan,
at the 29th Session of the Economic Commission
for Asia and the Far East
Tokyo, April 11, 1973

Executive Secretary U Nyun,
Excellencies,
Distinguished Delegates,
Ladies and Gentlemen:

On behalf of the Government and the people of Japan, I have a great pleasure of welcoming you all who have assembled here for the opening of the Twenty-Ninth Session of the United Nations Economic Commission for Asia and the Far East.

In recent years, it has been recognized throughout the world that both developed and the developing countries must strive together to promote international cooperation for the achievement of world peace and prosperity.

Reflecting such a need for international cooperation, the First Development Decade was initiated by the United Nations, and through the adoption by the General Assembly of the International Development Strategy, it has now evolved into the Second Development Decade. The attainment of the goals and objectives for the present Development Decade is one of the most important tasks of our generation.

Since the ECAFE region comprises two thirds of the population of all the developing areas of the world, the success in achieving the goals of the Development Decade depends on the performance in the vast region of ECAFE.

There is yet much to be done for the promotion of development of the region. How to cope with the recent aggravation of the stagnant agricultural production, how to solve the population problem, how to tackle mass poverty and large-scale unemployment, and how to coordinate the development of each country to that of the entire region; these are but few problems which await to be dealt with.

In order to solve these problems, sustained efforts must be made for modernization of agriculture, control of water, promotion of labor intensive economy, promotion of public works, reform of taxation system, levelling up of education and technology and fostering of the spirit of mutual cooperation.

ECAFE has its history and tradition as a forum where the developing countries in Asia and the developed countries, regional and non-regional alike, have come together to work towards the development of Asia. It is my ardent hope that the wisdom and strength of these countries will be combined to solve all of these problems.

I heartily welcome the peace being realized in the Indochina Peninsula. My country is ready to cooperate in ensuring the peaceful and prosperous life for the people in that part of the region. I believe that ECAFE should also consider what role it will be able to play in this regard. The achievement of the goals for the Development Decade must also be shared by the people of Indochina, and I consider that it will be highly significant if a long-term measure for this purpose can be found in ECAFE where almost all the countries that have much to do with that area are represented.

The success of the Second Development Decade absolutely requires united efforts by the developed and the developing countries. To this end, my country is determined to extend cooperation through assistance and trade in a manner which is really in the interests of the developing countries of Asia.

Hoping with all my heart that this Session will be fruitful, I now declare the Twenty-Ninth Session of the United Nations Economic Commission for Asia and the Far East open.

Prime Minister's Reply at the
Current Diet Session on Reconstruction Matter

Question 106

What is Japan's aid policy towards the Indochina region after the peace negotiation? (How about setting up the Indochina Reconstruction and Development Fund?)

Answer

We would like to carry out full cooperation for the reconstruction and development of the Indochina region which was damaged by the long, hauling war. As for the ways and means of aid, taking such factors as wishes of the Indochina countries, moves of other supporting countries, and relationships with existing international organizations into our mind, we would like to take up the most effective and timely support under the international cooperation.

Prime Minister's Reply at the
Current Diet Session on US-Japan Trade Problems

Question

What is our nation's basic attitude towards U. S.-Japan economic relations; particularly towards the trade problems.

Answer

1. In the international community, the importance of the Japan-U. S. economic relations is increasing and we think it very important that two nations should cooperate more in economic field.
2. At the Japan-U. S. Summit Meeting in Honolulu in September, last year, we came to the agreement that the economic relations between the two nations is very important, and that the two nations should try to cooperate more to maintain better equilibrium of the two nations' international balance of payments.
3. Consequently, as for the trade problems, we should strengthen the principle of free-trade, and we would make every effort in improving the balance of trade through positive implementation of such import-policy as liberalization of imports, lowering of the tariff, etc. We would like to keep this attitude at our future negotiations on Japan-U. S. trade problems.

Reference

Chart 1. Transition of Japan-US Trade (Unit: \$1 million)

	<u>Japan's Export</u> (increase)	<u>Japan's Import</u> (increase)	<u>Increase</u>
1967	3,012 (101.4)	3,212 (120.8)	△ 200
1968	4,086 (135.7)	3,527 109.8)	559
1969	4,958 (121.3)	4,090 (116.0)	868
1970	5,940 (119.8)	5,560 (135.9)	380
1971	7,495 (126.2)	4,978 (89.5)	2,517
1972	8,848 (118.0)	5,852 (117.6)	2,996

△ decrease from the year before

Foreign Minister
4/19 16:30-17:30

AGENDA FOR THE MEETING WITH THE FOREIGN MINISTER

April 19, 1973
16:30-17:30

1. Appreciation for Japan's cooperation to Bank's borrowing program.
2. IDA Fourth replenishment. (Avoid detail discussion and simply request for special considerations.)
3. Brief account on World Bank's present and future.
4. Japan's aid policy with particular emphasis on ODA.
5. Indochina reconstruction aid.

Masayoshi Ohira

Minister for Foreign Affairs

Born in Kagawa Prefecture in March 12, 1910, Mr. Ohira graduated from the Tokyo University of Commerce in 1936.

Mr. Ohira joined the Ministry of Finance in 1936 and after serving in the ministry for 16 years he resigned to run for the House of Representatives. In 1952 he was elected to the House and have been consecutively re-elected seven times since.

He was appointed Chairman of the Education Committee of the House 1959-1960; Chief Cabinet Secretary, 1960-1962; Minister for Foreign Affairs, 1962-1964; Deputy Secretary-General of the LDP, 1964-1965; Chairman of the Policy Affairs, Research Council of the LDP; Minister of International Trade and Industry, 1968-1970; Chairman of the Research Commission on Information Industry of the Liberal Democratic Party, 1970-1972; and Minister for Foreign Affairs in the Tanaka Cabinet since July 1972.

Mr. Ohira's most outstanding achievement, since resuming the present post, is the normalization of the Japan-China relationship which he realized with the Prime Minister.

Mr. Ohira married Shigeko in 1937 and has two sons, Hiroshi and Akira and one daughter, Mrs. Yoshiko Morita.

SPEECH BY FOREIGN MINISTER OHIRA

AT THE ECAFE MEETING

- April 12, 1973 -

Mr. Chairman, Distinguished Delegates, Ladies and Gentlemen:

First of all, on behalf of the Japanese Delegation, I should like to express my heartfelt congratulations to your, Mr. Chairman, and through you to the Vice Chairmen, on your election by acclamation to the important posts. It is also my great pleasure to welcome all the Delegates of the ECAFE member countries to Japan. I should further like to extend a sincere welcome to the participation of the People's Republic of China in this session and look forward to her positive contribution to the further strengthening in future of the work of this organization. Likewise, my hearty welcome goes to the Book Islands, which is joining us here for the first time as an associate member of ECAFE.

Mr. Chairman,

Twenty-five years have passed since the inception of ECAFE and this year marks the beginning of its second quarter of a century. In the course of these past years, ECAFE has developed into the largest regional economic commission of the United Nations and the largest cooperative organization in the Asian and Pacific region. I should like to take this opportunity to express my deep respect to the successive Executive Secretaries who have ably guided ECAFE as a pioneer of regional cooperation in Asia and Pacific. Above all, I highly appreciate the assiduous efforts by Executive Secretary U. Nyun in having made ECAFE grow into what it is today during his tenure of office since 1959.

Mr. Chairman,

For the past few years, the ECAFE region has witnessed various important events. They indicate that a fundamental change is taking place in the current in the region, and among them is the conclusion of the agreements to end the war in Vietnam and Laos. I heartily welcome the arrival of the long-awaited peace and sincerely hope that this peace will truly be consolidated and contribute to the stabilization of the region as a whole. For that purpose, it is of the utmost importance to stabilize and elevate people's livelihood through economic development of the entire region, in order thereby to consolidate the foundation for peace.

Mr. Chairman,

Against the background of such a new development in Asia and with the forthcoming change in its leadership, ECAFE is now entering into another period of growth. With such prospects ahead of us, I should like to make some observations on the significance of ECAFE and the desirable form it should take.

The first thing we should note is its diversity. ECAFE is made up of many countries different in race, tradition, stage of development, social system and so forth.

Also, unlike the other United Nations regional economic commissions, ECAFE comprises almost all the countries within the region and principal developed countries outside the region having interest in the development of the region. That ECAFE thus possesses both diversity and universality is, in my opinion, one of its advantages as well as its source of vitality.

I sincerely hope that ECAFE will bring into full play its unique characters to develop itself into a forum for realistic and truly effective consultations and cooperation among its members. To that end, it is necessary always to consider the priority of problems ECAFE has to deal with, since they are so multifarious and diversified. At the same time, consideration should be paid to the strengthening of researches and studies to form the basis of discussion and to the full and energetic deliberations from many aspects, so that the overall development efforts in this region will achieve the maximum effect.

I should also like to stress the need that ECAFE should preserve its good tradition and practices. ECAFE has devoted itself solely to the economic and social development and has established the practice fully to respect the positions of individual member countries and to take a decision by consensus in principle. It is indeed because ECAFE has maintained these two principles, I think, that it has been able to find out means of cooperation in diversity. I should like to take this opportunity to express strongly my hope that ECAFE will not be turned into a forum of political oppositions or North-South confrontation.

Mr. Chairman,

This year we are initiating the review and appraisal of the implementation of the International Development Strategy for the Second United Nations Development Decade, and the present session of our Commission has as one of its important tasks the review and appraisal at the regional level. The ECAFE region has more than half of the world population, and the achievement of the goals and objectives of the Strategy in this region is a matter of crucial importance to the entire outcome of the Second Development Decade. I believe that the ECAFE countries should take realistic and pertinent measures and exert all their efforts towards the achievement of the goals and objectives of the Development Strategy.

Mr. Chairman,

What we should always bear in mind is to tackle the immediate and urgent problems, while looking far into the future. This may apply to all kinds of problems, but it is of special importance, I think, to the economic development of Asia. The first thing I should like to take up in this connection is the importance of agricultural development, particularly, of food production, to the developing countries of the region.

The economy of developing countries in Asia are heavily dependent on agriculture, and agricultural development is a key to the success of their overall economic development. Needless to say, the promotion of industrialization and resource development in the region is extremely important, and my country will extend unstinted cooperation to that end. But from the past experience of my country and from the current condition of the Asian countries, I believe it is essential for the success of industrialization to consolidate the basis of agriculture.

From this point of view, it was the "Green Revolution" that had an epoch-making significance to the agricultural production of the region. But recently, it is feared that the revolution may lose its momentum, if the present situation is allowed to remain unchanged. More pressing is the shortage of rice in the Asian countries, which has been further aggravated this year. It is a serious problem for the promotion of development and the stabilization of people's livelihood. As a cooperative measure of expediency, my Government intends to extend food assistance by purchasing rice from the traditional rice-exporting countries in Asia and supplying it to deficient countries in the region. My Government also intends to strengthen its economic and technical assistance to those deficient countries in their efforts to increase rice production.

Mr. Chairman,

I understand that in the past the agricultural problem has not been taken up by ECAFE as a major subject of discussion. There may have been reasons for that, but as long as ECAFE is the forum for the deliberation of all the important problems related to the economic and social development of the region, I think it should naturally cope with this problem more positively.

More specifically, ECAFE should be engaged in such activities as the survey of the actual supply-demand conditions of rice and other agricultural products and their future prospects on a short and long term basis, the exploration of effective means for the stabilization of supply and demand, and the promotion of measures for the increase and stabilization of food production require the modernization of agriculture. In addition, the question of industrialization and the development of natural resources, which have been dealt with by ECAFE, should be more closely coordinated

with agricultural development in such aspects as the promotion of industries related to agriculture and the consolidation of infrastructure. It follows, therefore, that it should be a task for ECAFE to search for a new strategy for economic development based on a comprehensive approach with greater emphasis on a more efficient agricultural development.

For this purpose, we might as well consider creating a forum for intergovernmental consultation on agricultural problems by such means as the convening of an agricultural conference or the establishment of an agricultural committee in ECAFE. Also, the agricultural division of the Secretariat, which seems to have been quite inadequate, should be strengthened. If necessary, it may be worth considering to establish a forum for the over-all research and study of problems related to agricultural development. In these undertakings, ECAFE should maintain full cooperation and coordination with FAO and other organizations and bodies which are carrying out useful activities in this field.

It is the intention of my Government to consider a wide range of cooperative measures for these problems. For example, we are ready to extend full cooperation for the establishment of the Asian Agricultural Machinery Institute with a view to fostering industries related to agriculture.

In addition, effective measures should be taken without delay, regarding such immediate problems as the population problem which is a cause of serious food-deficiency, mass poverty and large-scale unemployment, and the problem of social development.

Mr. Chairman,

The second problem I should like to raise is the future of the ECAFE region in a longer range perspective.

The developing countries of the region are all striving for economic development aiming at modernization. One of the most difficult problems which arise during this process is how to relate the development of their own countries to that of the region as a whole. The developing ECAFE countries are so diverse in population, natural resources, stage of development and so forth. For this reason, separate and uncoordinated development efforts of individual countries would give rise to various problems, in connection with the size of market, the effective utilization of natural resources and the enhancement of the over-all economic strength. Hence, it is desirable that development efforts within the region should be well coordinated.

It is easier said than done, inasmuch as it is a question relating ultimately to state sovereignty and the choice of the people. Its difficulty is proved by the fact that ECAFE has made little or no

progress in the coordination of programmes, in spite of repeated discussions on this subject. But this does not deny the importance of the matter. On the contrary, because it is difficult, the more efforts we should exert in this regard.

Mr. Chairman,

I have been discussing the difficulty of this problem. The crux of the problem lies, after all, not in self-sacrifice of each country but in seeking the means of development best suited to its characteristics. It is my hope that the Asian countries will stand on such a point of view and discuss practical means in ECAFE with a view to pursuing something like a joint development programme for Asia in a long-term perspective. To that end, such discussions should mainly be participated by experts from individual countries who have the best knowledge of the conditions and aspirations of their respective countries.

Mr. Chairman,

The third problem I should like to discuss is that of Indochina.

As I said earlier, the end of the war in Vietnam is an important event which could be the beginning of a new era in Asia. However, despite the conclusion of the agreements to end the war in Vietnam and Laos, there still is no prospect of solution in the situation in Cambodia, and, the peace now being achieved in that area remains somewhat uncertain. It is my heartfelt wish that the people of Indochina may be enabled to concentrate all their energy on the reconstruction of their land as soon as possible and bring about the stabilization of their living and the improvement of their welfare, and that a lasting peace in that area may be secured.

