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Sub-Fonds: Records of President Robert S. McNamara

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McNamara Papers

Contacts
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61

OFFICE MEMORANDUM

TO: Files

DATE: January 31, 1978

FROM: K. Georg Gabriel SUBJECT: Meeting with Mr. Matsukawa on January 27

1. On January 27, Mr. McNamara met with Mr. Michiya Matsukawa, Vice Minister for International Affairs in the Japanese Ministry of Finance. Mr. Matsukawa was accompanied by Mr. Iwasaki, the Japanese Alternate Executive Director, and two officials from the Ministry of Finance (Messrs. Tadao Chino and Yoshio Tamura).

2. The following notes summarize the discussion. Mr. Matsukawa explained that he was on a goodwill visit; he had not come to discuss any particular issues, but was interested in any points Mr. McNamara wished to bring up. Mr. McNamara said he would like to raise several points in a provisional way; more detailed discussions could take place when Peter Cargill visited Tokyo in early February.

- 1/31
- (i) Co-financing: He inquired about the volume of co-financing the Japanese authorities were planning to provide. The Bank wished to ensure that co-financing activities generated additional resources rather than substituted for Bank lending. With a rising volume of co-financing, there was bound to be an impact on the number of projects on which Bank staff would need to work and this was often cited as one of the explanations for the declining average size in real terms of Bank loans. The Bank needed a reasonably accurate indication of the prospective volume of co-financing as an input into its work program and budget plans. He had heard that during Minister Ushiba's visit in January a figure of \$1 billion in co-financing had been mentioned.

Mr. Matsukawa agreed that there should be an increase in co-financing. To the extent that such financing required resources on concessional terms, it would involve tax money, and this type of co-financing could not be increased substantially; but if the Bank was as interested in increasing the volume as it was in the quality of co-financing, he saw no problem in encouraging the private sector in Japan to participate more heavily in Bank loans on Bank terms. Mr. McNamara commented that the terms of individual co-financing operations depended on country circumstances, that the Japanese participations could be on Bank terms but ideally should

be on more concessional terms. He concluded that he had raised this issue to point out that the Bank needed to know far enough in advance about the likely volume in order to accommodate it within its own lending programs.

- (ii) Compensation: Mr. McNamara said that staff compensation had become a very serious concern. The Bank was being criticized in some quarters for being over-generous to its staff. Individuals hostile to the Bank picked on this issue, saying (a) that staff in general was over-paid and (b) that this involved excessive costs to U.S. taxpayers. He cited a list of articles which had appeared in various publications, particularly in the U.S., which dwelt on this issue. Both the IMF and Bank Boards needed to immerse themselves in this problem. The two Boards had established a Joint Committee which had been meeting for months to consider the compensation structure of the two institutions. The resolution of the related issues was becoming urgent because the Bank had to take a decision on the compensation adjustment normally made as of March 1 of each year. The Washington consumer price index had risen about 6% during the previous 12 months, which meant that there was a case for a 6% adjustment. Some member governments would be against making this adjustment this year, while others would insist on it. The point he wished to stress was that the Bank could not wait until the Committee concluded its deliberations. Staff morale was already affected.

Mr. Matsukawa said he understood this issue had first been raised in the U.S. Congress. Mr. McNamara explained that it had become a problem and had been raised in Congress initially because the gap between U.S. civil service compensation and Bank compensation at comparable levels had widened; U.S. civil service compensation had remained practically frozen since 1969 except for two small adjustments of about 10%, while there had been a 60% increase in the cost of living over this period. Mr. McNamara concluded that he was not insisting that the Japanese authorities accept the Bank's position on compensation but simply asking that they instruct their Executive Director to become thoroughly familiar with the underlying issues and to put himself and his authorities into a position to decide them sensibly.

- (iii) Borrowings: Mr. McNamara expressed appreciation for the Bank of Japan's willingness to roll over outstanding borrowings, in some cases refinancing them in advance of maturity. He said that because the Bank had completed

the current fiscal year's borrowing program early, it had not been able to take advantage of all opportunities for raising funds in the Japanese capital market. The Bank would wish to become more active in the Japanese market during FY79.

Mr. Matsukawa commented that the Japanese capital markets at the moment were very liquid, but that the large budget deficit would put pressure on the market. He hoped that private sector activity would pick up, but was concerned that with the increase in corporate demand the markets might become crowded. In any event, the Japanese authorities had traditionally given multilateral institutions like the Bank and the Asian Development Bank a priority position in the markets and would continue to do so in future.

(iv) IDA: As to IDA, Mr. McNamara only wished to thank Mr. Matsukawa personally and his government for the size of the Japanese contribution to IDA V and for the timeliness of their notification.

(v) Capital Increase: Mr. Matsukawa had referred at the outset of the conversation to the "conservative" attitude of the Japanese on issues relating to the capital increase discussions. In returning to the subject, Mr. McNamara said that he did not wish to appear critical of Japan's "conservatism" but that so far the Japanese simply had failed to take any position whatsoever. Mr. Matsukawa acknowledged this point and said that, unlike other governments, his authorities preferred not to take a position until they were quite certain that they could meet the commitments into which they were entering. Immediately on his return to Japan, he would be in touch with the International Finance Bureau and the Budget Bureau in the Ministry and he expected to be able to outline the Japanese position during Mr. Cargill's visit to Tokyo.

Mr. McNamara stressed that the capital increase was the single most important issue currently confronting the Bank. In response to a question on the Board Schedule, Mr. McNamara said the meeting scheduled for February 16 would deal with voting rights and Board representation and that in early March a paper discussing the feasibility of reducing the statutory limitations on lending would be taken up. He added that it was not his intention to recommend a change in the statutory limit but that in putting this item on the agenda he was merely responding to a suggestion of the Dutch Executive Director. He did not think that the Board would push

for a change, because such action might confuse investors in the Bank's securities. Beyond these two items, he still hoped to get an agreement by April 1 on the amount of the capital increase. Mr. Matsukawa reiterated that he would probably be able to pursue this subject with Mr. Cargill in Tokyo but that in the meantime the Japanese Executive Director was returning the following day from Tokyo and might be able to discuss the current views of the Japanese authorities.

3. Mr. Matsukawa then invited Mr. McNamara to come to Japan, with the timing of the visit left to suit his convenience. Ideally, he should come after the Diet had finished its current session in mid-May. Mr. McNamara said that the latter part of May and June were not a good time for him to be away from the Bank and that August presumably was bad because of vacations in Japan. Mr. Matsukawa responded that once the dates had been settled, there was no particular difficulty about timing because the individuals with whom Mr. McNamara would be meeting would arrange to be available. Mr. McNamara indicated that he would very much like to come, and that he was particularly interested in finding out what steps the Japanese were taking to adjust their economy to the economic changes which had taken place and were taking place, how they were shaping their relations with other countries and how they were seeing their relations with the Bank. In regard to the last item, he asked what the Japanese authorities would like the Bank to do and raised as an example whether it would help the Japanese authorities vis-a-vis the Diet if the Bank paid a dividend. Mr. Matsukawa did not think that a Bank dividend would affect the views of the members of the Diet one way or the other, that the Japanese Government did not expect to collect a dividend on its capital subscriptions to the Bank, but similar to investments in other public enterprises only expected to be repaid its proper share in case the institution was liquidated. The Japanese were more interested in seeing the Bank build up its earnings and reserves.

4. Mr. McNamara concluded the conversation by suggesting that on his next visit to Washington Mr. Matsukawa plan on lunch or dinner with him.

cc: Messrs. McNamara
Cargill

KGG:omc

January 27, 1978

BRIEFING PAPER

JAPAN

Page

I.	KEY ISSUES	2
II.	OFFICIAL DEVELOPMENT ASSISTANCE	4
III.	UNCTAD	7
IV.	BORROWING FROM JAPAN	8

Attachments:	Annex I	- Political and Economic Situation
	Annex II	- Co-financing
	Annex III	- Japanese Staff in the World Bank Group

Tables:	Table 1	- Flows of Official Development Assistance from DAC Members
	Table 2	- Flow of Development Finance
	Table 3	- Estimated Effect of IBRD/IDA Operations on Japan's Balance of Payments
	Table 4	- DAC Distribution of Aid
	Table 5	- Relative Aid Performance of DAC Member Countries
	Table 6	- Terms of ODA
	Table 7	- Distribution of ODA to Higher Income LDCs in 1975
	Table 8	- Distribution of ODA to the Poorest Countries in 1975
	Table 9	- Net ODA Flows to Multilateral Agencies - 1975

1. KEY ISSUES

A. IDA 5

The IDA 5 bill authorizing Japan's contribution of ¥223,462.8 million (US\$913 million at the December 1977 average exchange rate of ¥244.82 per US dollar) passed the Diet in May 1977. Notification of an advance contribution of one-third of the total was received on September 21, 1977.

B. IBRD Issues

(i) General Capital Increase

Nothing to report.

(ii) Borrowing from the Bank of Japan

Arrangements have been made to refinance IBRD borrowings from the Bank of Japan maturing in 1978-79 in advance of the date of maturity.

(iii) Borrowing in the Japanese Capital Market

In the last half of 1977, the Bank returned to the Japanese capital market for the first time since July 1973. A total of ¥100 billion was borrowed through December 1977 (including the Euroyen issue for which Japanese approval was received). The Treasurer anticipates continued borrowing in Japan in 1978. ✓

(iv) Co-financing with Japan

The Foreign Office advised Mr. Hornstein during his visit to Tokyo in December of Japan's interest in expanding significantly its co-financing activities with the World Bank as a contribution towards doubling ODA in the next five years and in order to facilitate increased disbursements to non-traditional recipients of Japanese

assistance, especially in Africa. We understand that senior management is involved in continuing discussion of this issue.

C. Official Development Assistance

Japanese authorities have made increasingly strong commitments to an expansion of ODA, with a figure of 0.35% of GNP by FY82 most often quoted. The major impediments to achieving this target are: (a) apparent reluctance in the Ministry of Finance to authorize major increases in appropriations for ODA; and (b) inability to disburse funds rapidly through existing channels.

2. OFFICIAL DEVELOPMENT ASSISTANCE

A. ODA Performance

In 1973 and 1974 Japan's ODA accounted for 10% of the total ODA from DAC countries, but this share declined to 8% in 1976. Since the mid 1960s, bilateral loans have been the major component of Japan's ODA, accounting for over 50% of the total. The emphasis has been on project assistance, and a major part of bilateral ODA has been extended for financing the foreign exchange cost of development projects. In 1973-1975, project assistance accounted for about 65% of bilateral ODA, and they were given largely for economic infrastructure projects (46%) and mining-industry project (31%).

The distribution of bilateral ODA has been concentrated in the Asian countries, and particularly in South East Asia. There have been efforts to diversify the geographic distribution, but even in 1974 and 1975 the ASEAN countries (Indonesia, Malaysia, Philippines, Singapore and Thailand) accounted for more than 40% of the bilateral flows and the Asian countries received over three-quarters.

The government's policy is to allocate a large portion of bilateral ODA for low income countries, while encouraging private flows to middle income countries. In 1975, 56.9% of bilateral ODA was extended to countries with a per capita GNP of US \$200 or less, and 75.8% was for those with per capita GNP of US \$375 or less. However, the share of LLDCs (least developed

countries) has been relatively low; the share was 14% in 1975, which exceeded the population share of LLDCs (12%) but fell short of the DAC average of 17.9%. The relatively low share of LLDCs is attributed to the fact that most LLDCs are in Africa where Japan has been giving little assistance.