My country will spare no efforts in assisting the reconstruction of the countries of Indochina. It seems desirable that this sort of assistance should be extended to the entire area of Indochina on the basis of broad international cooperation regardless of the difference in economic and social system. Such a form of international cooperation necessarily requires taking into consideration the wishes of the recipients and also calls for exchanges of views with countries concerned. In the meantime, my Government is prepared to extend assistance on a bilateral basis where possible.

Peace in Indochina is certainly a matter of great concern to the neighboring countries as well. Needless to say, the interests of these countries should be duly taken into account in extending assistance to the countries of Indochina.

At the present time, ECAFE is playing an important role in Indochina through the Mekong Committee and other activities. I believe that the

reconstruction and development of this area is a matter of common concern not only to the countries of Indochina but also to the neighbouring countries and to all the rest of the countries of ECAFE. In order to make the future economic cooperation for Indochina more effective, we need to explore, above all, the proper manner of assistance in accordance with long-term economic prospects not only of the countries of Indochina but of the neighbouring countries in Southeast Asia. I am convinced that from its past accomplishments, ECAFE is capable of making adequate contributions in this regard. My country is ready to give full support to ECAFE in such activities.

I further hope that the day will come as soon as possible when all the countries of Indochina become members of ECAFE so that it will be able to fully discharge such a function.

Mr. Chairman,

Japan has been extending as much cooperation as possible for the prosperity and development of Asia. This is partly because we consider it a responsibility of Japan as a developed country of Asia, and partly because we believe that without prosperity and development of Asia, there can be no prosperity and development of Japan. My country intends to make the best use of its economic achievements for such truly peaceful purposes as the realization of a welfare society at home and the promotion of development cooperation overseas. Japan is also determined to contribute positively to the establishment of a new world economic order by various means, such as the promotion of the multilateral trade negotiations.

In the field of trade, Japan will continue to expand its imports from these countries through such means as the liberalization of import, the reduction of tariffs, and the substantial improvement of its Generalized Scheme of Preferences.

Japan's imports from the developing ECAFE countries have shown a rapid increase in recent years. If the present rate of increase continues, it will not be impossible for its imports from these countries to exceed 10,000 million dollars in five years. If so, it is to be expected that there will be an even greater market in Japan for the processed agricultural products and manufactured goods, which are the fruits of sustained efforts for industrialization of the developing ECAFE countries, in view of the high wages and shortage of labour in Japan, the advance of its industrial structure, and the change in its price competitiveness following international monetary fluctuations.

In the field of economic cooperation, my country has already come very close to the target of 1 per cent of GNP, and at the Third Session of the United Nations Conference on Trade and Development last year, it accepted the target to increase its official development assistance to

0.7 percent of GNP. Japan has repeatedly made clear its intention to expand positively the untying of its aid, and at the Seventh Session of the Ministerial Conference for the Economic Development of Southeast Asia last December, I declared the intention of my Government to allow procurement in the developing countries for the loans to be extended by my Government as a step towards the positive extension of untying. But there remains much room for improvement in the manner of Japan's aid, in quality and quantity. As regards the terms of aid, we will continue to make our best endeavours, paying due consideration to a series of international targets. For untying, we will also continue to make positive efforts towards the implementation of general untying of aid. Furthermore, Japan intends to expand the field of its assistance not only to cover industrial projects, but also to place a greater emphasis on agriculture, which I earlier mentioned, infrastructure and such fields of social development as medicine, education and manpower.

Mr. Chairman,

As is pointed out in the "Economic Survey", a great number of problems remain unsolved and call for urgent action. But recalling that man has overcome numerous problems and continued to develop, let us combine all our wisdom and face up to the future with hope. My country is determined to continue to make its best cooperative efforts together with the other countries of ECAFE for the prosperity and development of the ECAFE region.

Thank you, Mr. Chairman.

Speech by Foreign Minister Mr. Masayoshi Ohira
at the Seventh Ministerial Conference
for the Economic Development of Southeast Asia,
Saigon, December 11, 1972

Mr. Chairman, distinguished colleagues, ladies and gentlemen:

I should first of all like to extend my heartfelt congratulations to Your Excellency on your unanimous election as Chairman of the Seventh Ministerial Conference for the Economic Development of Southeast Asia. May I also take this opportunity of expressing my deep appreciation to the Government of the Republic of Vietnam for all the efforts made in organizing this Conference as well as for the warm hospitality extended to all of us.

I should particularly like to express my deep appreciation to Vice President Huong for honouring us with his presence on behalf of President Nguyen Van Thieu.

It is indeed great pleasure for me to be able to attend this Ministerial Conference for the first time, and I am all the more hopeful for that reason that this Conference will be a fruitful one.

Mr. Chairman,

A number of important events have taken place in Asia one after another since this Ministerial Conference met in Malaysia one year and a half ago, indicating changes in the international situation in this part of the world. The people's Republic of China joined the United Nations last year; summit talks were held between the United States and the People's Republic of China at the beginning of this year; dialogues have been initiated between North and South Korea; and long-awaited peace is expected to come soon to Indochina where sufferings of war have continued for years.

These events would have varied implications to the countries in the Asian region. But, they could be said to indicate, as a matter of general trend, that Asia is moving out of a period marred by international tension towards the age of search for peace by way of dialogue. The agreement Japan reached with the People's Republic of China in September to bring to an end the abnormal state of affairs which has long existed between the two countries was based on the recognition of such a trend, and was

none other than an attempt to promote it further.

As was already explained to all the member countries of this Conference by the special envoys of the Prime Minister of Japan, it is the earnest desire of my country to contribute through the normalization of the relations with the People's Republic of China to the relaxation of tension in Asia, and ultimately to the attainment of world peace.

It has been a fundamental and constant policy objective of my government to contribute to the stability and prosperity of Southeast Asia. I should like to confirm once again the firm intention of my government to further promote close and friendly relationship with the countries in the region on the basis of that policy objective.

At the same time, my country fully recognizes the vital importance for all the countries concerned, regardless of their size or their political and social systems, to maintain and develop international cooperation in the Asian region on the basis of independence and equality. This will be an important guiding principle for my country.

Mr. Chairman,

The emerging trend towards the relaxation of tension in Asia provides the peoples in this region with a capital opportunity to concentrate on their development efforts. At the same time, in order to sustain the relaxation of tension and bring about a more prosperous era supported by lasting peace, it is expected of the countries in the region to achieve stable and harmonious development, both economic and social, through continuous and realistic efforts for such development.

From such a point of view, I pay my deep respect to the countries in Southeast Asia for their incessant efforts and significant accomplishments in development. I also pay tribute to the spirit of regional cooperation which is gaining strength in this part of the world as reflected, for instance, in the activities of the Association of Southeast Asian Nations. Such regional cooperation will certainly reinforce and complement the efforts made by individual countries.

I am confident that, with such efforts of the countries concerned, dynamic progress and a bright future can be assured for this region.

Mr. Chairman,

Japan has been extending active cooperation to the development efforts of the countries in Southeast Asia. My delegation has distributed to the members of the Conference a paper which summarizes the recent record of our cooperation.

Cooperation with the developing countries in their efforts for development is a responsibility my country assumes as a member of the international community. My country will continue its efforts in this regard, keeping this responsibility in mind as one of the guiding principles of our foreign policy.

Particularly at this turning point in the international trends in Asia, Japan wishes to participate, as an Asian country aspiring to peace, in the joint development efforts of the countries in Southeast Asia in pursuit of further prosperity and stability. It thus wishes, to the maximum extent possible, to play a role in a manner which would meet the expectations of the countries in the region. In this context, I should like to indicate certain points which we wish to bear in mind in our further efforts in cooperation for development.

First of all, since development cooperation is extended for the benefit of the recipient countries, it is important for us to establish cooperative relationship with developing countries on the basis of full appreciation of the situation and view-points of these countries. My country will endeavor with renewed determination to direct our cooperation along such a path, and will implement such measures as are feasible in this regard, while listening humbly to any constructive suggestions.

In the second place, the objective of development cooperation ought to be the promotion of economic self-reliance of the developing countries. From this point of view, we would continue to endeavor to contribute to the solid development of these countries in such basic sectors as economic and social infrastructure that are to play an essential role in a long-run perspective.

It is, in our view, also essential to obtain positive participation of a wide range of donors and international agencies in promoting development in the developing part of the world. We look forward, in this sense, to expanding further the joint endeavor to participate in the development of Southeast Asia with international organizations, such as the Asian Development Bank, and other developed countries, particularly those in the Pacific who are neighbors to this region.

Mr. Chairman,

While keeping in mind the points I have referred to, it is the intention of my government to strengthen our economic cooperation activities along the following lines. In so doing, my government will pay particular attention to the development requirements of Southeast Asia.

Japan accepted earlier at the Third Session of the UNCTAD the target to increase its official development assistance to 0.7 per cent of its GNP. A new recommendation on aid terms was adopted in October at the High-Level Meeting of the Development Assistance Committee of the OECD.

For my country, it is not an easy task to achieve these aid targets. I have to admit that the domestic requirements for social as well as economic development and adjustment have placed various constraints on what we could do for international economic cooperation. Fiscal requirements at home needed to the implementation of such internal policies are expected to remain strong.

Nonetheless, with the expanded scale of its economy, my country will exert its utmost efforts to overcome all possible difficulties in further increasing the volume of aid and improving its aid terms.

As regards the untying of aid, my government will continue to make its best efforts in seeking an international agreement among the donor countries. Furthermore, even before such an international agreement is reached, efforts will be made to positively expand the untying of our own aid. In providing assistance to the Asian countries in particular, we would give full consideration to the requests for untying made by the recipient countries.

I should like to announce on this occasion that, within the context of such a positive expansion of aid untying, my government has decided to allow procurement in the developing countries for the loans to be extended by my government. Specific measures required for this purpose will be prepared expeditiously.

I may add that certain legal restrictions which had existed in the way of untying our bilateral government loans were removed by revising the provisions of the laws concerned at the recent session of the Japanese Diet.

This legislative action substantiates the policy for the positive expansion of untying which I have just described.

Mr. Chairman,

Together with the aid in its narrow sense, it is essential for the promotion of development to take various measures for the expansion of export from the developing countries.

Economic growth of my country itself has provided a promising export market for other countries. In order to further open up our growing domestic market, we have made continuous efforts to lower or eliminate barriers for imports. Only recently, we undertook an across-the-board 20 per cent tariff cut on mining, manufacturing and processed agricultural products, as well as an expansion of import quotas on these products.

At the same time, for the purpose of further promoting imports from the developing countries, we are examining substantive improvements in our system of generalized tariff preferences as well as its operations.

In addition to such institutional improvements concerning our trade, and in order to facilitate imports from the developing countries including the member countries of this Conference, further efforts will be made to expand assistance directed to the promotion of export from developing countries, such as the development of export oriented industries. Through these efforts of our own and cooperation with our partners, we wish to search for harmonious trade relationship with our trading partners as a prime objective of our trade policy.

Mr. Chairman,

Deeply regretting that peoples of the countries in Indochina have long suffered the ravages of war, my country has always hoped that peace will come to this area just as soon as possible. We value highly the serious efforts being made by the parties concerned towards peace.

My government has expressed on many previous occasions its intention to extend as much cooperation as possible, both bilaterally and multilaterally, for the improvement of peoples' welfare, reconstruction and development in Indochina, as peace is restored in the peninsula. For peace is the corner-stone for real development.

In the view of my government, it is most desirable to secure widest possible participation of the countries concerned in international cooperation for the reconstruction of Indochina, regardless of differences in political or social systems.

Japan for its part intends to consider actively the most appropriate and effective ways and means for our cooperation, taking fully into account the developments in the situation in Indochina and the views of the countries concerned.

Mr. Chairman,

This Ministerial Conference has already had seven fruitful meetings since its inception, as a forum for exchange of views among the Ministers concerned as well as for mutual understanding among the countries in the region.

As we witness the "change in the tide" in Asia today, such a forum for our common and mutual understanding will become all the more important. It is the hope of my government that it would be able to continue to benefit from frank exchange of views in this Conference so that the valuable suggestions made here could be reflected in our efforts for cooperation.

This Ministerial Conference has another aspect as a focal point for practical regional cooperation. In this respect, I should like to express my pleasure, together with my distinguished colleagues, on the inauguration in January of the Southeast Asia Promotion Center for Trade, Investment and Tourism, and on the substantive progress made in the preparatory work for the establishment of the Southeast Asia Medical and Health Organization. It is my hope that a specific program for establishing this Organization will be fully discussed and become mature for adoption at the present session of the Conference.

Thus, I am confident that this Ministerial Conference, which has accumulated unique achievements as the forum for "dialogue" as well as a pivot for concrete regional cooperation within this region, should have a useful and significant role to play in future.

Moreover, it is my hope and expectation that this Conference will achieve further growth and development in response to the needs of the new era as a forum for our joint search for measures to contribute to the economic development and social progress in Southeast Asia.

I should like to welcome at this session the view from the distinguished Ministers on this line of thought. In concluding my remarks, Mr. Chairman, I should like to extend, on this occasion, the invitation of my Government to convene the next session of this Conference in Tokyo where it marked its inception.

Thank you, Mr. Chairman.

Note on Japan's Aid Budget

We attach two tables on the Japanese aid budget. Table I updates, with minor corrections, the information already attached to the Japan Brief. Table II shows the grant element of the Japanese aid budgets, since 1968, as a percentage of both GNP and general account budget.

Aid Budget

The total ODA ¥222.2 billion yen shows an increase of approximately 13% increase in yen terms over FY 1972. If we translate Japanese ODA in dollars at the then prevailing exchange rate of ¥308 for FY 1972 and ¥265 for FY 73 a 32% increase in ODA results.

Appropriation for technical assistance up about 27% from the preceding fiscal year. This enables the Government to greatly increase the number of foreign trainees to be invited to Japan and also the number of Japanese experts to be sent abroad. It also enables Japan to improve basic preinvestment studies and offer more cooperation in agriculture and medical care, in line with the recommendation of the External Economic Assistance Council, an advisory council to the Prime Minister.

With the termination of World War II reparations, extended to South Asian countries bilateral grants classified under "Other" Economic Assistance in the budget will greatly increase (75% over FY 72).

Grants to UN Agencies show about a 55% increase, demonstrating Japan's growing role in supporting these agencies.

The willingness of the Japanese Government to extend ODA on more favorable terms is reflected in the substantial increase of 33% in the budgetary appropriation to OECF whereas support to the EXIM bank has been slightly reduced.

The previous trend of Japanese ODA being channelled almost exclusively to South East Asian countries will continue through this fiscal year.