Multilateral contributions began to increase rapidly in the mid-1960s, and the volume increased sevenfold in 1967-1976. The share in total ODA also rose to about 25% by 1973-1975 and further to 32% in 1976. The World Bank Group and the Asian Development Bank have been the main recipients; in 1974-1976, the World Bank Group received over 40% of Japan's multilateral ODA and the Asian Development Bank received about 25%. In addition to contributions through the traditional multilateral channels, Japan has agreed to contribute US \$52 million to the International Fund for Agricultural Development and US \$115 million to the Special Action Program established at the CIEC meeting.

B. Prospects

In 1976, Japan's ODA to GNP ratio declined to 0.20% (from 0.24% in 1975), and the level of ODA also declined by 3.8% to US \$1105 million. However, significant improvements can be expected in Japan's ODA performance over the next few years. There are indications that the government has strengthened its commitment to development assistance efforts: (i) the Five Year Plan published in May 1976 included the target to

increase the ODA to GNP ratio to the level of other developed nations; (ii) several high officials including the Prime Minister and the Foreign Minister have spoken publicly in support of ODA increases since January 1977; (iii) the government has undertaken a study of Japan's ODA system aimed at finding means to expedite commitments and disbursements; and (iv) Prime Minister Fukuda has made public commitments to increase ODA to the Asean nations, Papua New Guinea, and other countries.

In a White Paper released in December, the Foreign Ministry called for an increase in ODA by 2.8 times in five years to \$4.7 billion, or 0.35% of GNP by 1982. The Ministry also called for improvements in the terms of Japanese ODA, in particular, by increasing the ratio of grants to ODA loans; by unifying all external assistance under one ministry; and by establishing a separate budget account for ODA.

The FY78 draft budget was approved by a special Cabinet meeting on December 29th. The budgetary allocation for economic cooperation was increased by 22.1% compared to a 7.2% increase in FY77. Combined with the Treasury program, the total ODA budget (¥640 billion) will exceed 0.30% of GNP. At least on a budget basis, it appears that the Government is serious about "doubling ODA within five years" but much depends on success in improving the mechanism through which ODA is committed and disbursed.

3. UNCTAD

The Japanese support a \$1 billion commodity aid program from advanced nations. They do not, however, agree with the proposed intergrated commodity approach but prefer to see discussion of each primary commodity on an item by item basis. Japan would like to see the emphasis placed on the commodities of Asian developing countries.

4. IBRD BORROWING FROM JAPAN

A. Borrowing from the Bank of Japan

The Japanese Government has agreed to a roll-over of borrowings from the Bank of Japan by means of advance re-financing. IBRD borrowed ¥30 billion in October 1977, and arrangements have been completed for similar ¥30 billion issues in April and October 1978, and in April and October 1979. These borrowings in effect will replace loans of ¥34 billion maturing in 1978, and ¥122 billion maturing in 1979.

B. Yen Borrowing in Capital Markets

In the period from June 1971 to July 1973, the World Bank borrowed ¥108 billion (approximately US\$400 million at the present exchange rate) through six public offerings and one private placement of World Bank bonds in the Japanese bond market:

		<u>Amount</u>	<u>Maturity</u>
		<u>(¥ bn)</u>	<u>(Years)</u>
<u>Public Offerings</u>			
June	1971	11.0	10
Oct.	1971	12.0	10
Feb.	1972	15.0	10
Aug.	1972	20.0	15
Dec.	1972	20.0	15
July	1973	<u>20.0</u>	15
	Sub-total	98.0	
<u>Private Placement</u>			
Feb.	1973	<u>10.0</u>	10
	Total	<u>108.0</u>	

The Bank did not borrow yen in capital markets in the period from August 1973 to July 1977. The Japanese bond market was closed to non-resident borrowers in late 1973, due to the deterioration in Japan's balance of payment position. The market became accessible to non-residents in July 1975, but the Bank stayed away until August 1977, for interest rates in the Japanese bond market were too high.

In August 1977, the Bank borrowed ¥50 billion (approximately US\$188 million) through (i) the seventh public offering of World Bank bonds in the Japanese market for ¥30 billion (US\$113 million) and (ii) the first issue of World Bank bonds in the Euro-yen market for ¥20 billion (US\$75 million).

A further borrowing of ¥50 billion (approximately \$207 million) was made in Tokyo in December. Total borrowing from the Tokyo market stands at ¥732 billion or approximately \$3.06 billion, of which \$2.4 billion is outstanding.

Political and Economic Situation

The ruling Liberal Democratic Party lost strength in the Diet in the two recent elections (a House election of December 1976 and a Senate election of July 1977), and the government now holds a very thin majority in the Diet.

Prime Minister Takeo Fukuda visited five ASEAN countries (Malaysia, Thailand, Indonesia, Singapore and Philippines) and Burma from August 6 to 18, 1977. During the visit, he pledged Japan's support for the development efforts of the Asian nations, and restated that Japan would double its ODA in less than five years.

The cabinet was reshuffled on November 28, 1977, and the new position of minister of external economic relations was created. Nobuhiko Ushiba, who was appointed to this new position, is considered a top economic specialist in the government.

The pace of economic recovery has been slow. In spite of a recovery program offered in the fall of 1977 and an additional reflationary package of January 1978, GNP growth rate in FY77 (April 1977 - March 1978) is estimated as 5.3%.

For FY78 (April 1978 - March 1979), the government aims at GNP growth of 7%. The draft budget for FY78, approved at a special cabinet meeting of December 29, 1977, contains programs to raise public expenditure by 20% (in real terms) and private housing investment by 9% (in real terms), both aimed at further stimulation of the economic recovery. The Bank of Japan appears ready for a cut in the

official discount rate by 0.5% to 0.75% from the present 4.25%.

Growing surplus in the balance of payments, which registered \$1.8 billion in November 1977, and the resulting accumulation of international reserves, reaching US\$23 billion by the end of 1977, have exerted increasing upward pressure on the yen; the yen has appreciated from ¥292.80 per US\$ at the end of 1976 to ¥240 per US\$ by the end of 1977. This began to affect the exports of Japan in the fall of 1977. An emergency measure was announced on December 6 to increase imports and restrain further increases in surplus. Additional measures for increasing Japan's imports and reducing its balance of payment surplus, including increased foreign aid, have been formulated during a meeting of Japanese-US officials in Tokyo on January 13, 1978.

Co-financing

In FY68-FY73, Japan committed US\$68.4 million to co-finance Bank Group projects, all of which were in Asia. In FY74, Japan co-financed two projects, providing \$41.1 million for the Ban Chao New Hydro Project in Thailand and an unknown amount for the Indonesia Railways Project. In FY75, funds of US\$48 million were committed to co-finance the Bank's Sixth Power Loan to Malaysia. In FY76, Japan agreed to provide US\$145.5 million to co-finance five projects, including two outside Asia:

<u>Country</u>	<u>Project</u>	<u>IDA or IBRD</u>	<u>Amount of Co-financing (US\$ mn.)</u>
Mexico	Third Railway	IBRD	19.8
Egypt	Port of Alexandria	IBRD	19.2
Indonesia	Second Shipping	IBRD	25.0
Thailand	Second Telecommunications	IBRD	65.6
Nepal	Kulekhani Hydro-electric	IDA	<u>15.9</u>
Total			<u>145.5</u>

In FY77, Japan agreed to co-finance a Steel Expansion Project in Mexico together with a number of other countries, but this co-financing arrangement was cancelled, and no other co-financing commitment was made.

Recently, a group of Japanese commercial banks (with the Tokai Bank as the manager) agreed to co-finance the 8th Power Project in Malaysia. This is the first time that Japanese commercial banks co-financed Bank Group projects.

In December 1977 at the request of the Japanese Government, Mr. Hornstein met with Mr. Ohtaka, Deputy Director General of the Economic Cooperation Bureau, and with representatives of other government agencies to brief the government on co-financing. Japan has expressed strong interest in expanding its co-financing activities with the World Bank as one means of engineering a rapid increase in its assistance to developing countries. A particular concern is to achieve a wider geographical distribution of aid, and, through co-financing, Japan hopes to employ Bank experience and expertise to increase its disbursements, particularly to Africa, both rapidly and efficiently.

The Bank also has expressed interest in an expansion of co-financing with Japan, and discussion of the issues involved continues.

JAPANESE STAFF IN THE WORLD BANK

From June 30, 1972, to June 30, 1977, the number of Japanese staff at levels J and above rose from 30 (1.9%) to 35 (1.5%).

JAPANESE NATIONALS IN LEVELS Q-0
as of June 30, 1977

HATTORI - Controller
MAEDA - Director, Tokyo Office

Table 1:

FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE FROM DEVELOPMENT ASSISTANCE COMMITTEE MEMBERS^{a/}
(Calendar Years, U.S. \$m. and % of Projected GNP)

	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Australia	59 .38	119 .53	202 .59	202 .53	267 .59	286 .44	430 .55	507 .60	385 .42	429 .45	505 .47	582 .48	669 .49
Austria		10 .11	11 .07	12 .07	18 .09	40 .15	59 .18	64 .17	39 .10	81 .17	98 .18	110 .18	132 .19
Belgium	101 .88	102 .60	120 .46	146 .50	193 .55	235 .51	271 .51	378 .59	340 .51	476 .61	507 .64	644 .65	749 .67
Canada	75 .19	96 .19	346 .42	391 .42	492 .47	515 .43	713 .50	880 .56	887 .47	1102 .58	1341 .61	1582 .64	1818 .66
Denmark	5 .09	13 .13	59 .38	74 .43	96 .45	132 .48	168 .55	205 .58	214 .57	280 .64	328 .67	386 .70	430 .70
Finland ^{b/}		2 .02	7 .07	13 .12	20 .15	28 .16	38 .17	48 .18	51 .18	53 .17	63 .17	73 .18	90 .20
France	823 1.38	752 .76	971 .66	1075 .66	1320 .67	1461 .57	1616 .59	2091 .62	2167 .63	2349 .62	2665 .62	3002 .62	3374 .63
Germany	223 .31	456 .40	599 .32	734 .34	808 .31	1102 .32	1433 .37	1689 .40	1384 .31	1670 .32	1883 .32	2092 .32	2313 .31
Italy	77 .22	60 .10	147 .16	183 .18	102 .09	192 .14	216 .14	182 .11	226 .13	234 .12	237 .11	248 .10	271 .10
Japan	105 .24	244 .27	458 .23	511 .23	611 .21	1011 .25	1126 .25	1148 .23	1105 .20	1724 .26	2092 .27	2530 .29	3029 .30
Netherlands	35 .31	70 .36	196 .61	216 .58	307 .67	322 .54	436 .63	604 .75	720 .82	1006 .97	1167 1.00	1338 1.02	1509 1.03
New Zealand ^{c/}			14 .23	17 .23	21 .25	29 .27	39 .31	66 .52	53 .43	56 .41	67 .45	81 .48	92 .49
Norway	5 .11	11 .16	37 .32	42 .33	63 .43	87 .43	131 .57	184 .66	221 .71	320 .87	406 .96	464 .97	538 .98
Sweden	7 .05	38 .19	117 .38	159 .44	198 .48	275 .56	402 .72	566 .82	608 .82	770 .93	909 .97	1047 1.00	1162 1.00
Switzerland	4 .04	12 .09	30 .15	28 .12	65 .21	65 .16	68 .14	104 .19	112 .18	94 .15	104 .16	123 .17	141 .17
United Kingdom	407 .56	472 .47	447 .37	562 .41	609 .39	603 .34	730 .38	863 .37	835 .38	889 .39	949 .37	1073 .38	1194 .38
United States ^{d/}	2702 .53	3418 .49	3050 .31	3324 .32	3349 .29	2968 .23	3439 .24	4007 .26	4334 .26	4770 .26	5492 .26	6171 .26	6896 .26
GRAND TOTAL													
ODA (\$b.-Nominal Prices)	4.6 .52	5.9 .44	6.8 .34	7.7 .35	8.5 .33	9.4 .30	11.3 .33	13.6 .36	13.7 .33	16.3 .35	18.8 .35	21.5 .36	24.4 .37
ODA (\$b.-Const. 1977 Prices)	12.2	14.1	14.4	15.5	15.8	14.3	14.2	15.1	14.8	16.3	17.4	18.6	19.7
GNP (\$t -Nom.Prices)	0.9	1.3	2.0	2.2	2.6	3.1	3.4	3.8	4.1	4.6	5.3	5.9	6.6
ODA Deflator ^{e/}	.38	.42	.47	.50	.54	.66	.80	.90	.93	1.00	1.08	1.16	1.24

^{a/} Figures for 1976 and earlier years are based on actual data. Those for 1977-80 are based on OECD and World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements by governments. They are projections, not predictions, of what will occur unless action not now planned takes place.