Grant Element

The reasons behind the External Economic Council's recommendations to the Prime Minister in October 1971 are graphically illustrated in attachment II. The Council recommended improving the quality of Japanese economic assistance through increased technical assistance and an improved grant element. The new budget shows a reduction of 0.04% in terms of General Account, remaining at 0.09% in terms of GNP.

Japan's Aid Budget For FY 72 and FY 73
(in yen billions, FYs commence April 1)

<u>Official Development Assistance</u>		<u>FY 1972</u>	<u>FY 1973</u>	<u>Change</u> <u>(%) 2/</u>
I.	<u>Bilateral Grants</u>			
	Reparations	9.2	9.2	-
	Quasi Reparations	12.0	11.4	-5.0
	Food Grants	4.4	4.6	5.6
	Technical Assistance	15.0	19.1	27.1
	Other and General	6.8	11.9	75.2
	Sub Total	47.4	56.2	18.6
II.	<u>Grants to Multilateral Agencies</u>			
	UN Agencies	4.1	6.3	54.9
	Other Agencies	0.3	0.4	16.8
	Subscriptions to International Financial Institutions	35.4	40.3	14.0
	Sub Total	39.8	47.0	18.2
III.	<u>Bilateral Loans</u>			
	OECF	42.0	56.0	33.3
	EXIM	66.5 <u>1/</u>	63.0	-5.3
	Sub Total	108.5	119.0	9.7
	Total Official Development Assistance (I + II + III)	195.7	222.2	13.5

Note: As figures are rounded, percentages are approximate.

1/ Include rice loan of ¥3.5 billion

Source: Ministry of Foreign Affairs

Grant Element of the Japanese Aid Budget
(in US\$ millions) By Fiscal Year

	<u>FY 1968</u>	<u>FY 1969</u>	<u>FY 1970</u>	<u>FY 1971</u>	<u>FY 1972</u>	<u>FY 1973</u>
I. <u>Bilateral Grants</u>	123.3	123.2 (-0.1%)	121.6 (-1.3%)	124.8 (2.6%)	154.1 (23.6%)	181.6 (17.8%)
II. <u>Grants to Multilateral Agencies</u>	47.2	91.8 (94.7%)	106.9 (16.4%)	100.2 (-6.3%)	129.1 (28.8%)	150.9 (16.9%)
Total I + II	170.5	215.0 (26.1%)	228.5 (6.3%)	225.0 (-1.5%)	283.2 (25.9%)	332.5 (17.4%)
<u>Total Expressed as a Percentage of GNP</u>						
G. N. P. Percentage	148,244 (0.11)	174,992 (0.12)	203,467 (0.11)	242,757 (0.09)	306,169 (0.09)	356,494 (0.09)
<u>Total Expressed as a Percentage of General Account Budget</u>						
Budget Percentage	16,167 (1.06)	18,721 (1.15)	22,083 (1.03)	28,141 (0.80)	37,242 (0.76)	46,377 (0.72)

Foot Note:

1/ All figures as these of initial budget.

2/ Dollar equivalents ¥360=\$1 through FY 70, ¥334.05=\$1 through FY 71, ¥308=\$1 FY 72 and FY 73.

3/ FY 72 GNP is EPA's estimate, FY 73 is EPA's forecast.

4/ Figures in parenthesis show increase or decrease over previous year.

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CONFIDENTIAL

Telex to Mr. McNamara

DECLASSIFIED April 13, 1973

Copies to: Mr. Knapp/Mr. Cargill

APR 08 2013
WBG ARCHIVES

Soejima and I discussed Vietnam proposal at senior official level of MOFA, and MOF. They will report to their respective ministers in expectation that Foreign Minister will give you considered response during your meeting with him next week. Japanese position remains basically as reported in Soejima's confidential memorandum dated March 1st. However, Government even more concerned now with reaction of public and diet to any suggestion for assistance that does not include the whole of Indochina or at least both parts of Vietnam including PRG area. Hence preliminary reaction of officials in MOFA was that an official meeting should be called to consider assistance for the country as a whole and proposal for formation of separate aid group put to governments in both Hanoi and Saigon. Question of inviting PRG much less clear since Japan does not recognize it as a government in normal sense and is only concerned with assisting populations they control. Officials clear that response of North likely to be negative which would permit group to go ahead for South only. It might be constituted formally as a subcommittee for that country leaving door open for eventual formation of similar subcommittee for North and also for other Indochina countries when conditions ripe. Principal purpose of preliminary meeting, which would take place without representation of any of the potential beneficiaries, would be to explore acceptability of such proposal. If outcome as predicted there would probably be no adverse reaction by public opinion provided Japan made appropriate amount of assistance available to North on bilateral basis. Soejima and I see no particular difficulty with this proposal which might be welcomed some other bank members.

Second reservation made by officials of both ministries was that Japan would be unwilling to agree to participate in any collective effort until U.S. position clear. As reported in Soejima's memorandum, they still consider balance of payments or commodity support for South should be contributed wholly or at least largely by U.S. Question to this effect will be put to American Ambassador when he makes approach indicated in your conversation with Secretary Rogers.

Ministry of Finance warned that any substantial repeat substantial use of IDA funds at least in immediate future for South will have adverse effect on passage of IDA legislation early next year for which opposition support might otherwise be expected. This is contrary to advice previously reported to you and represents hardening of opposition attitude to aid for South alone.

In response my question officials concerned said that financing of Mekong Projects by IDA would not raise any difficulty. Regards.

Goodman

OFFICE MEMORANDUM

TO: File
FROM: A. Soejima
SUBJECT: Meeting with Mr. Mikanagi, Director General of Economic Cooperation Bureau, Ministry of Foreign Affairs on Feb. 28, 1973 (14:30-15:15)

DATE: March 1, 1973

Re: Japanese Aid to Indochina Reconstruction**DECLASSIFIED****APR 08 2013****WBG ARCHIVES**STRICTLY CONFIDENTIAL

(1) Mr. Mikanagi stated that in spite of the fact that there have been various newspaper reports about the Japanese stand on Indochina Reconstruction, the Government authorities have not taken any concrete steps except for a token appropriation of ¥1 billion (\$3.85 million) in the proposed budget for fiscal 1973. The Foreign Office is apprehensive about the fact that Japan has not yet taken any concrete action, but since there has been no official request from any of the governments concerned, the official position of the Japanese Government is "where there is no request, there is no action."

(2) According to Mr. Mikanagi, Foreign Minister Ohira explained four possible types of aid to Indochina at the LDP's Policy Making Committee meeting. They are:

- (a) Official bilateral aid - reconstruction of projects formally financed or already in the pipeline under Japanese bilateral aids. Cable lines, Saigon water supplies are under this category.
- (b) Emergency relief - The Japanese authorities expect the UN to take an initiative for this purpose as was the case for Bangladesh. However, if the UN actions are delayed in this field, Japan is ready to make bilateral aids.
- (c) Economic stabilization fund or balance of payments aid - Japan will support such fund, if established, as were the cases in Laos and Cambodia. (Mr. Mikanagi, however, is personally opposed to establishment of such fund, since this type of set-up too frequently leads to corruption.)
- (d) Reconstruction & Development (Project aid) - Japan would like to see a consortium formed so that aid can be given through multilateral channel to both North and South.

(3) Mr. Mikanagi told me that he personally feels that since the US is singularly the most responsible party for the destruction, she should take the major share, say 90%, as far as the (b) and (c) forms of aid are concerned and the rest to be divided by other countries. But no approach has been made to the Japanese Government by the U.S. on this issue so far.

(4) As for the project aid through a consortium, Japan would like to see the participation of North Vietnam, Soviet Russia and the People's Republic of China, if at all possible. Otherwise, aid to North Vietnam would become more difficult.*

(5) Mr. Mikanagi stated that Mr. Tanaka had told Mr. Waldheim Japan was ready to contribute \$50 million, if UN were to take an initiative in forming a consortium. (At the request of Mr. Waldheim, this was not announced by Mr. Tanaka, but the former slipped and mentioned this at the press conference.)

(6) Mr. Mikanagi pointed out that given the situation the UN is in, it will be preferable to have the UN take an initiative for (b) and (c) forms of aids. As for the (d) form of aid, however, the World Bank, which is more experienced in chairing consortia and consultative group meetings as well as its specialization in development assistance, would be more appropriate as the leader. However, the problem with the Bank taking an initiative would be the probable refusal to participate by the socialist block of nations.

(7) ECAFE meeting will be held in Tokyo in April, during which time there is a possibility of some measures for economic cooperation to Vietnam to be discussed. It may very well be that Japan will take an initiative in making a certain proposal, though it is not finally decided at this stage.

(8) In answering to my inquiries as to whether or not the problem of Indochina reconstruction was discussed in the Tanaka-Kissinger meeting, Mr. Mikanagi stated that he had not been informed at all on this meeting.

(9) Mr. Mikanagi said that the Japanese Government is deeply interested in what the Bank's views and stands are on this issue and asked me to discuss this matter with the Bank management during my visit in Washington.

*Mr. Mikanagi told me that the Foreign Office is waiting for a reply from North Vietnam to discuss the normalization of Japan-North Vietnam diplomatic relations. Their reply is delayed, apparently because the top officials of North Vietnam are so tied down now.

Dinner by MOF
4/19 19:00 -

Koichi Inamura
Vice Minister for International Affairs
The Ministry of Finance

Born on June 29, 1920, he graduated from the Faculty of Law, Tokyo University in 1943, and entered the Ministry of Finance the same year. Before becoming the Councilor of the Finance Minister's Secretariat in 1957, he held positions of Chief of Sections of the Budget Bureau and the Exchange Bureau. From 1957 to 1961, he was the First Secretary at the Japanese Embassy in France. In 1964, he was appointed the Councilor of International Finance Bureau, and from 1964 to 1968, he was the Councilor for the Japanese Government Mission, OECD.

He was Deputy Director-General of the International Finance Bureau from 1968 to 1970, and Director-General from 1970 to 1972. He was named the Vice Minister for International Affairs in 1972.

Daizo Hayashi
Director-General
International Finance Bureau
The Ministry of Finance

Born in Tokyo on March 31, 1922, he graduated from the Faculty of Law of the Tokyo Imperial University (now Tokyo University) in 1944 and entered the Ministry of Finance the same year. In 1957, he became the examiner of Treasury of the Minister's Secretariat. From March 1959 to August 1961, he was stationed in the Japanese Embassy in Germany. After his return to Japan, he held several posts including chief of the Minister's Secretariat, and he became the Deputy Director-General of the International Finance Bureau in October 1970. He was appointed to his present post in June 1972.

Yusuke Kashiwagi

Mr. Kashiwagi graduated from Tokyo University in 1941 after which he joined the Ministry of Finance. He held various positions in the Budget and International Finance Bureaus in his earlier days with the Ministry of Finance. He was Financial Secretary at the Embassy of Japan in Washington for three years - from 1958 to 1961. He served as the Deputy Director-General in the Banking and International Finance Bureaus as well as the Financial Commissioner between 1961 and 1966.

He was appointed to the Director-General of the International Finance Bureau in 1966 and was promoted to the position of Vice Minister of Finance for International Affairs in 1968, in which capacity he served until June 1971. He was the Special Adviser to the Minister of Finance of Japan until December 1972.

During his service in the Ministry, he represented the Japanese Government in various international conferences. (WP3 of OECD, ECAFE, UNCTAD, Annual Meeting of Asian Development Bank, etc.) He attended Annual Meetings of the IMF and IBRD regularly since 1959 as a member of the Japanese Delegation (since 1965 as a Temporary Alternate Governor). He was Japan's Chief Delegate to the Group of Ten Deputies' Meetings and served as Vice-Chairman at EPC meetings of OECD.

Mr. Kashiwagi is married and has two daughters and two sons.

Hitoshi Yukawa
Executive Director
The Bank of Japan

Born in Tokyo on November 24, 1916, he graduated from the Faculty of Law of the Tokyo University in 1940 and joined the Bank of Japan in April of the same year. He was the examiner of the foreign exchange department from 1950 to November 1955. During that period he was stationed in London Office from 1951 to February, 1955. Before he became the Manager of Maebashi Branch in January 1960, he held several positions of: Account Division Chief (Nov. 1955 - May 1956), Business Division Chief (May 1956 - Sept. 1957), and General Affairs Division Chief (Sept. 1957 - June 1958) of the Foreign Exchange Department, and Project Division Chief of General Affairs Department. (June 1958 - Jan. 1960) He became the Deputy Director General of Foreign Bureau in May 1963, and in April 1964 he went to the New York Office as its Councilor, and returned to Japan in August 1967 as Director-General of the Overseas Bureau.

After serving as Manager of the Nagoya Branch from April 1970 to April 1971, he was appointed as the Executive Director.

TV Interview (NHK)
4/20 7:30-8:15

NHK and "Studio 102"

Nippon Hoso Kyokai (Japan Broadcasting Corporation), established in 1925, is the only public service broadcasting organization in Japan. It has grown over the years with receivers' fees as its only source of financial funds - it is not subsidized by the Government and it is independent of any specific capital.

Currently, NHK has five national broadcasting networks consisting of two radio, one 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 the day's events or the latest topics and presents them in the form of a commentary, inserting talks by the principals concerned with such events or topics. The program enjoys one of the highest ratings (30% in the cities and 20% nationwide).

Mr. Sachio Ouchi (Your interviewer) was born in 1925 and graduated from the Keio University. He joined the NHK in 1951 and mostly worked as a political and economic reporter until his appointment as one of the five news commentators in 1969. From 1962 to 1965 he was a correspondent in New York, and during the years 1966-1967, he was in Southeast Asia to cover economic development.

Kichiro Ono
Vice President
Nihon Hoso Kyokai (Japan Broadcasting Corporation)

Born in Hiroshima City on January 2, 1905, Mr. Ono graduated from the Faculty of Law of the Kyushu Imperial University in 1931. He was appointed to Communications officer of the Communications Ministry in 1932 and after serving various posts including Postmasters of several bureaus at the Ministry of Posts and Telecommunications, he became Vice Minister in September 1956. He resigned from the Vice Ministership to assume the post of Managing Director of the Japan Broadcasting Corporation in April 1959. He was appointed to Vice President in July 1964 and has been in this position ever since.