Finland became a member of DAC in January 1975.

New Zealand became a member of DAC in 1973. ODA figures for New Zealand are not available for 1960 and 1965.

^{d/} In 1949, at the beginning of the Marshall Plan, U.S. Official Development Assistance amounted to 2.79% of GNP.

^{e/} Includes the effects of changes in exchange rates.

Table 2:

JAPAN: Flows of Development Finance (Calendar Years)

	Units	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Nominal GNP ^{a/}	US\$b.	489	557	670	772	884	1007	1148	1308	1490	1698	1935
Annual Increase	%	7.4	13.9	20.3	15.2	14.5	14.0	14.0	14.0	14.0	14.0	14.0
IBRD Capital Subscription ^{b/}	US\$m.			7	13	13	7		20	41	41	22
IFC Capital Subscription ^{c/}	US\$m.			3	5	5	5	4	1			
IDA: Calls on IDA 1-7 ^{d/}	US\$m.	148	68	100	132	161	201	239	266	272	307	339
Total Bank Group	US\$m.	148	68	110	150	179	213	243	287	313	348	361
Regional Banks	US\$m.	84	217	129	149	164	164	164	224	224	224	224
Other Multilateral	US\$m.	65	67	298	315	351	525	612	641	764	899	1077
Total Multilateral	US\$m.	297	352	537	614	694	902	1019	1152	1301	1471	1662
Total Bilateral	US\$m.	851	754	1187	1478	1836	2127	2424	2771	3170	3624	4144
Total ODA ^{e/}	US\$m.	1148	1106	1724	2092	2530	3029	3443	3923	4471	5095	5806
ODA Const. 1975 Prices	US\$m.											
ODA as % of GNP	%	.24	.20	.26	.27	.29	.30	.30	.30	.30	.30	.30
ODA as % of ODA	%	12.9	6.1	5.8	6.3	6.4	6.6	6.9	6.8	6.1	6.0	5.8
IDA as % of GNP	%	.030	.012	.015	.017	.018	.020	.021	.020	.018	.018	.018
Memo Items (Fiscal Year)												
IDA Cash/Note Deposits	US\$m.	165	165	165	264	264	264	323	323	324	396	397
IDA 5 Note Deposits	US\$m.				264	264	264					
IDA 5 Calls ^{f/}	US\$m.				17	61	112	154	149	120	74	52
	¥b.				4.7	17.2	31.5	43.6	42.0	33.7	20.8	14.5

NOTE: The exchange rate in all the projections (1977-1985) is the April 1977 monthly average (IFS line af).

- ^{a/} 1975 actual and 1976 preliminary estimates. Projections for 1977-1980 are calculations by Bank Staff from OECD and IMF data using medium estimates of real growth together with country specific U.S.\$ inflation rates. Projections for 1981-1985 are also midpoint estimates, but based on an overall U.S.\$ GNP deflator.
- ^{b/} Assumes: (1) a Selective Capital Increase of about \$8.5 billion approved in FY78 with 10% paid in and released over the three-year period FY78-80; and (2) an illustrative General Capital Increase of about \$30 billion approved in FY82 with 10% paid in and released over the three-year period FY83-85.
- ^{c/} Assumes an IFC Capital Increase of \$480 million in FY78 paid in over the five-year period FY78-82.
- ^{d/} Assumes: (1) that contributions to IDA 5 will total \$7,638 million, i.e., \$2,546 million per year; (2) IDA 6 and IDA 7 will be respectively 23% and 50% larger than IDA 5 (reflecting 7% per year nominal growth); (3) all contributions to IDA 5, IDA 6, and IDA 7 will be paid in three approximately equal annual installments and drawn pro rata.
- ^{e/} 1975 actual and 1976 preliminary estimates. Projections for 1977-1980 are based on information on budget appropriations for aid, and on aid policy statements by governments. Projections for 1981-1985 are based on the assumption that ODA will remain constant as a percentage of GNP through 1985. The deflators are the same as those for total GNP.
- ^{f/} The U.S. \$ equivalent of the national currency contribution has been calculated using the IMF representative exchange rate of March 14, 1977.

TABLE 3:

**ESTIMATED EFFECT OF IBRD AND IDA OPERATIONS ON JAPAN'S
BALANCE OF PAYMENTS THROUGH FY77
(US \$ millions : fiscal years)**

	Through 1969	1970	1971	1972	1973	1974	1975	1976	1977
IBRD EFFECT									
Current Account									
Procurement of Goods a/	522	80	122	158	210	242	231	365	434
IBRD Administrative expenses				2	3	2			
Interest to bond holders b/	3	1	16	35	66	112	115	109	114
Interest to loan holders b/	4				1	1	2	3	3
Less: IBRD Investment Income	7		1	1	5	8	5	15	24
Interest Charges on Loans	239	36	27	28	29	33	32	30	27
Equals: Balance on Current Account	283	45	110	166	246	316	311	432	500
Capital Account									
Loans to Japan disbursed & outstanding b/	653	-182	-11			-30	-9	-24	-36
Less: Japan's 1% Subscription	8		2						
Japan's 9% Subscription	69		23						
Net IBRD Bonds Sales b/	20	205	219	145	557	356	-65	-3	-2
Net IBRD Loan Sales b/				24	29	-28	15	2	-7
Equals: Balance on Capital Account	556	-387	-255	-169	-586	-358	41	-23	-27
Balance on Current + Long-term Capital Account	839	-342	-145	-3	-340	-42	352	409	473
IDA EFFECT									
Current Account									
Procurement of Goods a/	154	9	28	44	90	144	145	145	155
Equals: Balance on Account	154	9	28	44	90	144	145	145	155
Capital Account									
Japan's contributions to IDA	60	8	11	28	29	38	88	115	86
Equals: Balance on Capital Account	-60	-8	-11	-28	-29	-38	-88	-115	-86
Balance on Current + Long-term Capital Account	94	1	17	16	61	106	57	30	69
COMBINED IBRD/IDA EFFECT									
Current Account	437	54	138	210	336	460	456	577	655
Capital Account	496	-395	-266	-197	-615	-396	-47	-138	-113
Balance on Current - Long-term Capital Account	933	-341	-128	13	-279	64	409	439	542

a/ Includes procurement specifically identified as originating in Japan and the same proportion of procurement not identifiable by country of origin.

b/ US dollar bonds and loans in other than yen are included. Repatriation of loans in 1970 in the amount of \$162.5 million equivalent is reflected as a decrease in loans disbursed and outstanding in that year.

GENERAL NOTE: The amounts shown are in US dollar equivalents, using the exchange rates prevailing at the time the transactions took place. No account is taken of translation adjustments made in the Bank's accounts (which are maintained in US dollars) to reflect changes in the exchange rate between yen and US dollars.

TABLE 4
DAC DISTRIBUTION OF AID ^{a/}
(Net Disbursements, US \$ Millions)

Ranking ^{b/}	DAC Country	ODA				Total Flows	
		Actual		Estimated	Projected	Actual	
		1970	1975	1976	1980	1970	1975 ^{c/}
1	United States	3050	4007	4358	6710	5613	16562
2	France	971	2091	2155	3616	1828	3927
3	Germany	599	1689	1384	2047	1409	4757
4	Japan	458	1148	1100	2903	1821	2880
5	Canada	346	880	892	1969	579	1974
6	United Kingdom	447	863	835	1390	1213	2274
7	Netherlands	196	604	720	1420	422	1231
8	Sweden	117	566	608	1143	204	713
9	Australia	203	507	385	721	379	557
10	Belgium	120	378	340	760	294	847
11	Italy	147	182	274	350	677	1621
12	Denmark	59	205	218	433	83	259
13	Norway	37	184	218	523	63	262
14	Switzerland	30	104	111	130	126	394
15	New Zealand	14	66	52	85	22	68
16	Finland	7	48	51	89	25	87
17	Austria	11	64	39	122	92	158
	TOTAL DAC	6811	13585	13740	24411	14850	38571

^{a/} Figures for 1976 and 1980 are IBRD estimates. Grants by voluntary agencies are excluded.
^{b/} Rankings are by ODA flows for 1976.
^{c/} Estimates of total flows for 1976 and projections for 1980 are currently not available.

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7/5/77

TABLE 5

RELATIVE AID PERFORMANCE OF DAC MEMBER COUNTRIES^{a/}
% OF GNP

Ranking ^{b/}	Country	ODA			Total Flows ^{e/}		
		Actual		Estimated	Projected	Actual	
		1970	1975	1976	1980	1970	1975
1	Sweden	.38	.82	.82	1.00	.66	1.03
2	Netherlands	.61	.75	.82	1.03	1.32	1.52
3	Norway	.32	.66	.71	.98	.55	.93
4	France	.66	.62	.62	.63	1.24	1.17
5	Denmark	.38	.58	.58	.70	.53	.73
6	Belgium	.46	.59	.51	.67	1.14	1.36
7	Canada	.42	.58	.48	.66	.71	1.27
8	Australia	.59	.61	.42	.49	1.10	.66
9	New Zealand ^{c/}	.23	.52	.42	.49	.36	.56
10	United Kingdom	.36	.37	.38	.38	.98	1.00
11	Germany	.32	.40	.31	.31	.75	1.12
12	United States	.31	.26	.26	.26	.57	1.09
13	Japan	.23	.24	.20	.30	.92	.59
14	Switzerland	.15	.18	.19	.17	.61	.73
15	Finland ^{d/}	.07	.18	.18	.20	.24	.32
16	Italy	.16	.11	.16	.10	.73	.94
17	Austria	.07	.17	.10	.19	.64	.42
	ALL DAC COUNTRIES	<u>.34</u>	<u>.36</u>	<u>.33</u>	<u>.37</u>	<u>.73</u>	<u>1.01</u>

a/ 1970 and 1975 figures are actual, 1976 and 1980 figures are IBRD estimates.

b/ Rankings are by ODA as a percentage of GNP for 1976.

c/ New Zealand became a member of DAC in 1973.

d/ Finland became a member of DAC in January 1975.

e/ Estimates of private flows for 1976 and projections for 1980 are currently not available.

TABLE 6

TERMS OF ODA
% Grant Element a/

Ranking ^{b/}	Country	Overall Grant Element Of The ODA Program			Grants As A % Of Total Commitments		
		1973	1974	1975	1973	1974	1975
1	Australia	99.4	99.4	100.0	99.1	99.2	100.0
2	Norway	99.8	100.0	99.8	99.6	100.0	99.6
3	Sweden	98.6	99.3	99.2	92.8	97.6	95.4
4	New Zealand	98.5	98.2	98.2	96.8	97.1	97.1
5	Belgium	95.6	97.4	97.3	89.0	89.3	92.2
6	United Kingdom	87.1	85.4	96.9	61.5	54.8	91.1
7	Canada	94.1	97.2	96.4	47.2	77.4	72.7
8	Denmark	96.1	94.7	96.0	79.0	69.3	74.1
9	Netherlands	88.4	87.4	93.9	70.5	66.8	83.9
10	Austria	57.4	48.8	92.3	32.7	25.6	84.9
11	Finland	85.6	89.4	91.5	64.1	63.4	63.5
12	Switzerland	93.0	96.9	91.2	85.7	90.9	66.6
13	Italy	69.3	97.8	90.5	54.4	96.4	83.5
14	France	91.2	88.8	89.3	84.1	80.0	80.9
15	United States	89.9	90.2	85.4	68.3	71.6	58.1
16	Germany	83.1	82.6	84.8	53.7	48.6	55.8
17	Japan	68.6	61.5	70.2	39.9	27.3	35.4
AVERAGE ALL DAC COUNTRIES		<u>87.5</u>	<u>86.0</u>	<u>88.3</u>	<u>66.2</u>	<u>65.4</u>	<u>69.0</u>

a/ The grant element reflects the concessionality of loans. Roughly speaking it is calculated at $1 - \frac{\text{The present value of all repayments (at 10\%)}}{\text{Face value of the Loan}}$

b/ Rankings are based on the grant element of the ODA commitments for 1975.

TABLE 7

DISTRIBUTION OF ODA TO HIGHER INCOME LDC's 1975^{a/}
(% Gross Bilateral Disbursements)

<u>Ranking^{b/}</u>	<u>Country</u>	<u>Aid To Countries with per capita Income \geq \$700</u>	<u>Aid to Countries with per capita Income $>$ \$1000</u>
1	France	48.3	47.2
2	United States	23.7	16.1
3	Netherlands	23.5	7.5
4	Austria	22.6	8.0
5	Germany	19.4	12.8
6	Italy	11.9	7.0
7	United Kingdom	7.0	3.2
8	Japan	6.4	0.9
9	Belgium	4.1	1.7
10	Switzerland	3.7	1.6
11	Canada	1.9	0.7
12	Finland	1.2	0.4
13	New Zealand	1.0	0.8
14	Denmark	0.5	0.1
15	Australia	0.4	0.3
16	Norway	0.4	0.2
17	Sweden	0.2	0.2
	All DAC	<u>20.6</u>	<u>15.8</u>

a) Geographically allocated amounts only.

b) Ranking is by aid to countries with per capita income \geq \$700.

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7/5/77

TABLE 8

DISTRIBUTION OF ODA TO THE POOREST COUNTRIES-1975
(% of Gross ODA Bilateral Aid)

<u>Ranking</u>	<u>Country</u>	<u>Share to the Poorest countries (per capi- ta income \leq \$200</u>	<u>Share to LDC's^{b/}</u>
1	Norway	86.2	41.1
2	Switzerland	82.9	21.8
3	Sweden	82.2	33.3
4	Belgium	78.7	20.8
5	Denmark	76.8	48.3
6	Canada	76.6	30.2
7	Finland	65.1	52.9
8	Netherlands	60.5	17.8
9	United Kingdom	57.1	19.9
10	Japan	56.9	14.0
11	United States	50.3	20.3
12	Austria	48.9	6.6
13	Germany	47.8	18.1
14	New Zealand	47.5	21.6
15	Italy	44.7	17.9
16	Australia	23.9	6.9
17	France	23.2	8.6
	<u>Total DAC</u>	<u>49.1</u>	<u>17.9</u>

a/ Ranking is by percentage of aid to countries with per capita income \leq \$200
b/ Least developed countries.

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7/5/77

TABLE 9

NET ODA FLOWS TO MULTILATERAL AGENCIES 1975

Ranking ^{a/}	Country	Net Multilateral ODA		IDA as a % Of Total Net- Multilateral Flows	Multilateral Aid as a % of Total DAC Multilateral
		\$ million	% Total Net ODA		
1	Italy	123.5	67.7	-	3.3
2	Denmark	94.5	46.0	14	2.5
3	Norway	81.7	44.5	21	2.2
4	Finland	20.9	43.4	29	0.6
5	Netherlands	238.8	39.5	15	6.3
6	United Kingdom	296.9	34.4	48	7.9
7	Sweden	192.8	34.1	30	5.1
8	Belgium	125.8	33.3	41	3.3
9	Switzerland	33.0	31.9	-	0.9
10	Germany	527.9	31.3	33	14.0
11	Canada	267.7	30.4	27	7.1
12	United States	1066.0	26.6	33	28.3
13	Japan	297.3	25.9	50	7.9
14	New Zealand	15.5	23.6	12	0.4
15	Austria	14.5	22.5	42	0.4
16	France	302.2	14.5	28	8.0
17	Australia	70.6	13.9	36	1.9
	TOTAL DAC	<u>2769.6</u>	<u>27.7</u>	<u>32</u>	<u>100.0</u>

a/ Ranking is by percentage of net ODA multilateral flows in total net ODA flows for 1975.

SOURCE: DAC (1976 Chairman's Review)

P&B/FS
7/5/77

62

24

MEMORANDUM FOR THE RECORD

Meeting with Mr. Okita, Japan Economic Research Center, March 16, 1978

Present: Messrs. McNamara and Okita

Mr. Okita said that he was interested in arrangements to involve increasingly Japanese scholars in the study of global issues. He planned to set up an international development research foundation in Japan, which would also involve businessmen, labor leaders, politicians and journalists. Mr. McNamara said that he was very interested in this proposed institute. Mr. Bundy and he had suggested the creation of an international Brookings institution. He urged Mr. Okita to pursue his plan.

Mr. Okita said that the surplus industrial capacity of the developed world and the surplus liquidity of OPEC should be linked to the potential demand in LDCs. Areas of mutual interest had to be identified in the North/South dialogue. Mr. McNamara agreed. So far the wrong issues had been addressed, e.g., the Nairobi UNCTAD meeting had focused on indexation of commodities and debt forgiveness. He drew Mr. Okita's attention to John Sewell's ODC report on areas of mutual interest. Mr. Okita mentioned the article he had written in honor of Jan Tinbergen on the dynamic division of labor between LDCs and developed countries. This paper had been well received by the ECOSOC Third Development Decade Meeting.

Mr. Okita reported on his participation in the work of the Trilateral Commission on rice production in Asia. Mr. McNamara said that country food production and consumption plans needed to be developed. These plans had to deal with population projections, elasticity of demand, and production requirements and constraints; they should then be discussed in world fora. All cereal grains should be included. Studies should first focus on the important food deficit countries, such as Bangladesh, Indonesia and Nigeria. Mr. Okita said that he had discussed this matter with Mr. Yudelman.

CKW
March 29, 1978

63

OFFICE MEMORANDUM

TO: Files DATE: June 21, 1978
FROM: K. Atsumi (not cleared by Mrs. Atsumi)
SUBJECT: Minutes of the Meeting with President Ishihara of the Overseas
Economic Cooperation Fund

1. Mr. McNamara called on Mr. Ishihara on June 7 (14:30-15:15) accompanied by Messrs. Clark, Maeda, Koch-Weser and K. Atsumi. Present from the OECF were Executive Directors Yuki, Suzuki, Takemura and Araki.

2. Mr. McNamara started by complimenting Japan's (i) efforts to recycle the current account surplus to the developing countries, which he considered the most important and constructive action, (ii) decision to double the ODA, and (iii) opening up of the capital market to the developing countries. He stated, however, that the main purpose of his visit was to see how the Bank could help Japan's efforts. He welcomed any comments or advice.

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3. Mr. Ishihara replied that regarding co-financing, several problems remained. The OECF so far had co-financed 10 projects with the Bank, amounting to ¥116 billion, which was only 9.6%. This had to be increased, particularly in view of the necessity to increase the OECF activities. He felt, however, that more effective and closer means of communication between the two institutions had to be sought out.

Mr. Ishihara felt that the past annual consultation meetings had been helpful, but in the future in connection with doubling of ODA, he hoped that the meeting would be more substantive, although some adjustment still had to be made with the Government.

4. Mr. McNamara replied that the Bank was very willing to develop any procedure to improve any communication. But he pointed out that the Government had not told him how they wanted to proceed co-financing programs with the Bank, although the Bank was prepared to assist the Government in any way they wanted.

5. Mr. Ishihara thought that the Government ministries were reviewing what role co-financing with the Bank would play in doubling the ODA and that a decision should be made soon. Procedures were being discussed at the official level. Once the procedures were agreed, he was certain co-financing would move quickly. He asked for understanding on the part of the Bank on the slow decision making process of the Japanese bureaucracy.

6. Mr. McNamara hoped that the amount of co-financing would be additional and not supplemental to the Bank's program. And if so, the Bank needed more projects.

7. Mr. McNamara inquired what was the specific difficulty with disbursement. From the preliminary data the Bank had obtained, the Japanese performance for 1977 was below what had been anticipated -- as in West Germany and in the U. S.

8. Mr. Ishihara agreed that the Japanese performance had not been satisfactory for 1977. However, he wanted to qualify his statement to 40% of Japan's ODA, as that was all OECF had accounted for (the remaining 60% had been for multilateral contributions and grants). He said that for FY77, ending March 1978, the OECF disbursements had increased by 29% on net basis, as compared to the 16% net increase for calendar 77. This clearly had been unsatisfactory on the calendar year basis. But in view of the fact that their ODA had been mostly project assistance, a certain amount of time lag would have been inevitable. On commitment basis for FY77 the OECF had increased by 108%, more than double, over FY76. This meant that a substantial amount was in the pipeline. Furthermore, for this fiscal year, disbursement over the first two months had been better than anticipated. He hoped that the performance, therefore, would improve for the OECF.

9. Mr. McNamara inquired what was the OECF's thoughts on Vietnam and what would be the prospect for the Japanese assistance to the country. Mr. Ishihara replied that in March, the problem had been settled by the acknowledgement by the Unified Vietnam of the debts by the Saigon Regime, amounting to ¥16 billion including the accrued interests. Japan, in return, had agreed to extend grants of ¥4 billion over the next four years plus yen loans amounting to ¥20 billion per year over the next two years. He felt that future negotiations based on this agreement, would proceed rather quickly.

Mr. McNamara suggested that if Japan had been interested in co-financing with the Bank Group, the Bank was prepared to assist. President Ishihara disclosed that an OECF staff had already sounded out the Vietnamese authority on the possibility but no concrete response had so far been made by them. Certainly, if the Vietnamese would request the Japanese co-financing on the Bank projects, they would be happy to comply.