President Okita, OECF
4/20 10:00-11:00

AGENDA FOR MEETING WITH DR. OKITA

April 20, 1973
10:00-11:00

1. Brief account on OECF Activities.
2. Brief Account of Bank's new policy development by Mr. McNamara; also his views on
 - A. Outlook for agriculture and export of agricultural commodities in Southeast Asia and Bank's ideas on fostering such development.
 - B. Need for social development in developing countries, e.g., education, population control, medical care, housing, environmental problems. (OECF is not permitted to extend credits in these sectors, but Dr. Okita is apparently interested in developing activities in these sectors.)
3. Closer cooperation between the Bank and OECF (Cooperation in particular operations and more involvement of OECF personnel in joint and parallel financing)
4. Second periodic Bank/OECF meeting scheduled for early November in Tokyo arranged in consultation with Mr. Knapp.

Dr. Saburo Okita
President
Overseas Economic Cooperation Fund

Born on November 3, 1914, Dr. Okita earned his doctor of economics degree at the University of Tokyo in 1937. He started his career as an electrical engineer in the Ministry of Communication. Immediately following the war, he was one of the organizers of a study group on postwar economic rehabilitation.

In 1947, he was appointed Chief of the Research Section, Economic Stabilization Board in the Prime Minister's Office where he was in charge of current economic analysis and several annual economic surveys of earlier years. He then worked with the Secretariat of the ECAFE (1952-1953).

On his return to the government Dr. Okita was appointed Chief of the Economic Cooperation Unit of the Economic Planning Agency. He was later appointed Director of the Planning Bureau, Economic Planning Agency, and participated in the preparation of government economic plans including the "Doubling of National Income Plan" of 1960. In 1962-1963, he was in charge of the Development Bureau of the same agency and dealt with the problem of regional and local development planning.

From 1964 till March 1973 Dr. Okita was President of the Japan Economic Research Institute; Since 1968 concurrently, he was the President of Japan Development Center. He has also been a member of various policy advisory councils and committees of the government. Furthermore, he is and has been involved in various international activities including the United Nations Development Planning Committee, a member of the Pearson Commission, etc.

Dr. Okita is the author of some twenty articles in English and some ten books in Japanese including "Future Vision for the Japanese Economy" 1968; "Japanese Economy in the Asian Setting" 1966; "Conditions for an Advanced Nation" 1965; "Economic Planning" 1962; "Japan's Economic Policy" 1961; "Outlook for the Japanese Economy" 1960.

Overseas Economic Cooperation Fund (OECF)

Historical

OECF was established in March 1961 as the "soft money window" of the Japanese Government. In its early years, its lending was mainly to Japanese enterprises by export credit financing, however, since 1968, economic assistance to foreign governments has dominated OECF's lending. OECF is limited in its ability to appraise projects from its own staff resources and therefore is mainly an executing agency of government aid policy. As there is a growing feeling that aid should be separated from diplomatic policy, it is to be hoped that OECF will be able to have a greater say in the selection of its rapidly expanding lending operations in the future.

Budget

The allocation of funds to OECF has been steadily increasing each year. The proposed Budget for FY73 which passed the Lower House of the Diet in March and received final approval by the Upper House on April 12. The proposed Budget for OECF, showing a comparison with FY72, is as follows:

(in 100 million yen)

	<u>Fiscal Year</u>		<u>% Increase</u>
	<u>1972</u>	<u>1973</u>	
<u>Income</u>			
Government Contribution	420	560	33.3
Loan from Postal Savings Fund ^{1/}	610	695	13.9
OECF Own Capital	<u>190</u>	<u>350</u>	<u>84.2</u>
	1,220	1,605	31.6
<u>Distribution</u>			
Financing of Japanese Exporters ^{2/}	160	195	21.9
ODA ^{3/}	<u>1,060</u>	<u>1,410</u>	<u>33.0</u>
	1,220	2,605	31.6

^{1/} Up to FY1972 terms 12 years 6.5% p.a.
Since FY 1972 terms 15 years 6.2% p.s.

^{2/} Terms - Average 10 years 4% to 5% p.a.

^{3/} Terms - Average 22 years 3.5% p.s.

Cooperation OECF-IBRD

The initial meeting to discuss matters of mutual interest and possible areas for co-financing was held in Washington on September 27, 1972 (copy of minutes - Attachment 1). It is proposed that the second meeting be held in Tokyo in the week commencing November 5, 1973. As OECF has a small professional staff, the majority are fixed term assignments, it is eager to expand its operations in the co-financing field thereby benefitting from the experience to be gained from its financing partners. To date OECF has participated in the following co-financed projects:

Turkey - Golden Horn Bridge Project

	<u>In Million Yen</u>
OECF	3,312.0
European Investment Bank	750.5
Kreditanstalt für Wiederaufbau	<u>750.5</u>
Total Cost	4,813.0 ^{1/}

Indonesia - Pusuri Fertilizer Project

	<u>In Million Dollar</u>
IDA	30.0
AID	20.0
ADB	10.0
OECF	<u>8.0</u>
Total Cost	68.0

Proposed for Co-financing

Thailand - Quai Yai Dam Project

	<u>In Million Bhat</u>
IBRD	925 to 1,046
OECF	<u>557</u>
Total Cost	3,030 ^{1/}

^{1/} Including local costs.

United Aid

Following the governments decision, OECF is now prepared to consider united aid on a case-by-case basis for projects in Asia.^{1/} The procedural difficulties arising out of this decision now seem to have been overcome, OECF recently produced its guidelines to procurement under untied loans which are similar to IBRD policy. The only major issue still to be resolved is the question of local currency financing. Previously under the tied aid system the ratio was 70% foreign currency. This matter is presently under discussion by the Ministries concerned. The difficulty seems to arise from a desire to establish a fixed policy rather than on a case-by case basis. This point has particular significance as the Foreign Minister in his address to the ECAFA meeting in Tokyo in April stated that a larger proportion of ODA should be concentrated on agriculture rather than on industrial development. OECF has so far untied its aid in the following cases.

Burma - off-shore Oil Exploration

In Million Yen

Ist Project 3,600

2nd Project (under negotiation) 3,080

Indonesia - Petroleum Exploration (In-Land)

In Million Yen

620

Previous Lending

The attachments 2 through 8 show that OECF's economic cooperation has to date been limited to Asian countries. While OECF wishes to expand its operations in other geographic areas, it is likely that for some time to come the present lending pattern will continue, however, it seems inevitable that a broader base for OECF's operations will have to be established if the ODA target of 0.7% of GNP is to be achieved by 1980.^{2/} The massive dimensions of this task are perhaps best illustrated by the following short table:

(¥ billion)

	<u>FY 1972</u>	<u>Projected 1980</u>
GNP	¥100,000 (approx)	¥200,000 ^{3/}
ODA	·23% or ¥230	·70% or ¥1,400

Therefore to achieve this target a sixfold increase over the next eight years would be required.

^{1/} The legal authority to extend project assistance channelled through OECF on an untied basis has existed since its inception in 1961. The Amendment passed on November 15, 1972 now extends to commodity lending.

^{2/} The international target of 0.7% of GNP for ODA.

^{3/} Based on general assumption of 10% annual growth of GNP.

COPY

Attachment 1

Files

September 27, 1972

Gordon M. Street

Minutes of a General Meeting with OECF Officials on September 21, 1972
in the Bank Board Room

Present: Bank Staff

OECF Delegation

Mr. Knapp
Mr. Cope
Mr. Alter
Mr. Cargill
Mr. Chaufournier
Mr. Diamond
Mr. Goodman
Mr. Lejeune
Mr. Soejima
Mr. Husain
Mr. Wright
Mr. Blobel
Mr. Gilmartin
Mr. Hattori
Mr. Kuczynski
Mr. Richardson
Mr. Street
Mr. Asami

Mr. Shichiro Murai, Executive Director
Mr. Shigeo Kozuki, Director, Coordination
Department
Mr. Yuzuru Asahata, Deputy Manager of
3rd Division,
Research Department
Mr. Kengo Masaki, Director, Loan Dept. I

Mr. Sumi, Alternate E.D., Japan
Mr. Kenmochi, Technical Assistant

Mr. Knapp opened the meeting by welcoming the delegation from OECF. He hoped that at all meetings there would be informal, frank discussions to exchange information and views, and no decisions would be taken. Mr. Murai expressed his gratitude for the opportunity to meet with Bank officials. He noted that the timing for the exchange of views was particularly opportune because Japan was now in a transitional phase and had become increasingly conscious of its obligations to provide aid. Mr. Murai was therefore very happy to be able to meet with Bank officials and gain from their experience.

In the course of the discussions, Mr. Murai made the following observations to supplement the printed material on OECF distributed at the meeting:

OECF Operations

OECF was only ten years old and started slowly in the early years as funds were limited because of Japan's unfavorable foreign exchange and budgetary position. A marked increase in operations took place in 1970

when commitments amounted to \$160 million and had been rising rapidly ever since. The increased rate of commitments was reflected in increased Government capital subscriptions appropriated under the general budget, OECF's main source of funds (additional funds are borrowed from the Government trust funds). The budget subscriptions had increased almost twice as fast as the general budget itself, reflecting a conscious effort to reach a target of 1% of GNP for total aid and 0.7% of GNP for official aid. Mr. Murai went on to point out that as the ODA figure was still only 0.23% of GNP, if the target of 0.7% were to be reached operations would have to increase by 10 times during the next 7 years, increasing from around \$500 million to \$5 billion, taking into account the expected growth in Japan's GNP.

Mr. Murai explained that OECF engaged in two types of operations-- on the one hand loans to Japanese enterprises with activities in developing countries where OECF wished to make a contribution toward the economic development of the country, and on the other hand loans to governments following discussions at cabinet level between the two governments. Mr. Murai expected most of the increase in operations noted above to fall in the second category.

In response to a question from Mr. Chaufournier, Mr. Murai explained that when financing raw material producing projects OECF did not normally obtain security by getting a lien on the output of the project because OECF did not have the staff to go into such matters. As an alternative they usually asked for a guarantee from the Japanese commercial bank providing the balance of the funds required.

Geographical and Sectoral Areas of Interest

Mr. Murai noted that the OECF operations had been concentrated in the Asia area but that they wished to increase their activities in other areas. He noted that agreements had recently been signed by the Japanese Government with the Governments of Peru and Paraguay and these were expected to lead to OECF loans to these Governments in the near future. He also noted that agreements were contemplated in several countries in Africa but that the bulk of OECF operations would continue to fall in the Asia area.

Interest Rate Policy

Mr. Murai explained that OECF's interest rate and terms on governmental assistance were based more on political considerations than creditworthiness, as the OECF did not have the expertise to evaluate creditworthiness. For this reason he was particularly keen to profit from the experience of the Bank Group. For loans to Governments the interest rate ranged from 3% to 4.5%. For loans to Japanese enterprises, the rates ranged from 4% to 5.5%. OECF realizes that its rates will probably have to be softened to meet the needs of the developing countries, particularly where other donors in an aid group provided aid on softer terms than OECF. Mr. Murai explained that OECF tried to keep the terms

of loans to Japanese enterprises more favorable than commercial terms because of the needs of the developing countries. He also noted that the lower rate gave OECF an opportunity to exercise some influence over the performance of the Japanese enterprises, and finally that the somewhat subsidized rate enabled the Japanese companies to make a greater contribution to the developing countries. As a result they might be able to compete with companies from other advanced nations, particularly where small Japanese firms, which OECF favors, must compete with US or European firms with substantial financial resources.

Untied Loans

On the matter of tied aid, it was noted that progress toward bilateral untying had stopped after the "Nixon shock" of August 1971, and in this connection Mr. Murai was asked about Japan's present views on untied aid. He noted that, in accordance with its declaration at the DAC meeting of 1970, and at the recent UNCTAD Conference, Japan favored the untying of aid by all advanced countries by 1974 or 1975. This, according to Mr. Murai, is still a goal of the Japanese Government and it hoped to reach it even earlier. While waiting for all aid to be untied, Japan had proposed as an interim measure that bilateral lending be untied in aid groups. In accordance with this policy, Japan suggested at a recent meeting of the Inter-Governmental Group for Indonesia that aid furnished by members of the group be untied but this was not accepted by the other members. Mr. Murai believes that Japan should untie its aid without regard to the position taken by other countries and he noted that in certain instances it had done so. A recent \$10 million OECF credit to Burma for oil development was untied, and an American company had been awarded the major contract. Similarly, a \$200 million Japanese credit to Indonesia for oil development was expected to be untied and Mr. Murai thought that future Japanese aid to Thailand might be untied. He stated unequivocally that in principle Japan had to move to an untied basis and he expects that it will do so.

Mr. Knapp noted that Japan had been taking the lead in untying aid and expressed the hope that Japan would go ahead unilaterally, given Japan's very strong exchange position. He particularly hoped that Japan would untie aid for projects in which Bank Group financing might also be involved, since this would facilitate parallel and joint financing with the Bank Group. He pointed out that so long as bilateral aid was tied it was very difficult for the Bank to work out joint financing arrangements.

Joint and Parallel Financing

Mr. Murai noted that OECF much preferred parallel to joint financing. He thought joint financing would be particularly difficult during the period in which Japan moved toward untied aid. Secondly, he thought parallel financing had the advantage of making the various donors responsible for definite portions of the project. He expressed the hope that OECF would be able to enter into parallel ventures with the Bank.

Local Currency Financing

Mr. Murai explained that in the earlier years of OECF's operations, the unfavorable balance of payments of Japan precluded the financing of other than exports but given the vast improvement in the balance of payments in recent years and the present great strength of Japan's foreign exchange position, the pressure to finance only exports had been reduced greatly. Moreover, given the shortage of resources in many of the developing countries there was a substantial need for external financial assistance. Under such circumstances, financing local currency expenditures was often necessary to assure the successful completion of the projects financed. Consequently OECF now financed some local expenditures. Mr. Murai expected that the relative amount of local expenditure financing would increase in the future but OECF would continue to concentrate on the financing of the foreign currency required for the purchase of imported goods and services.