10. Mr. McNamara reiterated how much the Bank valued the consultation meetings. He added that if it would be helpful, the Bank would be happy to have representatives of the ministries involved. Mr. Ishihara thought that as soon as the Government came to a consensus decision, Japan could inform, hopefully quickly, to how this year's consultation meeting would be proceeded.

OFFICE MEMORANDUM

TO: Files
DATE: June 21, 1978

FROM: K. Atsumi (not cleared by Mrs. Atsumi)

SUBJECT: Minutes of the Meeting with Minister Nakagawa of Agriculture and Forestry

1. Mr. McNamara called on Minister Nakagawa on June 7 (17:30-18:00) accompanied by Messrs. Clark, Maeda, Koch-Weser and K. Atsumi. Officials from the Ministry of Agriculture and Forestry were also present.
2. Mr. McNamara thanked the Minister for his support of the Bank Group's activities, particularly to agricultural research institutes. Increasing agricultural production was most important. He felt that the Minister's advice would be most helpful in view of Japan's unique experience in agriculture and its high productivity.
3. Minister Nakagawa replied that he had been most impressed by Mr. McNamara's dedication to agricultural development when they had met three years ago. He had been embarrassed to learn how small Japan's contribution to the international agricultural research program had been. He was pleased to inform Mr. McNamara that it had increased from \$800,000 of three years ago to \$3.5 million this year. Although this matter was within the jurisdiction of the Foreign Office and the Finance Ministry, the Minister would personally put his effort to further increase Japan's contribution to a level equivalent to that of West Germany.
4. Mr. McNamara said that the Bank was most grateful to his effort to increase Japan's support. He pointed out that the only solution for food problem is for the developing countries to help themselves. The world had much to learn from the Japanese efficiency and high yield per hectare.
5. Minister Nakagawa said that even in Japan extension service posed problems. Mr. McNamara replied that it was a very serious difficulty in the developing world. But the Bank was supporting extension service which was linked with the national agricultural research in such countries as India, Pakistan, Bangladesh and Turkey. He hoped that the Minister, if ever had the time, could visit some of these projects and give his personal opinions to the Bank.

OFFICE MEMORANDUM

TO: Files DATE: June 21, 1978

FROM: K. Atsumi (not cleared by Mrs. Atsumi)

SUBJECT: Minutes of the Meeting with President Sumita of the Export-
Import Bank of Japan

1. Mr. McNamara called on Mr. Sumita, Mr. Nakamura and Mr. Fujioka on June 8 (09:45-10:30) accompanied by Messrs. Clark, Maeda, Koch-Weser and K. Atsumi.
2. Mr. McNamara first stated that the Bank welcomed the Japanese Government's announcement to double its ODA. Mr. Sumita replied that increasing aid to poor countries was certainly welcome. He said that even though the Ex-Im Bank was no longer extending ODA loans, there would be a considerable room for increasing co-financing arrangements between the Bank and the Ex-Im Bank. He explained that the Ex-Im Bank had disbursed a total of \$6.5 billion cumulatively. Breakdown of countries by income categories for last year, for example was 18% for the middle-income countries with per capita income of over \$3,000; 24% for those with \$1,000-\$3,000; and 57% for those under \$1,000; and 1% to international organizations. This meant that over 80% of the Ex-Im loans (either in export financing, import financing, or in overseas investments) went to the developing countries. This was why he felt a substantial amount of money can be recycled through co-financing.
3. Mr. McNamara asked how the two institutions could improve coordination of co-financing, if it was to be increased. Mr. Sumita thought that the conventional means of communication (through the annual coordination meetings, and the Ex-Im Washington Office to contact regional departments of the Bank, as well as through the Tokyo Office) could be intensified. But he asked for the Bank's understanding that the very nature of export financing would make it necessary for the Ex-Im Bank loans to be tied.
4. Mr. McNamara hoped that co-financing from Japan was additional and not supplemental to the Bank's own lending. And since larger amount of co-financing would require some planning including additional staff, it would be helpful if the Ex-Im could let the Bank know even on a tentative basis, the total amount involved, particular regions and types of projects they were interested in.
5. Mr. Sumita thought that the Annual Consultation Meeting might be the appropriate time to set a general target of Mr. McNamara's request.
6. Mr. Sumita pointed out that the Ex-Im loans, import financing and direct investments would open a possibility of financing resource development. He inquired what outlook the Bank had on resource development activities. (At this point Mr. Sumita left for the Diet).

7. Mr. McNamara explained that the Bank financing should be considered as a last resort and any project that had other sources of financing had not been considered. However, it now appeared necessary to consider some type of international financing. The Bank was now telling the developing countries if they had requirements for financing for fuel or non-fuel mineral resources, the Bank would consider. He inquired the Ex-Im's position on this.

8. Mr. Nakamura replied that the Ex-Im was very interested in this. However, since this was a new field of activities, concrete plans would have to be studied carefully. Mr. McNamara agreed that the Bank would also be moving slowly on non-fuel mineral resources, but in fuel the Bank would be placing more emphasis. For example, he illustrated cases in India (Bombay High Petroleum), Pakistan (a possibility of oil project jointly developed by Gulf Oil, the Government and the Bank), and Turkey (coal and lignite development projects).

9. Mr. McNamara inquired how the Ex-Im viewed the creditworthiness of developing countries as well as the increasing rate of debts. Mr. Fujioka replied that it was very difficult to assess the situation. He felt that the non-oil LDC countries were in serious difficulty, although many of them had adjusted their domestic economies rather well. Nevertheless, he felt that more concessional assistance had to be extended to them. He wished it were possible to obtain some precise picture on debt problems. Mr. McNamara agreed that the Bank had the same difficulty of being precise about potentials of these countries, although the Bank was somewhat more optimistic. The Bank estimated that the developing countries both needed and could serve extension of credits on a net increase of 12%-14% per year.

OFFICE MEMORANDUM

TO: Files
DATE: June 21, 1978

FROM: K. Atsumi (not cleared by Mrs. Atsumi)

SUBJECT: Minutes of the Meeting with President Doko of Keidanren

1. Mr. McNamara visited Keidanren on June 8 (10:40-11:30) accompanied by Messrs. Clark, Maeda, Koch-Weser and K. Atsumi. Present from the Keidanren were Mr. Yoshizane Iwasa, Vice President; Mr. Nihachiro Hanamura, Executive Vice President; Mr. Renzo Taguchi, Chairman of the Committee on Economic Cooperation; Mr. Tokizo Okuhara, Senior Managing Director and Dr. Saburo Okita of Japan Economic Research Center.
2. Mr. Doko thanked Mr. McNamara for calling on Keidanren out of his busy schedule. He hoped that Mr. McNamara would give them valuable advices, particularly at the time Japan had various difficulties externally and was behind in its economic cooperation.
3. Mr. McNamara said that if he could give some of the general impressions, he thought that the world was coming to understand more the increasing interdependence of nations and the way in which that affected the economic policy of nations. He felt that the OECD nations, in particular, must give more attention to economic development of the developing countries, although the major part of the necessary capital for development - 80%-90% - had to be provided by themselves. However, the 20% required for external resources was just as important if their economic growth is to be achieved.
4. Mr. Doko asked Mr. McNamara's opinions on (i) whether he agreed that external requirement by the developing countries would increase, (ii) how did the Bank expect that this would be met, (iii) what would be the breakdown between the private sources and the official sources and (iv) what sort of Bank projects offered participation by the private sector.
5. Mr. McNamara replied that certainly the external capital requirements would increase. But in addition, the developing countries must obtain foreign exchange through export. Expansion of trade would be a very important factor, particularly in view of the rising protectionist sentiments in the OECD countries. In the interest of both the developing and developed countries, a gradual shift in structural changes would be necessary - labor intensive manufacture should transfer to more capital intensive manufacture. However, he was aware of a very difficult economic adjustment involved in this shift, which was accompanied by political controversies. The Bank was quite uncertain if these changes were taking place rapidly enough to allow expansion of exports of finished goods by the developing countries.
6. Mr. McNamara said that there was a basic sense of optimism. Between 1950 and 1975 the developing countries had achieved an average

of a 3% annual growth, higher than the industrialized countries in any comparable stage of development. In addition, the developing countries had adjusted to the oil crisis and ensuing difficulties better than some of the OECD countries. Given the appropriate level of outside support, the Bank would maintain the basic optimism. However, for the next 10 years, requirements for both capital inflow and export trade would be higher, though they had not yet proved obtainable. It was not clear that the OECD nations would provide the support.

7. Mr. Doko explained that Keidanren had advocated an increase in Japan's ODA since about three years ago, particularly through increased participation in multilateral institutions. They had submitted a very strong recommendation to the Prime Minister last fall.

8. Mr. Iwasa added that apart from ODA which was the most important source of assistance, flow of private funds could not be ignored. Whether the money came from the OPEC or OECD countries, if the private sources were to extend short-term loans to long-term ones, how would the risk be guaranteed. He thought that there should be some sort of international guarantee mechanism. He reiterated Mr. Doko's point that it was most important for Japan to positively support multilateral institutions such as the World Bank which were free from problems involved with bilateral aid. He felt that under the present massive current account surplus, Japan should give unconditional contribution to the World Bank.

9. Mr. McNamara replied that it would be very much in the interest of Japan and the developing countries. At this point he wanted to thank the past cooperation Japan had extended both to the Bank and IDA. He pointed out that in order for the Bank to increase lending in real terms, it would require a capital increase. He would be most grateful for the Japanese support. Whatever expansion of commercial loans would be made, the risks would be lessened, if multilateral loans were increased. He pointed out that the Bank had estimated external financing requirements of the developing countries to increase by 12% in nominal terms (5% in real) between now and 1980. The Bank was planning a 12% annual increase.

10. Dr. Okita thought that the Japanese private sector could continue to increase outflow of capital to the developing countries by about 70% a year. As for trade issues, he thought that it would eventually become a OECD nations vs middle-income developing countries problem. It was the global problem that everyone had to consider on adjustment to come to the best solution.

He felt that assisting the poorest nations on the ground of basic human needs was important but it was just as important to continue assistance to the middle-income countries so they could graduate from the recipient nations.

11. Mr. McNamara agreed that capital could be provided on different terms to both the poorest group of countries and middle-income countries.

The middle-income countries needed more; they could take debt and serve on commercial terms. He would strongly urge the Japanese Government through the Ex-Im Bank or through multilateral institutions to assist them. It would be in the interest of everybody, particularly to Japan whose exports of over 40% went to the developing countries.

In this connection, he welcomed the Government's decision to double the ODA in three years. The poorest nations would be immensely grateful, since a substantial amount of population's basic human needs were not met. The important point was to increase productivity of those poor people to become productive like the Japanese.

He said that even in the middle-income countries like Thailand and the Philippines had basic human needs problems, where a large proportion of the population subsisted on 1/3 of the average per capita income. He felt that one could achieve simultaneously the objective of both the basic human needs and financial requirements.

12. Dr. Okita said that Japan was at a turning point. A solution had to be sought for changes in the industrial structure. They had recommended to the Government to allocate some budget on research on technology. Mr. McNamara replied that too little money was being spent by the OECD nations on research. He was impressed with the unique role Keidanren played in this sense and was most grateful for the support.

13. Mr. Iwasa concluded by saying that stability of Southeast Asia was of the utmost importance to Japan. Keidanren had just sent a mission to Vietnam to discuss how the private sector could assist reconstruction of Vietnam. As a whole, he hoped that Japan could assist that country through the World Bank.

MEMORANDUM FOR THE RECORD

Meeting with Finance Minister Murayama, Tokyo, June 7, 1978

Present: Messrs. McNamara, Murayama, Matsukawa (Vice Minister for International Affairs, Dan (Director General, International Finance Bureau), Sagami (Deputy Vice Minister), Kakimizu (Deputy Director General, IFB), Susumu Murayama (Executive Director to the Bank), Inose (Director, Overseas Investment Division), Clark, and Maeda.

After welcoming Mr. McNamara to Japan, Minister Murayama mentioned that the bill for a selective capital increase for the Bank and IFC had been passed by the Diet last week. Mr. McNamara said that the Bank was indebted to Japan for (i) IDA-5 which would not have been possible without the action of Japan; (ii) the selective capital increase; (iii) the rollover arrangements with the Bank of Japan with time-phasing advantages; (iv) the Bank's entry into the Tokyo capital market, (v) the participation of Japan in the CGIAR, and (vi) Japan's participation in the onchocerciasis program.

Mr. Murayama made the following points: (a) International cooperation was becoming more popular in Japan and was now considered to be very important; (b) Japan's borrowing from the Bank had contributed significantly to its development after the war and the country was grateful for that support; (c) the Government was grateful for the Bank's opening of the IDA window for Indonesia, the Philippines, and Thailand; (d) at the occasion of the Diet presentation of the capital increase bill (which had received support from all parties except the communist), it was widely regretted that Japan's share in Fund and Bank voting rights did not reflect its economic strength and financial contribution; he would like to ask for Mr. McNamara's support, also with respect to the IMF, for achieving harmonization of voting shares in these institutions.

Mr. McNamara replied that he understood Japan's desire to harmonize its voting shares. He was willing to add his voice in support of increasing the country's voting shares in the IMF, IBRD and IDA. The timing was opportune because of the forthcoming negotiations on IMF quota increase, IBRD general capital increase and IDA-6 replenishment. The problem was that an increase in Japan's share meant a reduction in other countries' shares. It was important for Japan to perceive of its role in the world in a broader way than in the past. The Government had been overwhelmed by the speed of economic progress. Japan had now to be integrated more fully into international economic affairs. Harmonization of voting shares was one way of achieving this.

Mr. Murayama said that his Government was interested in seeing the number of Japanese staff members in the Bank increase. Many young Japanese were interested in joining the Bank. He was confident that, after overcoming initial language problems, they would show their high abilities. Mr. McNamara replied that if language were the only problem, the Bank could provide opportunity for improvement at its expense. However, he believed that the problem was more difficult. Although the Bank was most interested in hiring a larger number of Japanese, it had encountered three basic difficulties: (i) compensation levels; (ii) family penalties, particularly as to the education of children in the US, and (iii) the Japanese lifetime employment pattern. The Bank's Director of Personnel, who had recently visited Japan, had identified two reasons for being more optimistic: (i) female professionals felt that they were being offered better opportunities in the Bank than in Japan, and (ii) Japanese agencies were increasingly interested in the experience acquired by young Japanese during their stay with the Bank.

Minister Murayama expressed strong support for cofinancing activities with the Bank and appreciated the Bank's support to prepare and monitor cofinanced projects. Mr. McNamara replied that the Bank would do everything the Japanese Government wished in order to support such cofinancing. The use of Japan's surplus for assistance to developing countries was an important matter. It was a wise decision that Japan would double its ODA for the next three years. The Bank could intermediate capital flows from Japan to the third world; however, it would need considerable leadtime and would therefore appreciate early information. Mr. Murayama said that on cofinancing matters the Government would contact the Bank through its Executive Director. The newly established grants for food production in developing countries were to be used in part for cofinancing with the World Bank. Mr. McNamara observed that expansion of cereal grain production was a high priority, particularly for food deficit countries such as Indonesia, Pakistan, Bangladesh and Nigeria; otherwise, worldwide food shortages would be translated into increases in food prices which would be painfully felt everywhere.

Mr. Murayama congratulated the Bank for the 75 billion yen bonds issue. Mr. McNamara replied that the support of the Japanese Government had been extremely important for that issuance. These borrowings had to be in conformance with Government policies and had to be properly timed, sized and conditioned. Mr. McNamara said that the advancement of the Tokyo market to become in a short period of time one of the largest capital markets in the world constituted an immense achievement.

Mr. McNamara said that he would like to raise two further issues: (i) in the next six months, the Bank needed Japan's support for reaching agreement on the general capital increase and for the negotiations on IDA-6; (ii) he hoped that Japan would support and comment on the Bank's World Development Report, which would be distributed to the EDs today (he handed Mr. Murayama a copy of WDR). After Board discussion, the WDR would probably be distributed to the Development Committee for consideration and would be translated into Japanese and other languages. He was particularly interested in the Ministry of Finance's comment on the required flows of private capital and IFT resources to the MICs. These were very substantial amounts indeed. Minister Murayama responded that Japan's support to the capital increase and IDA-6 was ensured. His Government would study the WDR carefully.

CKW
July 25, 1978

MEMORANDUM FOR THE RECORD

Meeting with Prime Minister Fukuda, Tokyo, June 8, 1978

Present: Prime Minister Fukuda, Messrs. McNamara, Murayama (Executive Director), Clark, Maeda.

Mr. Fukuda said that he had been to Washington for the first time 21 years ago with Mr. Kishi to participate in the Eisenhower-Kishi meeting. At that occasion, they had also visited the US Eximbank and the World Bank (Mr. Eugene Black) in order to borrow money. Now, at his visit last month to Washington, he had told the US Government that he had not come to borrow money. He had also told President Carter that he would support Japanese cofinancing with the World Bank but that such operations had to be decided on a case by case basis. His biggest headache at present was how to reduce Japan's huge surplus which amounted to \$14 billion last year. The target was to keep exports in volume terms at last year's level. This involved reducing or keeping constant Japanese exports to the US for steel, automobiles, ships and TV sets. These four items comprise 40% of Japan's exports. The growth target of 7% would greatly expand imports. However, because of the time lag involved, emergency import measures on crude oil, aircraft and non-ferrous metals had also to be taken. He was confident that there would be great progress this year in reducing the balance of payments' surplus. He had showed President Carter his Government's projected growth rate figures, price indices, unemployment data, etc.; however these tables left the column of export value blank. He had argued that these figures had to be filled in by the US Government because they would be determined by the US inflation figure. If US inflation continued, it would be difficult to reduce exports in dollar terms. Since a certain surplus would remain, his Government had (a) decided to double ODA over the next three years, and (b) requested other governments to float bonds in the Tokyo capital market. The future of the world depended on the development of other than oil energy sources. Research and development activities were carried out in the US on nuclear fusion and solar energy. He had proposed US-Japanese cooperation in this field through creation of a fund. President Carter had expressed his interest.

Mr. McNamara said that he fully understood the problems created by the current account surplus; only a deficit would be worse. The Government's 7% growth target was courageous and was supported by the first quarter performance of the economy. It was wise to channel a part of the surplus to LDCs. The Bank was indebted to Japan for its active support of IDA-5, the selective capital increase, the rollover arrangements with the Bank of Japan, the Bank's entry into the Tokyo capital market, the Consultative Group for International Agriculture Research and the onchocerciasis program in West Africa. The Government's decision to substantially increase its cofinancing activities and to double its ODA were extremely helpful and might encourage the US and the Federal Republic of Germany to increase their foreign aid. However, a widespread misunderstanding persisted as to whether doubling of ODA meant doubling in three years in US dollars from the 1976 basis or doubling in three years and in yen from the 1977 level. He had misunderstood and, alerted by the Executive Director Murayama, had cut out the sentence referring to Japan's ODA from his press statement literally one minute before appearing before the National Press Club. The danger of misinterpretation by the world of what was an extremely important move for the world should not be underestimated. Prime Minister Fukuda replied that, while his Government had decided to double ODA,

the details had not been worked out yet. He hoped that this would be done this month in a way that would be highly appreciated by the world community. As to the World Bank, Japan would be able to cooperate closely through its Executive Director.

Mr. McNamara said that he was aware of the importance attributed by Japan to the harmonization issue. He would try to assist with regard to the IMF and he pledged to help as far as the IBRD and IDA were concerned. Prime Minister Fukuda expressed his appreciation.

Mr. McNamara inquired about the Prime Minister's view on the development of the ASEAN countries. Prime Minister Fukuda said that he had been afraid of the domino effect of the US withdrawal from Vietnam but the ASEAN countries had proven to be strong. The US should maintain an economic and military presence in this area of the world. Japan would do the utmost to cooperate. His visit to ASEAN countries had shown him their needs. Their self-reliance was increasing and industrialization made good progress. Japan would support these developments. He had pointed out to their governments that, rather than hastily industrialize, they should undertake efforts on developing agriculture, which would in turn create demand for the infant industries. Mr. McNamara agreed. The Bank was deeply involved in the development of agriculture in Indonesia, the Philippines, Malaysia, and Thailand. At this stage of developments, these countries had to avoid expensive capital-intensive projects.

CKW
July 26, 1978

OFFICE MEMORANDUM

TO: Files
FROM: W. Struben
SUBJECT: Minutes of the Meeting with Economists

DATE: June 21, 1978

1. Mr. McNamara had a meeting with some economists (list of participants is attached), chaired by Dr. Okita, on June 8 (16:00-16:45) to discuss (i) the outlook for the Japanese economy; (ii) the outlook for the developing countries; and (iii) possible suggestions regarding the World Bank.
2. The consensus seemed to be that the Government would have to considerably stimulate the economy during the second half of the fiscal year to achieve its 7% growth of GNP target; even then, however, the Government would not be able to lower its balance of payments' current account surplus to \$6 billion. Professor Shinohara felt that, without additional stimuli, FY78's GNP would increase by 5-6%. Some of the most important industries had now matured, and could not expect a further rapid growth, as when Japan's GNP was increasing at an annual 10%. Dr. Okita felt that GNP, without additional stimuli would increase by "maybe 6%". He added that the Government was optimistic about achieving its 7% growth target because of the results of its heavy public investment program and its low interest rate policy; it seemed that private business was again gaining some confidence. The participants felt that this year's current account surplus would be at least the same as last year. Professor Iida mentioned that the only way out for the Government would be to drastically stimulate Japan's capital outflow. At Mr. McNamara's question on the difference between macro and micro economic prospects, Professor Shinohara explained that, whereas Japan's present macro growth would be high for the U. S. and Europe, it was low for Japan. Japan's private business, during periods of relatively low growth, was hampered by the life-long career system and the high debt/equity ratio. As a result, Japan now had to considerably adjust its industrial structure and micro economic performance.
3. The participants did not directly answer Mr. McNamara's question on the prospects for developing countries. Professor Yamamoto mentioned that he was especially interested in ASEAN's future, and was proposing to: (i) establish an additional "flexible organization for Asian cooperation", including ASEAN as the core and other Pacific countries like Japan and Australia; and (ii) establish a new regional center in Singapore to alleviate the North-South problem through providing information and carrying out research. Professor Ohkawa discussed his interest in applying Japan's knowledge and experience to certain problems in the developing countries. He emphasized that this could be problematical, because of the many historical, cultural and other differences between Japan and other countries; the lessons should be applied with the

necessary prudence. He suggested increased cooperation between Japanese and other research and training organizations, including the Bank. Professor Iida and Professor Shinohara mentioned that, since Japan's competitive position would be increasingly influenced by the results of its financial and technical assistance, Japan's positive aid attitude might be gradually eroded. Professor Shinohara called this the "boomerang effect"; Japan's export of technology, combined with the developing countries' cheap labor, was affecting Japan's shipbuilding and construction industries.