OECELoans Committed and Outstanding as at March 30, 1973

(In million of Yen)

<u>Country</u>	<u>No. of Cases</u>	<u>Commitment</u>	<u>No. of Cases</u>	<u>Disbursed</u>	<u>Outstanding</u>
INDONESIA	90	158,895	71	121,883	121,883
KOREA	30	93,243	29	59,682	59,682
TAIWAN	5	12,492	5	10,438	10,182
MALAYSIA	3	4,007	2	3,405	3,405
CAMBODIA	2	1,277	2	1,258	1,258
THAILAND	9	10,164	9	7,148	7,148
AFGHANISTAN	1	720	1	569	569
BURMA	4	15,420	3	8,612	8,612
SINGAPORE	1	392	1	392	392
PHILLIPINES	3	29,748	2	23,398	23,398
VIETNAM	1	5,220	1	1,247	1,247
TURKEY	2	7,974	2	1,091	1,091
PERU	1	5,400	0	0	0
TOTAL	152	344,952	128	239,123	238,867

Loan Commitments by Region

(As of the end of June 1972)

Unit: 100 million Yen

Region	Loans to the Governments of Developing Countries	%	Loans through Japanese Firms	%	Total
Asia	2,714	100.0	392	45.3	3,106
Latin America	-	-	290	8.1	290
Africa	-	-	123	3.4	123
Others	-	-	60	1.7	60
Total	2,714	100.0	865	100.0	3,579

Loan Commitments by Country

Loans to the Governments of Developing Countries

(As of the end of June 1972)

Unit: Million Yen

Region	Country	Amount	%
Asia	Indonesia	124,039	45.7
	Korea	84,456	31.1
	China	12,492	4.6
	Malaysia	3,688	1.4
	Cambodia	1,277	0.5
	Thailand	10,164	3.7
	Afghanistan	720	0.3
	Burma	11,820	4.4
	Singapore	392	0.1
	Turkey	7,974	2.9
	Phillipines	14,400	5.3
Total		271,422	100.0

Loan Commitments by Country

Loans through Japanese Firms

(As of the end of June 1972)

Unit: Million Yen

Region	Country	Amount	%
Asia	Indonesia	19,109	22.1
	Malaysia	7,999	9.3
	Hongkong	3,813	4.4
	Thailand	3,214	3.7
	Ceylon	1,434	1.7
	Phillipines	1,375	1.6
	Korea	612	0.7
	China	605	0.7
	Others	1,068	1.2
	Sub-total	39,229	45.4
Latin America	Brazil	10,926	12.6
	Peru	8,925	10.3
	Mexico	7,145	8.3
	Paraguay	1,013	1.2
	Bolivia	467	0.5
	Others	541	0.6
	Sub-total	29,017	33.5

Loans through Japanese Firms (continued)

Unit: Million Yen

Region	Country	Amount	%
Africa	Zaire	5,616	6.5
	Nigeria	1,219	1.4
	Niger	850	1.0
	Guinea	816	0.9
	U R A	695	0.8
	Ivory Coast	674	0.8
	Others	2,424	2.8
	Sub-total	12,294	14.2
Others	New Guinea	3,332	3.9
	Fiji	701	0.8
	Others	1,936	2.2
	Sub-total	5,969	6.9
Grand Total		86,509	100.0

Loan Commitments by Sector

(As of the end of June 1972)

Unit: 100 million Yen

Sector	Loans to the Governments of Developing Countries	%	Loans through Japanese Firms	%	Total
Mining	36	1.3	191	22.1	227
Manufacturing	375	13.8	316	36.6	691
Agriculture, Forestry and Fishery	13	0.5	148	17.1	161
Public Works	1,218	44.9	204	23.6	1,422
Commodity Aid	1,018	37.5	-	-	1,018
Others	54	2.0	5	0.5	59
Total	2,714	100.0	865	100.0	3,579

OECF Credit outstanding by type of loans on commitment
basis as of June 1972 (Million Yen)

	Type of Loans	Amount	Component	Share
Loans through Japanese Firms	General investments and loans (1)	74,474	86.1%	20.8%
	Loans for prospecting and research (2)	12,035	13.9	3.4
Sub-total		86,509	100.0	24.2
Loans to the Governments of developing countries	Project loans (3)	158,458	58.4	44.3
	Financing of local expenditure	12,144	4.5	3.4
	Commodity loan (4)	100,820	37.1	28.2
Sub-total		271,422	100.0	75.8
Total		357,931		100.0

- Note : (1) Mainly consist of plants and equipments supplied by Japanese firms and local expenditure thereof.
- (2) Mainly cover the cost of related services and equipments supplied by Japanese firms.
- (3) Mainly consist of equipments and services.
- (4) Mainly cover productive goods or equipments and sometimes consumer good as well.

O E C F ' S D I R E C T L O A N B Y T Y P E S

Unit 100 million Yen

fiscal year	Project Loan		Sector Loan		Local Cost Finance		Program (Commodity) Loan		Total	
6 6	Korea 14,456	72.8	Korea (MIB) 5,400	27.2	—	—	—	—	19,856	100
6 7	Korea } China } 13,598	71.6	Korea (MIB) 5,400	28.4	—	—	—	—	18,998	100
6 8	Korea } Indonesia } Malaysia } 10,380	30.7	—	—	—	—	Indonesia 23,400	69.3	33,780	100
6 9	Korea } Afghanistan } Indonesia } Thailand } Cambodia } 16,450	45.2	—	—	Afghanistan 180	0.5	Indonesia 19,800	54.3	36,430	100
7 0	Korea } China } Indonesia } Thailand } Burma } Singapore } Cambodia } 25,647	56.4	—	—	—	—	Indonesia 19,800	43.6	45,447	100
7 1	Korea } Turkey } Indonesia } Thailand } Malaysia } Burma } 29,474	42.7	Indonesia (D.L.B.S) 3,600	5.2	Indonesia 1,800	2.6	Indonesia } Phillipines } 34,200	49.5	69,074	100
6 6 ~ 7 1 total	110,005	49.2	14,400	6.4	1,980	0.9	97,200	43.5	223,585	100
up-to July 25 '72 already committed	Indonesia } Vietnam } Korea } Turkey } 39,939		Indonesia (D.L.B.S) 1,800 * Thailand (8,000) (B.A.A.C)		Korea } Turkey } Vietnam } Indonesia } 12,804		Burma } Indonesia } 21,620		76,163	100
Total	149,944	50.0	16,200	5.4	14,784	5.0	118,820	39.6	299,748	1.00

* Excluding BAAC Loan (Thailand) which is under negotiation

Governor Sasaki, BOJ
4/20 11:30-12:00

AGENDA FOR THE MEETING WITH BANK OF JAPAN GOVERNOR

April 20, 1973
11:30 - 12:00

1. Appreciation for cooperation to Bank's borrowing program.
2. Importance of Bank of Japan lending to the Bank.
3. Present and future of the Bank.

Tadashi Sasaki
Governor
The Bank of Japan

Born on May 19, 1907, Mr. Sasaki graduated from the Faculty of Economics of the Tokyo University in 1930 and joined the Bank of Japan the same year.

Mr. Sasaki served in the London Representative Office in 1939-1940; appointed as Deputy Chief of the Research Department, 1942-1944; Manager of Personnel Department, 1946-1947; Manager of Coordination Department, 1947-1951; Director-General of Business Bureau, 1951-1954; Executive Director, 1954-1962; Vice Governor, 1962-1969.

Mr. Sasaki has assumed the Governorship of the Bank of Japan since December 1969.

Mr. Sasaki is a widower, has one son and one daughter, both married.

Lunch with Underwriters
4/20 12:20-13:40

Teru Hidaka
Chairman of the Board
Yamaichi Securities Co., Ltd.

Born on February 22, 1906 in Tokyo, Mr. Hidaka graduated from the Law Faculty of the Tokyo University. In 1929 he joined the Industrial Bank of Japan and served there for 32 years, having been elected Managing Director in 1951. In 1961 he was elected Vice President of Nissan Chemical Industry Co., Ltd., became its president in 1963. He joined Yamaichi Securities Co. as its president in 1965 and became its chairman of the board in 1972.

During his years at the Industrial Bank of Japan, Mr. Hidaka served Japanese industry not only through loan business but also through securities underwriting business. His contribution to the "miraculous" reconstruction of the Japanese economy is particularly regarded highly while he was manager of the Osaka Branch and concurrently served as manager of the Reconstruction Finance Bank.

Established in 1897, Yamaichi Securities Co., Ltd. is a leading securities firm with a long history and takes pride in its brilliant records, particularly in underwriting business. Having many men of talent, the company is expected to show an outstanding growth both at home and abroad.

Mr. Hidaka currently is the Governor of the Tokyo Stock Exchange, a Director of the Tokyo Securities Dealer's Association and a Managing Director of the Economic Organizations.

For the services he rendered in the banking, manufacturing and securities industries, Mr. Hidaka was awarded the "Ranju Hosho" Order in 1972.

Mr. Hidaka is married, has one son and two daughters, all married.

Kiichiro Kitaura
President
The Nomura Securities Co., Ltd.

Born in 1911, Mr. Kitaura graduated from Kobe University of Commerce in 1933 and joined Nomura the same year.

His rise in the company was rapid and in 1949, after 16 years with the company he was elected to the Board of Directors. Subsequent promotions were managing director in 1952, executive managing director in 1956, executive vice president in 1959, and president in 1968.

Additionally, he holds senior positions in other firms of the Nomura Group. These are chairman, Nomura Research Institute of Technology and Economics; chairman, Nomura Computer Systems Co; and president, Nomura Land and Building Co.

He is a member of several industrial and other organizations, among which are the following: chairman, Sub-Committee on Economic Cooperation, Japan Committee for Economic Development (Keizai Doyukai); member, Workers' Property Accumulation Conference, Ministry of Labor; member, Council on Industrial Structure of MITI (Ministry of International Trade and Industry); member, Public and Financial Sub-Committee of Economic Planning Agency; member, The External Development Cooperation Council, Prime Minister's Office; member, Special Committee for The Securities and Exchange Council, Ministry of Finance; director, The Bond Underwriters' Association; and director, The Investment Trust Association.

A supporter of "The Survival of the Fittest" theory, he says, the company that can best fit itself to the changing scene will have the best chance for survival and growth.

Concerning international business, he predicts that Nomura's securities and financial operations in a few years will evolve to the point where one-half of their business will be concerned with international securities operations.

Mr. Kitaura is a strong believer in the thinking that the communications gap is one of the major obstacles for Japan in the open capital market. In this respect he attaches great importance to education and training.

Mr. Kitaura's hobbies are composing lyrics for children's songs and practicing the formal Japanese tea ceremony.

The Kitauras have two sons and two daughters, all married.

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Isao Masamune
President
The Industrial Bank of Japan, Limited

A graduate of the Tokyo University, he started his business career with The Industrial Bank of Japan in 1933.

After serving as manager of departments of personnel, treasury and loan successively, he joined the board of directors in 1957, and became the bank's president in 1968.

Since its establishment in 1902, the bank has been a major contributor to Japan's industrial development providing industrial capital loans.

Also the bank's securities activities, centering around those related to management of new issues offered by both public institutions and private corporations, have been one of the pivotal functions of the bank. It has maintained a predominant position as managing underwriter for most of public sector bonds such as those Metropolis of Tokyo, Japan National Railways and Nippon Telegraph and Telephone Public Corporation and managing commissioned bank for flotation concerning corporate bonds as well as overseas yen issues.

The bank's total funds (debentures issued and deposits received) of more than US\$14 billion has made it one of the leading financial institutions in Japan and ensured that the bank has very close business relations with virtually all of Japan's major corporations.

The bank has been also active in international operations, some of its recent developments including the bank's joining in 1971 two of major international investment banks, Rothschild Intercontinental Bank and Australian United Corporation, in both of which Mr. Masamune has been a member of the board of directors.

Toshio Nakamura
President
The Mitsubishi Bank, Limited

Born in Ibaragi Prefecture in 1910, Mr. Nakamura received his B. A. degree from the Tokyo University in 1932. In the same year he joined the Mitsubishi Bank, and assumed the Bank's presidency in October, 1970.

During his 40-years career, he was stationed as junior officer in the Mitsubishi Bank's London Branch from 1933 to 1939 and also served as Agent of the Bank's New York Agency from 1952 to 1954.

The Mitsubishi Bank forms the financial nucleus of the Mitsubishi Group, Japan's largest and most influential industrial concern. One of the bank's advantages is that it has commercial relations with leading enterprises belonging to the group. With deposits of more than US\$15,000 million, the bank ranks fourth among the Japanese financial institutions.

Its network of branches covers major cities across the country, and there are many branch offices advantageously located in the Tokyo area. In recent years, it has endeavored to strengthen its overseas business network and it set up the Libra Bank, Ltd., an international investment bank for Central and South America, jointly with seven leading banks in Europe and the United States. It has also established the Mitsubishi-Chase Manhattan Consulting Company Ltd. jointly with Chase Manhattan Bank of the United States.

Sen-ichi Okudaira
President
The Sumitomo Trust and Banking Co., Ltd.

Mr. Okudaira was born in 1910 and raised in Osaka.

After graduating from Kyoto University in 1934, he joined the Sumitomo Trust Company, which was reorganized into the present Sumitomo Trust and Banking Co., Ltd. after World War II.

He was the manager of the Loan Supervision Department from 1954 through 1958 and the manager of the Tokyo Branch from 1958 through 1960. Meanwhile he was elected Director in 1957, having been promoted to Deputy-president in 1969 and assuming the presidency in 1972.

He visited the United States in 1963 as head of the first trust business study team sent by the Japan Productivity Center.

The Sumitomo Trust and Banking Company is one of the major member companies of the Sumitomo Group which includes The Sumitomo Metal Industries, Sumitomo Chemical Company and The Sumitomo Bank, all of them being leading companies in their respective industrial fields.

It is also one of the leading trust banks in Japan, operating concurrently trust business as well as banking business.

Binsuke Sugiura
President
The Long-Term Credit Bank of Japan, Ltd.

Mr. Sugiura was born in Tokyo on Nov. 13, 1911 and graduated from the Law Department, Tokyo University in 1935. Following graduation he joined The Nippon Kangyo Bank, Ltd. (the name of which changed to The Daiichi Kangyo Bank, Ltd. by merger with The Daiichi Bank, Ltd. in Oct. 1971). When The Long-Term Credit Bank of Japan, Ltd. was established in 1952, he joined the new bank as Deputy Chief Manager, Loan Division.

Mr. Sugiura was elected a Director in 1958. He became Managing Director in 1968, Deputy President in 1969, and then President of the bank in May 1971. He has also been a Director of Manufacturer Hanover Limited, a London based merchant bank, since Sept. 1971. Mr. Sugiura, as president, has made every effort to expand and strengthen lending activities to Japanese industries, as pursued by the bank since establishment. At the same time, he has been promoting the international banking and securities transactions with utmost priority. Furthermore, he has paid due attention to social welfare development financing as well as the expansion of fringe business.

While The Long-Term Credit Bank of Japan, Ltd. was formed to streamline the supply of long-term funds to Japanese industries, it has always pursued a policy of diversifying its functions to meet the needs of Japanese economy and developing its lending and borrowing activities in international markets. As a result, the bank has rapidly expanded its business and at the end of March 1973 paid-in capital was ¥47 billion; its debentures outstanding together with deposits exceeded ¥3,200 billion; and the total loans granted by the bank totalled ¥2,700 billion. These figures provide evidence of the bank's business achievements.