4. Professor Ohkawa and Dr. Okita mentioned that the Bank should assist Japan in processing its ideas for application in the developing countries. Japan had little experience in exporting its ideas, and its public and private institutions could well use outside advice and guidance, especially from the Bank. The participants were greatly interested in the Bank's World Development Report, and asked for its early distribution. Mr. McNamara indicated that, if the Bank's Board allowed the report's distribution, he would be most interested in the economists' comments.

List of Participants at
the Meeting at the Japan Economic Research Center

Dr. Saburo Okita, Chairman, the Japan Economic Research Center

Dr. Sueo Sekiguchi, Chief Researcher, the Japan Economic Research Center

Dr. Kazushi Ohkawa, Professor, Hitotsubashi University

Dr. Miyohai Shinohara, Professor, Seikei University

Dr. Tsuneo Iida, Professor, Nagoya University

Dr. Noboru Yamamoto, Professor, Soka University and Keio University

Mr. Robert S. McNamara

Mr. William Clark

Mr. Tarao Maeda

Mr. Caio Koch-Weser

Mr. Willem Struben

MEMORANDUM FOR THE RECORD

Breakfast Meeting with Foreign Minister Sonoda, Tokyo, June 7, 1978

Present: Messrs. McNamara, Sonoda, Mutoh (Director General, Economic Cooperation), Kimura (Multilateral Cooperation Division), Watanabe (Personal Secretary to the Minister), Clark, and Maeda.

Minister Sonoda made the following points: (a) He attributed greatest importance to the task of the BRANDT Commission which might well hold the key to peace in the world; the Commission received Japan's full support; (b) the Fukuda and Carter cabinets resembled each other in that they were not particularly successful in economic management; (c) a reduction in Japan's surpluses should be achieved through expansion rather than contraction of its foreign trade, i.e. Japan should "use" not "reduce" foreign trade; (d) Japan should use part of its surplus for development financing; (e) Development assistance should place emphasis on using multilateral channels; he therefore welcomed cofinancing with the World Bank which should be as large as possible; (f) Japan's development assistance program laid continuous emphasis on supporting the development of the ASEAN region; (g) International development cooperation should consider the possibility of carrying out "global civil works", such as a second Panama canal and a Korea-China-Europe railway; (h) he would welcome the Bank's advice as to how to turn Japan from an inward orientation toward an external integration; after 30 years, the time was ripe for such a move; (i) in his view, the degree of Japan's contribution to the world should be the criterion to evaluate the country's performance in coming years.

In his response, Mr. McNamara said that (a) Japan's experience in agriculture (cereal production, high yielding varieties), education (particularly in the Meiji period), population planning and industrialization (after World War II) was of great importance for the developing countries; the Bank was eager to receive Japan's advice in its work with LDCs on these development issues; (b) he would try to help in achieving the harmonization of Japan's voting shares in the Fund and in the Bank; (c) it was a danger to the world that the strong countries, namely Japan, Germany and the US, might not share their economic resources, financial strengths and technical experience with the rest of the world; Japan should set an example for Germany and the US.

CKW
July 25, 1978

MEMORANDUM FOR THE RECORD

Meeting with Minister Miyazawa of the Economic Planning Agency, Tokyo, June 7, 1978

Present: Messrs. McNamara, Miyazawa, Takahashi (Deputy Vice Minister), Miyazaki (Director General Coordination Bureau), Iwata (Director General, Research Bureau), Aiko (Director, First Economic Cooperation Division), Clark, and Maeda.

Mr. McNamara said that Japan's continued high economic performance was a miracle. Minister Miyazawa replied that it was still a minority who believed in a 7% growth rate for this year. The Government had abandoned the 30% deficit financing ceiling as a result of which Minister Murayama would face problems with next year's budget.

Mr. McNamara expressed his gratitude for Japan's support to the Bank. For example, this support had been crucial for IDA-5. He said that the opening of the country's capital markets and the Government's intention of doubling ODA constituted a wise move. Minister Miyazawa replied that they reflected enlightened self-interest. Mr. McNamara agreed. Minister Miyazawa said that the Bank was the most popular international institution in Japan. There was a basic feeling of indebtedness to the Bank. The Japanese had been the beneficiaries of Bank support for 15 years after the surrender. This explained the general support of the electorate -- including the opposition -- for the Bank.

Mr. McNamara stated that the Bank would lend every possible support to Japan's cofinancing efforts; further he would be eager to have Minister Miyazawa's comments on the conclusions of the WDR.

Minister Miyazawa said that he minded the US interference in the Bank, e.g. on Human Rights. This was not a wise move. Mr. McNamara said that the US were misusing the term 'Human Rights' by limiting it to 'civil rights'. As to basic economic rights, the Bank was doing more than any other institution. The Bank was prohibited by its Articles of Agreement to deal with civil rights. Even if the Articles would be changed, the lack of criteria and experience would make agreement on a course of action impossible. However, the US administration no longer believed that the Bank management should make decisions based on civil rights consideration. On the other hand, the US Congress might introduce legislation restricting Bank activities on human rights grounds. President Carter and Vice President Mondale were trying to prevent such action. Mr. Miyazawa pointed to the difficulties in getting US appropriations for the Bank. He could assure Mr. McNamara that there were no such problems in the case of Japan.

Minister Miyazawa inquired whether a Bank umbrella would be possible for a joint OECD effort to develop Southern Africa. Mr. McNamara replied, that, in the course of the Rhodesia discussion, the possibility of extensive aid from OECD countries under Bank administration had been raised. However, the matter had never been discussed by the Bank's Board and the political discussions on Rhodesia had become even more complicated and delayed. If the OECD countries were to ask the Bank for such support, and if the frontline governments agreed, the Bank would be happy to carry out such a mandate. In the case of Zaire, the economy was grossly mismanaged. Despite its rich agricultural and mineral potentials, the country had to import food. This resulted in a situation of near bankruptcy. The Bank could only help if better management of the economy was insured.

Minister Miyazawa inquired about the Bank's dealings with the OPEC countries. Mr. McNamara said that two groups of countries had to be distinguished, namely the capital surplus and the capital deficit OPEC countries. In the case of the latter, e.g. Nigeria, the Bank's program resembled those in other countries. As to the first group, the Bank encouraged them to increase their aid, particularly also through cofinancing with the Bank. They had received Bank technical assistance in setting up their aid funds. With regard to IDA, Saudi Arabia had participated for the first time by contributing \$250 million for IDA-5. The Government had now pledged another \$100 million. Kuwait had contributed \$180 million. OPEC members had also bought IBRD bonds. Minister Miyazawa inquired whether OPEC countries participated in shaping Bank policies. Mr. McNamara explained the participation of OPEC governments in the work of the Bank's Board of Executive Directors. He hoped that a similar international cooperation could be achieved on trade issues, e.g. through organizations such as GATT, in view of the difficult adjustments ahead. Minister Miyazawa observed that most international organizations were characterized by confrontation whereas in the case of the Bank there was consultation. Mr. McNamara said that the reason was that the Bank's Board had no public meetings and issues were studied in advance. Over the years, a 'common law' of decision making and of reaching consensus had developed. The Bank tried to avoid voting procedures. Finally, an important factor was that a country's vote was proportionate to its economic strength. The Executive Directors realized that in most cases there was no basic conflict between the interests of the developed countries and of the developing members. The Bank tried to stress a mutuality of interests. For example, it argued that universal debt forgiveness was not in the interest of LDCs. Mr. Miyazawa observed that CIEC had failed because of the confrontationist approach. There had been emotions, rhetoric and no serious talks.

Mr. McNamara concluded that it was his greatest fear today that over the next five years the developed countries might restrict the access of developing countries' exports to their markets. Strong protectionist sentiments were rising everywhere. Minister Miyazawa said that, as an alternative, the developed countries should explore the enormous market potential of two billion people in LDCs. Mr. McNamara said that the US Congress, for example, did not yet believe in this alternative.

CKW
July 26, 1978

MEMORANDUM FOR THE RECORD

Meeting with Minister of State Ushiba for External Affairs, Tokyo, June 7, 1978.

Present: Messrs. McNamara, Ushiba, Mutoh (Director General, Economic Cooperation Bureau), Mr. Ohtaka (Deputy Director General, Economic Cooperation Bureau), Mr. Kimura (Director, Multilateral Cooperation Division), Clark and Maeda.

Mr. McNamara said that the Bank was grateful for Japan's support for IDA-5, the selective capital increase, the rollover arrangements with the Bank of Japan, entry into the Tokyo capital market, and CGIAR and the onchocerciasis program. Mr. Ushiba's present role was very important at a time of considerable pressure on Governments to look inwards. Mr. Ushiba said that Japan was a country which was most dependent on international economic relations. At present, the successful conclusion of the international trade negotiations was in the forefront. Japan's contribution to the multilateral institutions was expanding very rapidly and faster than its bilateral aid. Cofinancing was of increasing importance. ODA was to be doubled over the next three years and the help of the Bank was required to reach that target. Mr. Fukuda's bold steps in the direction of increased international cooperation met no opposition in Parliament and there was widespread consensus that much more had to be done. Japan's surplus in the current account had to be reduced. In his discussions with the US Government he argued that the basic account had to be looked at. The US now accepted this view which implied that an increase in development aid was important. Mr. McNamara said that, since ODA by definition was disbursement, it would be very difficult to achieve a tripling over the next three years. The Bank was eager to assist in developing cofinancing activities. Mr. Ushiba said that Japan had learned from the Bank's experience in cofinancing operations. Mr. McNamara observed that a substantial amount of cofinancing had been done by the Bank after 1973 with OPEC countries. This had accelerated the disbursements of those countries. However, if cofinancing was to be additional, a larger number of projects was required which needed leadtime to be identified and developed.

Mr. McNamara pointed to the dangerous rise in protectionism. Mr. Ushiba replied that the access of exports of NICs (which he said to be the new term for Newly Industrialized Countries) had become an important issue in OECD negotiations. Mr. McNamara said that the adjustment process in OECD countries required better long-term planning and posed difficult political problems. Mr. Ushiba said that the OECD countries were exporting much more to the NICs than they were importing from these countries. Structural adjustments proved to be very difficult also in Japan. He hoped that high growth rates would help in achieving the required adjustments in industry and agriculture. He argued that the LDCs had made relatively good progress in recent years, given the difficult circumstances. As to the preparation for next year's UNCTAD meeting, he said that the North-South dialogue had now become more productive. Mr. McNamara hoped that more emphasis would be given by UNCTAD to trade issues rather than commodity agreements. The focus on the latter had been a tactical mistake by the LDCs. The intellectual foundation for international development cooperation was lacking; therefore, the Bank was working on a World Development Report and he had suggested the creation of the Brandt Commission. He deplored the short-sighted position of many constituencies in developed countries, e.g. the farmers in the US.

Minister Ushiba expressed amazement that the OPEC surpluses were coming down. Mr. McNamara argued that this was not the case in Kuwait, Saudi Arabia, Qatar, the Emirates and Libya, but only in the OPEC members with large populations.