Mr. Sugiura is recognized not only within the bank but also from outside of the bank as a man having amicable personality and an excellent managerial abilities. Under his leadership The Long-Term Credit Bank of Japan, Ltd. will show a further development of both domestic and overseas business.

Shogo Watanabe
President
The Nikko Securities Co., Ltd.

Born in 1915, Shogo Watanabe graduated from the Tokyo University in 1938 and immediately joined the Industrial Bank of Japan. After overseas experiences in Shanghai and New York, he served as manager of the bank's Foreign Department before joining Nikko Securities in 1962. Starting as managing director, he rose to vice president in 1966, and President in 1970. A champion of innovation, he was chiefly responsible for establishing the Nikko Research Center, a wholly-owned subsidiary of the parent and a computerized think-tank serving the Nikko group of companies and its clients, in 1970.

The Chief executive officer of Nikko Securities, Shogo Watanabe also serves as the chairman of the Bond Underwriters Association and holds influential positions in a number of Japanese and international economic organizations.

In the past, Nikko served many of Japan's leading corporations as their investment banker and raised funds for the Government, municipalities and prefectures. But as Shogo (his intimate friends call him by first name) puts it, "the flow of capital must be a two-way affair and cooperation with other countries is indispensable." In keeping with this thinking, Nikko in recent years has pioneered in providing capital for foreign governments, corporations and international institutions and, for this purpose, has established close relationships with leading overseas securities houses and banking institutions.

Keeping pace with Tokyo's rapid emergence as an important international money market, Mr. Watanabe looks at the world with accent on originality and acceptance of the new. "Today, business is undergoing a dynamic change," he says, "and we must adapt ourselves, especially in terms of staff training and brain power, to meet this new challenge. We cannot afford to cling to outdated practices or allow ourselves to lag behind the times. Youth and freshness of outlook are keenly needed." In order to benefit from the thinking of younger employes, the President encourages them to talk straight from the shoulder and say what is on their minds. He is often heard to say, "spontaneous arguments, even though they may sound foolish, are the buds of creativity." He is impatient with the cut-and-dried approach to a new situation and declares: "Let our company boil and seethe." Rather than being cautious about internationalization, he welcomes it as an opportunity to broaden the horizons of his employes and provide greater scope for their talents.

In addition to heading Nikko and the Bond Underwriters Association of Japan, Mr. Watanabe is a trustee of the Japan Committee for Economic Development, and executive director of the Federation of Economic Organizations and the Japan Federation of Employers Associations, and a member of the Japan-Australia Economic Commission and the Pacific Basin Economic Committee. In these various roles he frequently attends international conferences, such as the annual meetings of the IMF, the World Bank and the Asian Development Bank.

Mr. Watanabe enjoys playing golf and the Japanese game of "Go." He is also fond of oil painting and exhibits his works every year with a group of serious amateurs. Mr. Watanabe and his wife have three children -- the eldest son, Takashi, is with the Toshiba Machine Co., daughter, Akiko, recently graduated from the Musashino Academy of Music, and youngest son, Akira, a high school student.

Takahiro Yamauchi
President and Representative Director
The Daiwa Securities Co., Limited

Born in Shizuoka Prefecture in March 1915, Mr. Yamauchi graduated from the Faculty of Economics of the Tokyo University in 1938. He joined the Sumitomo Bank the same year. After serving in various posts including branch managerships, senior manager of the head office, he was elected a director in 1964 and resigned from the Sumitomo Bank in 1965. He joined the Daiwa Securities Co., Ltd. as the Senior Managing Director in October 1965. He became its Executive Vice President in November 1965, and became President in November 1970.

During 1964-65 when the Japanese securities industry was in a serious recession, Mr. Yamauchi visited every one of the Daiwa branch offices throughout Japan to elevate the spirit of all the employees.

Mr. Yamauchi added a positive approach to the Daiwa's steady management since his election as the President and Daiwa grew to attain 31st highest income among all corporations in 1972.

His management philosophy is that of "Respect of human" and "Direction from Bottom Up". He pays a great attention to the advice of his staff and very actively leads them.

The Daiwa, in its 30th year of operations and as a leading security firm, has expanded its activities into the international scene. As a result, Mr. Yamauchi visits abroad 5, 6 times a year and closely associates with many foreign investment bankers and merchant bankers.

He is very athletic and fond of many sports, but also enjoys music with young people.

Mr. Yamauchi is married; has two sons, both married.

Soichi Yokoyama
Deputy President
The Bank of Tokyo, Ltd.

Born in November 1914 in Tokyo, Mr. Yokoyama graduated from Tokyo University of Commerce (presently Hitotsubashi University) in March 1938. Mr. Yokoyama joined Yokohama Specie Bank the same year. This bank, established in 1880, enjoyed a world-wide reputation under the name of "Specie Bank" or "YSB," an abbreviation still well remembered by many people concerned with international trade and finance.

After being assigned to the bank's offices in French Indo-China and at Head Office in General Affairs Department and Economic Research Department, he was sent from the bank to the Japanese Ministry of Finance in 1946.

Following the closing in 1946 of Yokohama Specie Bank, he joined in 1947 The Bank of Tokyo, Ltd., the successor of YSB and now the sole Japanese bank specialized in foreign exchange licensed under the "Foreign Exchange Bank Law."

Serving with the bank at home in Tokyo Office, Foreign Department, Personnel Department, Coordination Department, and Foreign Exchange Department, and abroad in New York Agency, he was elected Director in 1963 concurrently serving as Agent of the bank's New York Agency, and subsequently in 1965 Resident Director for Europe stationed in London. He was appointed Managing Director in November 1965, and Senior Managing Director in May 1969, and Deputy President of the bank in May 1972.

Recently he was informally elected President of the bank as from May 1973 succeeding Mr. Sumio Hara, who will take over the Chairmanship of the bank.

During his 35 years service with The Bank of Tokyo and its predecessor Y. S. B. Mr. Yokoyama acquired acute international sensibility and rich knowledge of world-wide financing in all its phases.

Miscellaneous

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Prime Minister Fukuda's Economic Policy

By Hiroshi Kato
Professor of Keio University

Although Prime Minister Fukuda's economic policies for FY 1978 have been regarded rather highly, his policies during the previous fiscal year 1977, have attracted much criticism as being consistently too passive and too late. Is this a proper evaluation?

Nobel prize-winner Professor Hayek has said the following:

"The attitudes of Chancellor Schmidt and Prime Minister Fukuda of resisting the popular economic policy of simply inflating their respective economies while instead aiming for stable economic growth are quite correct. The Japanese people should be very happy to have a prime minister with such a good knowledge of economics."

Fukuda's economic policy in FY 1977 was neither a failure nor a mistake. If Fukuda had heeded the call of businessmen to exceed the 30% limit on national bonds in stimulating the economy, inflationary pressures would have heightened. In this sense, one can say that Fukuda's economic policy was a success: he was able to halt an economic decline while restraining the fires of inflation.

Following the growth rates of real GNP of 5.7% in FY 1976 and 5.3% in FY 1977, if the economy can exceed 5% in FY 1978, Fukuda's policies can be considered successful as putting Japan's economy on the path of stable growth.

It is undeniable, however, that such a successful policy has also meant an increase in exports, which in turn has resulted in a substantial surplus in the balance of payments.

Japan Needs a Certain Trade Surplus

At the London Conference of the leaders of industrially advanced countries in May, 1977, Prime Minister Fukuda declared that Japan would aim to achieve 6.7% GNP

growth (in real terms) and run a deficit of \$700 million in the current account in FY 1977. But the result will likely turn out to be a GNP



Prime Minister Takeo Fukuda

growth of 5.3% and a balance of payments surplus of \$14 billion. The balance of trade or current account, however, cannot be unilaterally manipulated by Japan.

For countries like Japan, whose survival depends on imports of raw materials and the exports of manufactured goods, it is an inevitable path for them in a fundamental way to improve productivity incessantly and maintain a certain level of exports. From the viewpoint of extending economic cooperation as a responsible member of the international community as well, it is necessary for Japan to maintain a certain trade surplus.

Due to the restraints on global resources, it will be imperative for Japan to convert its present resource-wasting type of industrial

structure to a resource/energy-saving one, if it will not be able to take the path of increasing exports through a large-scale expansion of natural resource imports.

The conversion of Japan's industrial and trade structure, however, will take much time and extraordinary efforts, since they grew out of the period of high economic growth and are rooted deeply in the Japanese economic structure.

Japan is exerting her utmost efforts to encourage the conversion of its industrial structure to fight inflation and conserve energy, in response to the rapid changes in international affairs caused by the oil shock. Hence if Japan takes an easy and hasty policy to stimulate its economy, the result will be a continuation of the present resource-consuming type of industrial structure.

Higher Resource Prices Causing Global Decline

The present world economy is on a declining path due to the restraining factor of higher prices for natural resources, a situation quite different from the past when raw materials, including energy resources, were cheap and abundant. In other words, if one country intends to boost its economy, such growth is likely to be temporary and even reverse itself as long as the economy fails to eliminate these restraining factors.

When the entire world economy is on a path of declining growth, it is possible in theory that some countries by themselves can stimulate their economic growth rates, thus boosting fast global economic growth. But such an idea is very difficult to implement in practice.

The U.S. growth target for this year has been reduced to 5% from last year's 6%; West Germany's down to 3.5% from 5%. When the world is a stage of lowering its growth rates, it is difficult to reverse the trend locally.

At Prime Minister Fukuda's insistence, FY 1977 was dubbed "the



Professor Hiroshi Kato

year for the economy" in which active economic measures centering on public investments were suppos-

(Continued on Page 2)

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Fukuda's Policy —

(Continued From Page 1)

ed to induce a recovery. But the results of these measures were smaller than expected, and the Japanese economy is still in a recession after all. There is a view that proposes that the government should adopt stronger fiscal and monetary measures and that it should let bond issuances climb over 30% of the national budget.

Japan should be able to absorb such massive bond issuances in theory by tapping the exceptionally large savings on hand for the sake of boosting the domestic market. If the government had not heeded the arbitrary 30% limit to bond issuances and had adopted more vigorous deficit-spending at an earlier stage, the economy theoretically could have pulled out of stagnation sooner, which in turn would have generated new fiscal resources for further growth. But the Prime Minister did not choose this path—the result was that critical voices became increasingly vehement.

But it is not accurate to categorize the Fukuda policy as negativist. When the Japanese economy was in recession back in 1965, it was Fukuda, Finance Minister at that time, who took the deficit-spending option. He could not have accepted such a program if he were a rigid adherent of a balanced budget. Fukuda personally holds in highest regard Korekiyo Takahashi, a Finance Minister in the 1930's, who upheld the flexible program of utilizing bond issuances as a lever to revitalize the economy and to repay government debts as early as possible during the advent of an upturn.

Fukuda's Fiscal Thinking: Pragmatic But Not Negative

The foregoing episodes illustrate Fukuda's pragmatic fiscal philosophy: he is not wedded to the negativist camp. If so, why did he refrain from adopting an activist fiscal policy in 1977?

The answer is that sufficient conditions to implement this policy in an institutional framework had not yet been established. If Japan should step up bond issuances now, it would eventually have to answer the question of how to repay them in the future. Failure to pay them back would mean severe inflation. Thus in order to preserve a balanced budget, Japan must first create the conditions for debt absorption. True, the oil price is stable at the moment because of worldwide stagnant demand. But the adoption of an activist growth policy by Japan and other industrial countries would undoubtedly create strong pressures for another oil price hike, even in spite of the present worldwide oil surplus. Even granting that Japan can live with the present situation, one must not overlook the possibility that maintaining the status quo in Japan's growth-oriented industrial structure would hinder future development.

More Fiscal Stimulation Would Cause Inflation

Besides, the rise in consumer prices was higher than interest rates in FY 1977. So unless prices could be restrained, additional fiscal measures were dangerous. One can say that the Fukuda policy is to bide time until stability returns to consumer prices, whereupon he would switch to an activist fiscal approach.

The chance Japanese have been waiting for has at last arrived in 1978. Japan's saving rate is high enough, the current account surplus is large, and prices are steady. The Fukuda policy is now on the threshold of a switch. As mentioned in the beginning, Professor Hayek argues that both Chancellor Schmidt and Prime Minister Fukuda have correct economic ideas. They both adhere to the ideas that refuse to give in to inflation as the easy way out, that seek

industrial reorganization, and the prime minister but rather depends on a broader base of support. Japan is different from the United States in this regard. Although prior consultations are part of the decision-making process in the United States, the ultimate responsibility is put on the shoulders of one man. In contrast, the final responsibility is much less clear in Japanese cases: not infrequently many

"Fukuda personally holds in highest regard Korekiyo Takahashi, a Finance Minister in the 1930's, who upheld the flexible program of utilizing bond issuances as a lever to revitalize the economy and to repay government debts as early as possible during the advent of an upturn."

this end, it is necessary to shift to an energy-saving type of industrial structure while securing a low rate of inflation as the preconditions for such a recovery. In this regard the two prime ministers are said to be in complete agreement. Of course, if their policies entail too many sacrifices for other countries, they will have to make adjustments in their programs.

Another reason why Fukuda's policy is often misunderstood is his style of carrying out a decision on the basis of "persuasion and consensus." He is personally disinclined to dictate to others. It is also related to the fact that authority for decision-making in Japan, be it economic or otherwise, is not left solely in the hands of

people participate in a deliberation for general understanding — only after everyone has come to an agreement is a final decision made.

Difficulty in Decision-making Revealed by Reduction in Official Discount Rate

Take the question of the recent reduction in the official discount rate, for instance. There were early advocates of a swift reduction, but they did not succeed right away because banks would have to loan money at a loss unless interest rates for bank deposits were reduced simultaneously. This is simple business sense in the West.

But in Japan many small deposits are held in post offices, and the authority for interest rate changes of these postal deposits is under the jurisdiction of the Ministry of Posts and Telecommunications, not the Ministry of Finance. Unless the Ministry of Posts and Telecommunications approves of an interest rate reduction, the official discount rate cannot be cut.

Or, again, the need to expand public investment. We know that this is the means to stimulate internal demand. But public works projects have to gain the approval of local residents, and it often takes much time for the community consensus to jell. It happens quite often that a project that is funded and ordered by the government must simply lie idle for half a year while the government persuades local residents. This makes it difficult to arrange the construction of a project to coincide with the moment when economic effects appear.

Fukuda: Waiting For Momentum

These sorts of problems also come up in the complicated distribution mechanism. The yen's revaluation should make it easier to import goods and lower domestic prices. But the trouble is that there are many layers of firms involved in the distribution of imported merchandise. They all have to be persuaded to come out in favor of lower prices for imported goods.

These are some of the reasons why the government of Japan — no matter how competent, as the incumbent one is — must take considerable time in implementing its policies through the unique economic and political structure. This way of doing things may try the patience of Western observers, who often accuse Japanese of indecisive wavering and insincerity. But they miss the point. As far as Fukuda is concerned, he is far from being insincere or lacking in decisiveness; rather he is carefully waiting for some momentum to get the current situation moving. This is his approach to economic affairs, and I believe that he is on the right track.

Biographical Sketch of Prof. Kato

Born in 1926. After graduating from Keio University (Economic Welfare Council, Agricultural Policy Council, (Ministry of Agriculture and Forestry), and Wage Earners Property Accumulation Council (Ministry of Labor), etc.

In 1960 he completed his studies at Harvard Law School, and in 1966 he received a Ph.D. in economics while becoming a full professor of Keio University.

He keeps busy with a broad range of activities which span all economic issues. He is a member of Financial System Council, (Ministry of Finance), Economic Welfare Council, (Economic Planning Agency), Agricultural Policy Council, (Ministry of Agriculture and Forestry), and Wage Earners Property Accumulation Council (Ministry of Labor), etc.

Prof. Kato's writings include: "Economics of Man and the Environment" (Ningen to Kankyo no Keizaigaku), "Conditions for Japan's Welfare Society" (Fukushi Shakai Nippon no Jyoken), and "The Rebirth of Japan" (Umarekawaru Nippon).

Economic Outlook

(Japanese Government)

(in billion yen)

	<u>FY 1971</u> <u>Actual</u>	<u>FY 1972</u> <u>Estimate</u>	<u>FY72/FY71</u> (%)	<u>FY 1973</u> <u>Outlook</u>	<u>FY73/FY72</u> (%)
Population ('000)	104,930	107,300	102.3	108,700	101.3
Population 15 yrs of age or above ('000)	79,910	81,350	101.8	82,150	101.0
Labor Force ('000)	51,790	52,250	100.9	52,550	100.6
Employee ('000)	51,110	51,550	100.9	51,900	100.7
GNP (nominal)	81,093	93,850	115.7	109,250	116.4
" (real)	-	-	110.3	-	110.7
Personal Consumption Expenditure	42,504	48,500	114.1	55,850	115.2
Gross Domestic Fixed:	21,489	24,950	116.1	30,350	121.6
Machinery and Equip't	4,843	16,400	110.5	18,700	114.0
Inventories	1,447	2,000	138.2	3,700	185.0
Dwellings	5,199	6,550	126.0	7,950	121.4
General Government Consumption Expenditure:	14,860	18,400	123.8	21,450	116.6
Current Expenditure	7,156	8,250	115.3	9,600	116.4
Capital Expenditure	7,704	10,150	131.8	11,850	116.7
Exports of Goods and Services and Factor Income Received from Abroad	10,003	10,600	106.0	12,200	115.1
Less: Import of Goods and Services and Factor Income Paid Abroad	7,762	8,600	110.8	10,600	123.3
Wholesale Price Index (1970 = 100)	99.1	101.3	102.2	103.3	102.0
Consumer Price Index (1970 = 100)	107.2	112.9	105.3	119.1	105.5

Note: Industrial Production figures do not include OKINAWA

Forecast of Balance of International Payments

(Japanese Government)

(in millions of dollars)

	<u>FY 1971</u> <u>Actual</u>	<u>FY 1972</u> <u>Estimate</u>	<u>FY 1973</u> <u>Outlook</u>	<u>FY 73</u> <u>FY73/FY72</u>
Current Balance	6,323	6,200	4,950	
Trade Balance	8,422	8,950	8,100	
Exports	24,661	29,000	33,300	114.8
Imports	16,239	20,050	25,200	125.7
Invisible Trade	(1,77)	(2,250)	(2,750)	
Transfer Account Balance	(321)	(500)	(400)	
Long-term Capital Account Balance	(1,647)	(3,800)	(4,000)	
Basic Balance	4,676	2,400	950	
Short-term Capital Account Balance	3,131	-	-	
Errors & Omissions	236	-	-	
Overall Balance	8,043	-	-	
Customs Export	25,134	29,550	33,950	
Customs Import	20,256	24,720	30,670	

Note: IMF basis.

() deficits.

Tokyo Office
4/6/1973

**ECONOMIC SURVEY
OF
JAPAN**

(1971-1972)

英文經濟白書

**ECONOMIC PLANNING AGENCY
JAPANESE GOVERNMENT**

**PUBLISHED
by
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FOREWORD

The Annual Economic Survey (Economic White Paper) for fiscal 1972 was submitted today to the Cabinet session.

Subtitled "Toward Development of a New Welfare Society," this year's Economic White Paper reviews an eventful year marked by convulsions of the international economy and discusses the desirable course of development for the Japanese economy in the future.

On publication of the White Paper, I wish to emphasize the following points:

1. The economy's trend

After reaching the bottom in December last year, the Japanese economy continues a steady but mild recovery this year.

On the international economic scene, as well, the United States and European countries are also headed for recovery. Instabilizing factors in the international economic system, however, have not been dissolved completely.

2. Shift in the pattern of growth

Amid these developments, the Japanese economy is called upon to change the "export-production-first policy" of the past and push vigorously policies for improvement of welfare and international cooperation.

3. Harmonious development

Major policy tasks facing the Japanese economy may thus be defined as; first, ensuring the steady recovery in economic activity (the closing of the demand-supply gap), second, restoring a balance of payments equilibrium (the closing of the balance of payments gap) and third, improvement of welfare (the closing of the growth-welfare gap).

4. Attainment of a new welfare society

Attainment of a new welfare society represents the unanimous aspiration of the Japanese people. According to a recent survey on national preferences by the Economic Planning Agency, the Japanese people desire particularly the stabilization of prices and the protection of the environment, including the prevention and removal of environmental disruptions. If such desires of the Japanese people are to be met adequately, it is necessary to revamp extensively institutions and practices which have been formed in the previous period of high growth. Though gradual progress has been made in this area, certain problems

still persist. They require a thoroughgoing reexamination at this time.

5. *Future management*

The Economic Planning Agency hopes to develop the idea of "Development of a New Welfare Society," as set out in the present white paper, in the formulation of a long-term economic and social development currently under way as well as the over-all reexamination of the New Over-all National Land Development Program.

We would feel amply rewarded if questions raised by the white paper could contribute, even in a limited way, to the determination of the course of development for the Japanese economy, through constructive criticism by the Japanese people.

August 1, 1972

Kiichi Arita
Minister of State
Economic Planning Agency

Summary of Annual Economic Survey For 1971-1972

I. The Aim and Organization of This Report

(1) The past one year was truly a stormy one to the Japanese economy. Just when the Japanese economy began to recover from its recession, it was sucked into the whirlpool created by the New Economic Policy of the U.S. in August, 1971 and by the subsequent international currency crisis. To cope with this impact and to search for a new road to development, the economy went through a year of hard struggles.

At the end of the year, a multi-national currency realignment was worked out, and one of the unstable factors of the world economy was removed. However, the establishment of a stable international monetary system and the further development of the free trade system still remain as tasks to be achieved, and the international economic situation is still surrounded by many uncertainties.

On the other hand, when the Japanese economy, in the midst of its recession, was confronted by a sudden change in the international environment which it had never experienced before, it found it difficult to form a clear view of the future. Stock market staggered, production and shipments decreased, and commodity prices dropped.

Despite the unrest and confusion, the Japanese economy began to show signs of recovery after reaching the bottom at the end of 1971. The recovery has been still slow-paced, compared with recoveries in the past, but is becoming steadily firmer.

This fact indicates that the "capacity to transform" of the Japanese economy, which was amply demonstrated in the past, is still alive. The Japanese economy, however, faces a very difficult task now. It must re-orient its growth pattern, aiming for the improvement of public welfare, while holding a big surplus in the international payments, in a climate where the international monetary situation is still unstable.

The economic report for this fiscal year will attempt to clarify the process which enabled the Japanese economy to complete the business adjustment in a relatively short time and to turn towards recovery in the midst of rapid changes in the international economic situation. The change in the pattern of recovery revealed in this process will be evaluated from a long-range viewpoint, and a study will be made on what the lessons for the future should be learned from the last year's experience.

(2) This report consists of the following five chapters:

- 1) Trend of the Economy in Fiscal 1971
- 2) Effects of the Revaluation of the Yen
- 3) The Changing World Economy and Japan
- 4) Improvement of Welfare and the Role of the Public Sector
- 5) Start for New Development

The basic assertion which runs through this whole report is that the economy of our country finds itself today in the phase of business recovery and, at the same time, in a transitional stage of the growth pattern; under the new pattern of growth it must aim for rapid improvement of the people's welfare in the changing international economy.

For this purpose, after clarifying in Chapter I the trend of the economy in fiscal 1971, we will examine the effects of the revaluation of the yen undertaken at the end of last year in Chapter II. In Chapters III and IV the questions of international co-operation and improvement of public welfare will be examined from a long-term structural viewpoint. In Chapter V, "Start for New Development," a new type of policy mix will be suggested, in response to the external and internal requirements placed on the Japanese economy.

II. The Gist of This Report

Next, we are going to introduce briefly the gist of this report.

Steady recovery of business, balancing Japan's international payments and improvement of welfare of the people are the urgent problems for the Japanese economy to solve. Solving these problems means the elimination of the gap between demand and supply, the gap in the balance of international payments, and the gap between economic growth and public welfare, all of which have widened in recent years. The questions are how to fill these three gaps at a time when the situations at home and abroad are changing greatly, and how to attain the internal and external equilibrium by transforming the pattern of growth.

Let us explain why these three gaps have widened and what problems are involved.

(1) The present business situation and the gap between demand and supply.

1) The Japanese economy, which began to show signs of business recovery between the spring and summer of 1971, declined into recession again after August, as the international economic situation suddenly changed. Production and shipments became stagnant and the inventory-sales ratio increased. However, as soon as multilateral international currency realignment was effected at the end of the year, business turned toward recovery with this as a turning point.

The floating of the yen gave a big impact to the Japanese economy. However, since inventory adjustment had already made progress to

a considerable extent by that time, the subsequent inventory adjustment was not so big. The drop in exports was not so significant because of shipments of goods already contracted. On the other hand, equipment investment in the non-manufacturing industries and spending for durable consumer goods were sustained high under the continued easy money policy and increased public expenditures. From the beginning of 1972, housing construction got out of its slump and turned upward. Equipment investment by smaller businesses also began to show signs of buoyancy. The demand-supply position of labor also showed signs of improvement, and, as a result of increased overtime work and increased wages, there are strong indications that consumer spending, which remained on a low level, has touched the bottom.

Thus, business entered the process of recovery in January this year, and its recovery has become steady in recent months.

2) The process of business recovery this time has some characteristics which were not seen before.

In the past, exports and inventory investment used to lead the business recovery. In the stage of recovery this time, however, exports remain stagnant and no active effort has been made to build up inventories.

Large-scale equipment investments, which played an important role in the economic growth in the past, have been also stagnant this time. This is because the Japanese industry still has a big excess capacity. This partly explains the surplus in Japan's balance of trade. However, the extent of gap between demand and supply differs from industry to industry. Supply greatly exceeds demand in such industries as steel, chemicals and textiles, but the situation is not so serious in other industries.

As explained above, the stagnation of exports, the low levels of inventory investment and of large-scale equipment investments make the pace of business recovery this time slower than in the past. On the other hand, personal consumption expenditure, housing construction and equipment investment of small enterprises have increased, with increased government spending and the progress of easy money policy. There are signs of a change in the pattern of business recovery from one led by exports and equipment investment to a pattern of growth led by domestic demand related to national living.

(2) The task of international co-operation and the gap in the international balance of payments.

1) Japan's international balance of payments has continued to show surpluses since 1965. In 1971, the surplus in its balance of trade and balance in capital account suddenly increased as a result of recession at home and the international monetary crisis. Its foreign reserves

reached \$12,500 million at the end of August 1971.

After the floating of the yen, the capital balance swung from a net inflow to a net outflow, but balance of trade (seasonally adjusted) continued to register a monthly surplus of about \$700 million on an average from last August to March this year. During this period, the export and import price index on a yen basis continued to decline.

2) Despite the revaluation of the yen by a big margin at the end of last year, the size of surplus in Japan's balance of trade has not been remarkably reduced. This probably suggests that it takes time for the effects of the new exchange rate to become evident. Prices of Japanese exports (in terms of dollars) were increased with a time lag. The lag differs among industries for various reasons, such as the international competitiveness and the size of the gap between demand and supply of particular industries. Imports have increased considerably, mainly on consumer goods. But imports of raw materials remain on a low level, reflecting the stagnation of the heavy and chemical industries.

Export prices turned upward in March as domestic business began to recover. Moves to export goods at low prices weakened and the export of automobiles and machinery, which had hitherto shown a high growth rate, tapered off. Imports have also increased mainly in consumer goods. Thus, the upward revaluation of the yen has come to take effect gradually in Japan's balance of trade.

3) The time lag in adaptation to the new exchange rate, and cyclical factors such as the remaining export pressure and the stagnation in imports of raw materials, are among the reasons why Japan cannot restore a balance in its international payments so quickly despite the revaluation of the yen. In addition, structural problems are involved.

First, our country's trade structure is unbalanced. Comparison of our country's trade structure for industrial products with those of other countries reveals that, as regards labor-intensive goods, the United States imports more than she exports, whereas Japan shows an excess of exports over imports. Moreover, the degree of export specialization of our country's mass-producing industries has been rapidly increasing. Our country is now in a transitional period in which exports of its mass-producing industries have entered the stage of growth, and its labor-intensive industries should gradually give way to those of the developing countries. At present, this is one of the factors that cause Japan's trade surplus to increase and an imbalance to occur in its international payments. The revaluation of the yen gave a good opportunity to reform the trade structure. We must adopt such measures as industrial adjustment and a reform of the tariff structure.

As the demand-supply position in farm produce has eased throughout the world, demands have grown that Japan should increase imports

of farm produce. It is necessary for Japan to try to increase agricultural imports with due considerations to the state of agriculture at home.

Second, our country has entered the stage where it should try to balance its international payments by exporting capital.

Direct investment by private Japanese capital of labor-intensive industries in developing countries will contribute to the increase in Japanese imports, while helping to industrialize the recipient countries at the same time. Hereafter, it is necessary for our country to further increase government development aid to help create basic conditions for development in developing countries and also to diversify direct private Japanese investment in various regions.

4) To balance Japan's international payments, it is necessary to secure the recovery of business. However, there may be a limit to the effectiveness of the efforts to balance international payments by taking measures to stimulate business activities without improving its trade structure. In this context, the basic direction toward balancing international payments is the reform of the country's industrial and trade structures and the promotion of dynamic international division of labor by combining trade, official aid and direct private investment. At the same time, this will result in increasing Japan's contribution to international co-operation and its national welfare.

(3) Failures of the market mechanism and the welfare gap.

1) Another problem of the Japanese economy, together with international co-operation, is the need to improve the people's welfare. In the process of economic growth, the nation's level of consumption has risen and a state of full employment has almost been achieved. However, in the process of high economic growth in the latter half of the 1960s, destruction of the living environment and congestion in cities intensified and the problem of older people became serious, attracting the attention of the people to the gap between economic growth and welfare.

These problems are regarded as stemming from inadequate supply of social overhead capital and social security. In this report, these problems are analyzed from the standpoint of failures of the market mechanism.

Economic growth has been achieved by making use of the market mechanism. However, destruction of nature has intensified as a result of the prevalence of mass production and mass consumption-system, and the congestion and the loss of amenity in cities aggravated as the mechanism of urban concentration has been left to proceed. Although a labor shortage brings about increase and equalization in the incomes of employed workers, this does not necessarily guarantee an improvement in the welfare of people who are unable to work. These problems must be solved by making up for the defects of the market mechanism

through public intervention. In the latter half of the 1960s, the gap between economic growth and welfare widened further, as Japan's economic growth became accelerated, mainly due to a rapid development in the heavy and chemical industries, and as measures to supplement the defects of the market mechanism tended to lag behind. The following sections examine, as typical examples of this problem, the congestion and loss of amenity in cities and inequalities in income distribution which still remain.

2) Let us consider the congestion and loss of amenity in cities with emphasis on metropolitan areas.

There are benefits which come from concentration in cities, and the desire of business enterprises, to move into big cities and to locate their management centers in metropolitan areas is still strong. However, concentration in cities has such external diseconomies as follows:—

First, city dwellers are required to pay costs that cannot be expressed in terms of income, such as high commodity prices, difficulty in obtaining housing, time wasted in commuting and the deterioration of the living environment.

Second, the cost of social overhead capital is rapidly increasing. Investment in social overhead capital is necessary to eliminate congestion in cities, but its cost has rapidly increased as the cities have expanded. This cost is borne by the people at large, local residents and new city dwellers.

Third, there is the problem of rising land prices. The rising trend of land prices has been accelerated by speculative holding of land, thereby preventing effective use of land. This makes it difficult to promote housing construction and public projects. Capital gains on land have caused inequalities in the distribution of incomes.

To cope with these problems, it is necessary to achieve a reasonable sharing of the benefits and of the costs accompanying concentration in cities. The introduction of the concept of the so-called "congestion tax", the absorption of the profits deriving from development by the public authority, and the fair imposition of taxes on land are among the ways to correct the defects of the mechanism of urban concentration.

However, the problems of mammoth cities cannot be solved only by such means as checking concentration in cities, effective use of land and urban renewal. It is now necessary to decentralize various functions of big cities in view of increased costs and physical limits of land utilization. There is a trend toward the development of local nucleus cities and the dispersion of young labor to the provinces. Efforts must be made to improve the transport and communication networks, to relocate industrial activities, to promote the development of attractive regional cities, to form wider living spheres and to solve the problem of underpopulation in rural areas, in order to reform the Japanese Islands

into a well-balanced country.

3) Next, there are the problems of equalizing incomes and improving social security systems. In the process of high economic growth in the past, the level of income has risen and equalization of incomes has made progress. Equalization of incomes has been realized through the narrowing of wage differentials in the labor market. Therefore, those who have no ability to take part in economic activity have been unable to benefit from the equalization. And there are still many inequalities left in spite of the general tendencies of narrowing of income differentials.

Older people, father-less families and physically and mentally handicapped people are examples of the first case, while capital gains and other profits from property are examples of the latter.

Our country's social security system has been improved in recent years. However, the ratio of transfer income to the national income is still considerably small compared with advanced countries abroad, partly because the pension system is still immature. There are also inequalities of treatment among existing systems of medical insurance and pensions. Other differentials outside social security system, such as issued house and other fringe benefits, cannot be overlooked.

4) The gap between economic growth and welfare is seen in various aspects. To understand this from the over-all point of view and examine the existing pattern of allocation of resources, we have estimated gross national expenditure (GNE) for different national goals. This classification of GNE designed to see for what purposes goods produced and services were used and what roles the government and the private sector played. The estimate shows that the weight of the private sector was overwhelmingly big on the whole, while expenditures for land development had a big weight in the government sector.

Compared with various foreign countries, the weight of the government sector in the GNE was very small. This means that the tax burden of the people was small to that extent.

In the future, it is necessary to increase government spending for improvement of social overhead capital related to living environment and of social security. For that end, an increase in people's burden is considered inevitable.

Quantitative expansion of the role of the public sector must be carried out simultaneously with its qualitative strengthening. This means that, hereafter, the public sector needs to play the central role in improving social overhead capital and social security and to take proper measures to cope with externalities in the economy, as well as to ensure effective use of resources made available to the public sector. We should like to add that the role of the public sector needs to be strengthened in order to meet the desires of the people which have

become sophisticated and diversified.

(4) Start for new development

1) As observed so far, the three gaps differ from one another in character. On the other hand, the point common to them is that these gaps became conspicuous in the process of high economic growth in the latter half of the 1960s. And the solution of these gaps is closely inter-related.

This suggests that the Japanese economy is now at a turning point where it should make a fresh start towards a new development in response to both internal and external demands.

2) In the first place, let us examine the characteristics of economic growth in the second half of the 1960s.

In the second half of the 1960s, the growth rate of the Japanese economy accelerated to reach 12.4 per cent as against 8.8 per cent in the second half of the 1950s and 9.3 per cent in the first half of the 1960s. Especially, equipment investment and exports increased spirally. It contributed to expansion of the scale of the national economy and to the increase of surplus in the balance of international payments, thus enabling the country to maintain business prosperity for a long period.

The second half of the 1960s was also the period when international trade expanded and a worldwide inflation continued. In addition to these conditions abroad the strengthening of Japan's international competitiveness expedited the spiral of greater exports and greater investment. In the heavy and chemical industries in particular, large-scale equipment investment continued, enabling them to consolidate their position as export industries. As a result the tendency of the balance of payments to register a surplus became chronic. Yet it was not easy to change the policy of stimulating production and export. Tight money policy was pursued as hitherto in total demand management. The developments which led to the revaluation of the yen last year taught Japan that it was imperative to establish a new system of economic policies in order to cope with the large surplus in the balance of payments.

In the process of economic growth in the second half of the 1960s when the economy leaned heavily to equipment investment, export and development of heavy and chemical industries, the gap between economic growth and welfare was further widened.

3) Next, let us examine the trend of the economic growth rate in the first half of the 1970s. Both internal and external restraints added with respect to technological progress, increase of labor supply and utilization of natural resources. On the other hand, it became difficult to increase exports sharply while the demand for reallocation of resources to increase welfare became stronger.

The potential capacity of Japan's economy to grow remains fairly strong for the time being, considering such factors as the high rate of savings, high level of education, and existence of low-productivity industries and of extensive potential demand related to filling the welfare gap. Of course, there is little possibility of a recurrence of the high economic growth rate attained in the latter half of the 1960s through the spiral of exports and equipment investment, nor is it necessary.

However, a sharp decline in the economic growth rate not only would bring about an increase in unemployment but also would expand the surplus in the international payments.

There is also strong desire of people for higher incomes. After all the future growth rate of the nation's economy may depend on people's choice. Economic growth not detached from public welfare seems to be what the nation genuinely aspires for. And in order to respond to their desire, it is imperative to increase outlays in the public sector and to switch to a new growth pattern. From now on, the domestic demand centering on consumption, housing construction and investment in infrastructure should lead the economy. On the other hand, appropriate measures for externalities and fair distribution of income should be taken by the government.

What should be taken into special consideration in switching to a new growth pattern is to respond positively to changes in social and environmental conditions. For example, elimination of pollution and implementation of the five-day a week system are now urgently required. The achievement of these goals is an essential condition for filling the gap between economic growth and public welfare.

4) In the transitional phase to a new growth pattern, the problem of inflation becomes more important. Wages and prices have risen rapidly in recent years. Inflation overseas has long persisted. In addition, new factors for a rise in prices at home have appeared. First, as our international competitiveness strengthened and as the ceiling of balance of payment becomes higher and higher, they play the role of deterrents to the upswing in prices and wages no longer. Second, demand for public spending, housing construction and consumption increase. Such a shift in demand tends to cause an inflationary pressure. Thirdly, the cost of pollution prevention increase. Fourthly, the money supply tends to expand. It is feared that these factors affected each other to increase inflationary pressures.

Due to these factors, an increase in wholesale prices seems unavoidable to some extent. However, if this accelerates the rise of consumer prices, the construction of a welfare society could quite possibly be jeopardized.

In order to prevent such a possibility, it is necessary to improve the supply and distribution system, promote competition, expand imports and adopt other measures for price stabilization.

5) As already stated, the problem which the Japanese economy is now facing is how to dissolve the three gaps. Behind these gaps are vast changes in the internal and external situations, such as the progress of internationalization and changes in public opinions. And in order to attain the respective objectives, it will become imperative to diversify policy measures and to combine them properly.

To this end, we must now contrive a new macroeconomic policy mix for the management of the national economy, while at the same time promoting the afore-mentioned structural policies such as industrial, urban and social policies.

The pillars of the new macroeconomic policy mix are the following five. The first is steady increase in public expenditures. The second is active utilization of tax policies. The third is flexible operation of national bond policies. The fourth is diversification of monetary policies corresponding with changes in the financial structure. And the fifth is the implementation of adequate exchange policy corresponding to the changing international situation.

The new policy mix differs from the older one in several aspects. In the past, within the institutional framework aimed at the strengthening of international competitiveness, the private business sector led the economy, while the government coped with the deficits in the balance of international payment mainly by a tight money policy and by a reduction in budgetary expenditures. From now on, we must build a new institutional framework which aims directly at the promotion of public welfare. The fiscal expenditures for the improvement of public welfare should be increased according to a long-range plan. A planned increase in government expenditures should be the pace-setter of the economy. Other policy measures, such as taxation, national bond issues, monetary and exchange policies, should be combined properly, according to their respective functions, in order to attain the internal and external equilibrium, and to adjust appropriately the activities of the public and private sectors.

III. Conclusion

In the midst of the changing world economy, the Japanese economy faces several problems which must be solved. The task of immediate importance is to secure the increasing flow of resources allocated for the improvement of public welfare. This will sustain the new pattern of business recovery and contribute to the reducing of the international payments surplus. The road to the improvement of welfare, however, is not an easy one in any way. Needed for this purpose are various institutional changes, execution of structural policies, increase in people's burdens corresponding to the increase in public welfare, and establishment of a new policy mix. All of these contribute to the promotion of the long-term interests of the people as a whole. During the period of

transition, however, clashes will occur with the vested interests, particularly with those established during the past era of high economic growth. Unless the conflicts of interests are overcome, it would not be possible to realize a welfare society. It is necessary to establish a firm consensus among the people to build a welfare society, and to solve the conflicts of interest under this major premise.

In the modern societies, the mutual dependence of the various sectors of the economy has increased greatly. There is thus a danger that the imbalance between the different economic sectors would be intensified if attempt is made to attain an objective by a single measure, without paying a due considerations to its effect on other objectives. Therefore, it is necessary to take care of the interdependence of the various sectors of the economy and to attain the different objectives by diversified measures. Moreover, there still remain many unstable factors in the world economy. In coping with changing external and internal conditions, a flexible use of the policy mix, which ultimately aims at the improvement of the public welfare, is required.

Forecast of GNP, Industrial Production
and Commodity Prices

(Japan Economic Research Center)

	Increase					
	FY 1971		FY 1972		FY 1973	
	Actual	%	Estimate	%	Outlook	%
Personal Consumption Expenditures	13.0		14.5		16.3	
Government's Current Purchases of Goods & Services	18.7		17.9		17.7	
Private Housing	7.7		36.5		23.4	
Private Plant & Equipment Expenditures	1.7		13.0		19.2	
Gov't Fixed Capital Formation	27.4		25.5		23.2	
Private Inventory Investment	(52.9)		54.6		62.5	
Exports, etc.	15.5		6.7		1.7	
Imports, etc.	0.4		10.7		13.0	
Gross National Expenditures	10.7		17.5		18.0	
Gross National Expenditures (Real)	5.7		12.0		10.5	
	FY 1971		FY 1972		FY 1973	
	Actual		Estimate		Outlook	
	Billion		Billion		Billion	
	Yen	%	Yen	%	Yen	%
Wholesale Price Index (1970 = 100)	99.1	(0.8)	102.1	3.0	108.5	6.3
Consumer Price Index (1970 = 100:National)	107.2	5.7	112.7	5.1	120.8	7.2
Mining-mfg. Production Index (1970 = 100)	103.4	2.0	114.6	10.8	130.4	13.8

Note: Figures in parentheses show decrease.

Tokyo Office
4/6/1973

Forecast of Balance of International Payments

(Japan Economic Research Center)

(in millions of dollars)

	<u>FY 1971</u> <u>Actual</u>	<u>FY 1972</u> <u>Estimate</u>	<u>FY 1973</u> <u>Outlook</u>
Trade Balance	8,422	8,944	7,301
Exports	24,661	29,421	33,806
Imports	16,239	20,477	26,505
Invisible Trade Balance	(1,778)	(1,957)	(2,958)
Receipt	5,157	6,613	7,869
Payments	6,935	8,570	10,827
Transfer Account Balance	(321)	(446)	(525)
Current Account Balance	6,323	6,541	3,818
Long-term Capital Account Balance	(1,647)	(5,180)	(5,395)
Basic Balance	4,676	1,361	(1,577)
Short-term Capital Account Balance	3,131	2,183	50
Errors & Omissions	236		
Overall Balance	8,043	3,544	(1,527)
Financial Account Balance	8,043	3,544	(1,527)
Change in Foreign Exchange Reserves	11,205*	2,760	(1,047)
Others	(3,002)	784	(480)
Foreign Exchange Reserves	16,663	19,423	18,376

Note: IMF basis.

() deficits.

* Include SDR allocation worth \$160 million.

As of April, 1973

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As of April 18, 1973

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