Mr. McNamara pointed to the fact that an IBRD general capital increase and an IDA-6 replenishment were needed. Projections showed that the capital requirements of LDCs were increasing rapidly, both for resources from official sources and from commercial bank transfers. However, prudent limits were needed; commercial banks, for example, had become overextended in the case of Zaire. If prudently done, the loan balance of commercial banks should be increased. Otherwise, there would also be excessive liquidity and lesser growth in the developed countries. He did not support any argument for a general debt forgiveness. Minister Ushiba agreed; a general debt forgiveness would be a disaster. Mr. McNamara added that several MICs (e.g. Brazil) opposed universal debt forgiveness.

Minister Ushiba said that the international institutions would have a much more important role to play in coming years. The problems were clearly beyond the capability of individual countries. Mr. McNamara agreed that there was an increasing need for international institutions. The theme of interdependence had to be elaborated.

CKW
July 26, 1978

Cargill 5/24/78

I Co-fin

Japan doesn't have an admin. set-up in either the For. Off or Fin Min
capable of conducting an econ. assist. prog.

They need to set up a separate ministry similar to AID, ODA,
SIDA, or CIDA -

They have been looking for co-fin with BK to accelerate their aid
flows for next 3 yrs - but disbursements will be small +
won't contribute much to their ODA doubling -

Okura in Fin; Sagami (future Vice Min); Watanabe (IDA VI Deputy) understand
the details of ODA doubling (77 base; disburse; Yen) -

Nakazoga in Budget Bureau could discuss impl. of "doubling" for IDA VI -
He has no objection to co-fin by BK if we don't arouse concern of
quick disbursements -

He agrees IDA VI would permit quick disbursement -

II Borrowing

Talk to Matsuura (2nd of BK Japan) + Sumita (1/2-2nd of BK will 2nd BK 77)
re shifting disburse. of Yen to 1/2 or 2/3 from 4/25 -

III Harmonization

Japan wants same level in MF as FR - want to be able to show Diet
some progress, i.e. go now to 1/2 way to French position -

Matsuura has argued in Fin Min that this issue should not be
argued re IDA VI but considered in the Conf. 2nd + wants us not to
mention MF prob. to Sumita -

IV IDA VI

Nakamura is mentioning inc. above 112 (to meet 115) + 50-60% inc. re IDA VI -



Record Removal Notice

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Document Date May 18, 1978	Document Type Note
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Correspondents / Participants

Subject / Title McNamara Planned visit to Japan

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HAVE DISCUSSED WITH BOTH FOREIGN OFFICE AND FINANCE MINISTRY ON DAU TIENG IRRIGATION PROJECT. IN VIEW OF TIMING REQUIRED FOR THE GOVERNMENT TO REACH DECISION (AS YOU KNOW BY CONSENSUS BY FIVE MINISTRIES) THEY INSIST THAT THE TIME LIMIT YOU GIVE IS OUT OF QUESTION. PERSONNEL RESHUFFLE IN MOF SCHEDULED FOR JUNE 7-14 WILL MAKE THE MATTER EVEN MORE DIFFICULT. MOREOVER, SINCE JOINT FINANCING IS BILATERAL, REQUEST FOR LOAN HAS TO COME FROM VIETNAM. NO WORD HAS BEEN HEARD FROM THEM. MOREOVER, IN VIEW OF JAPAN'S DIPLOMATIC RELATIONS WITH THE U.S. THEY FEAR CO-FINANCING IN VIETNAM IN THE FIRST IDA CREDIT WOULD ANTAGONIZE U.S., WHICH THEY WOULD RATHER AVOID.

BBB

BECAUSE OF THE DELICATE NATURE, IT WOULD NOT BE WISE TO TIE MR. MCNAMARA'S VISIT WITH VIETNAM. THE AUTHORITIES WOULD INTERPRET IT AN INSULT IF THEY CONSIDER ONE OF MR. MCNAMARA'S PURPOSES OF THE VISIT IS TO ASK FOR A MERE DOLLARS 10 MILLION TO VIETNAM, THEY INTERPRET HIS VISIT AS ONE OF COURTESY CALL AND DO NOT WISH TO DISCUSS ANY SPECIFIC BUSINESS.

CCC

HOWEVER, IN VIEW OF INDISPUTABLY WARM-HEARTED SUPPORT TOWARDS VIETNAM EXISTING IN THIS COUNTRY IN ALL CIRCLES, SUGGEST THAT YOU VISIT US SEPARATELY FROM RSM TO WORK ON LONGER-TERM CO-FINANCING ARRANGEMENTS WITH JAPAN. WE WOULD NOT LIKE TO JEOPARDIZE THE GOOD-WILL THROUGH APPEARING TO PRESS ON THE AUTHORITIES AT THE TIME OF MR. MCNAMARA'S VISIT. WARMEST REGARDS

MAEDA

Mr. Cargill

May 17, 1978

1. I was puzzled by the coolness of senior Finance Ministry officials to Mr. Carter's request to Mr. Fukuda for increased Japanese cofinancing with the World Bank. Matsukawa, Sagami, Dan and Fujioka all expressed satisfaction that Mr. Fukuda replied that Japan would consider it on a case-by-case basis, with no commitment on the volume or time span. Since it is inconceivable that the Ministry is opposed to increased cofinancing itself, there must be some reason for this attitude. Three interpretations are possible:
 - Finance Ministry resentment to Foreign Ministry intrusion into the multi-lateral aid field which is traditionally under the jurisdiction of the Finance Ministry.
 - Aversion to a definite commitment on volume or timing.
 - The existence of a more ambitious cooperative program under study.
2. Although it is clear that the first and second items played their part, they do not seem to provide a full explanation to this curious attitude. Mr. Sagami's comments therefore seem to be significant.

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

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

3. Mrs. Atsumi told me that the Ministry officials opposed Mr. Hussein's accompanying Mr. McNamara because a cofinancing negotiation of \$15 million for Vietnam would downgrade Mr. McNamara's visit. This seems significant. It is possible that the Ministry is planning to use Mr. McNamara's visit as the basis for a more comprehensive cooperative program to be announced later. If this is so, the Ministry would certainly desire that the discussions during the visit be kept on a high "statesman" (in the Japanese context "vague"), without any concrete negotiations on cofinancing.
4. I am meeting Mr. Kakimizu (K. Watanabe's successor; a budget man) later this week. I hope I will find confirmation that the above is not just wishful thinking on my part.
5. *I understand that the Imperial audience for Mr. McNamara was Sagami's idea.* Hattori

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MAY 06 2013

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TO: Mr. I. P. M. Cargill

FROM: Mr. Hattori

MEETINGS WITH JAPANESE FINANCE MINISTRY OFFICIALS

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

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

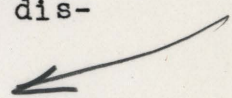
WHO'S WHO AND WHO'LL BE WHO

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

MEETINGS WITH JAPANESE FINANCE MINISTRY OFFICIALS

1. Decision to increase aid

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

- The Ministry fully recognizes the necessity to reflate the economy and to reduce the balance of payments surplus. They are not entirely convinced that reflation by itself will lead to larger imports and a better current account balance. Equipment investment is not likely to increase significantly in view of the existence of large excess capacity in almost every field; although the inventories situation has improved somewhat, the levels are still very high; increased wage payments may not translate into increased consumer spending for goods because of the encumberment of living space. Therefore a better current account balance can be achieved only through a reorganization of the Japanese industrial production, concentrating on lines with comparative advantage while phasing out those in non-competitive fields (to be replaced by imports).
 - In spite of the measures taken to discourage inflows of short-term capital, the Ministry seems resigned to some inflows reflecting the make-up of non-resident yen balances up to desired levels.
 - Japan will therefore continue to be a capital surplus country. It is Japan's responsibility to take measures to re-cycle that surplus. Japan's dependence on the goodwill of the outside world and its immense stake in the continuation of a free multilateral trade and payments system require a commensurate effort on its part to discharge those responsibilities.
 - Japan should:
 - (1) Open its capital markets to foreign borrowers
 - (2) Increase its aid
 - (3) Actively support international financial institutions that serve the cause of a free multilateral system of exchange and payments.
- 

2. Financial support of the World Bank

(1) Borrowings

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

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

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

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

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

- Messrs. Miyazaki, Sakai, and Fujioka confirmed that requests for IBRD borrowing would be considered favorably. They did express their doubts about the overall size of the Bank's borrowing programs, and the level of liquidity. They thought that it was dangerous for the World Bank to manage its currency assets in an over-aggressive fashion. If it became known that the Bank earned on its investments in Japan a return higher than its borrowing costs, embarrassing questions could be raised in the Diet or in the press that could erode the political and popular support of the Bank in Japan.
- They reiterated the policy of requiring the early export of borrowing proceeds. They claimed that the borrowings were authorized to finance certain payments, and not to finance higher yen holdings by the borrowers. They stated that the rule was applied much more flexibly in the case of the World Bank. A time limit for export of the proceeds was not and would not be insisted on.

But the restrictions on investments would continue.

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

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

(2) Capital increase and IDA-6

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

3. Political support of the Bank

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

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

- 4. I was pleasantly surprised to hear the senior officials

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

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

21

THE JAPAN ECONOMIC RESEARCH CENTER

(Nihon Keizai Kenkyu Center)

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PERSONAL

May 9, 1978

Mr. Robert S. McNamara
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

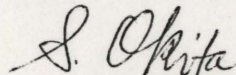
Dear Mr. McNamara,

Through the Bank's Tokyo Office I was informed about your visit to Tokyo in June and I am arranging a meeting for you, during your stay here, with a few experts on the Japanese economy and development cooperation.

5/22
In connection with your visit here I would like to draw your attention to the problem of strengthening the international policy research activities in Japan. When I visited the United States in March I had a talk with Mr. McGeorge Bundy of the Ford Foundation and his staff and we both recognized the need for involving more Japanese scholars and experts in the international policy research and planning. Our bureaucracy is efficient and hard-working but we recognize the need for broader participation of academics and other private sector experts in the international policy studies and establish informal contacts with the similar groups abroad. We hear that an European Policy Research Institute, something similar to the Brookings Institution of the United States, is in the process of formation. We feel it desirable also for Japan to have a similar institution here and a few of us have started efforts for materializing such idea. Intellectual participation in the global policy formulation including the North-South issues is something so far lacking to Japan. It would be useful if you could hint such ideas to our leaders when you meet them personally in June in Tokyo.

Looking very much forward to your visit here in June,

Sincerely yours,



Saburo Okita
Chairman

Notes on Brandt Commission

Willy Brandt, the former Chancellor of the Federal Republic of Germany, agreed to a suggestion of mine that he should head a Commission of eminent persons to examine the relations between the North and South.

At the time I made the suggestion (January 1977) the negotiations in the so-called North-South dialogue seemed hopelessly bogged down. I therefore proposed: "In view of the continuing impasse at official levels, it seems to me that the chance of reaching such an understanding might be improved if a high-level, but deliberately unofficial commission were organized to analyze the problem, and to recommend action to be taken by both developed and developing nations Such a commission cannot be expected, of course, to provide an instant, comprehensive, all-purpose solution to the problems of development -- for none exists. But what one can realistically expect from such a private, high-level independent group is the careful identification of those political decisions which can command public and legislative support in rich and poor countries alike, and hence enable the international community to break out of the current impasse."

The Commission was established in December 1977 and has held two subsequent meetings, the latest last month (May) in Mali. The Bank has given the Commission complete independence; we do not have a representative at their meetings, and their finances are handled entirely independently of us.

But I have met Willy Brandt and some of his Commissioners in the course of recent travels and I hear the meetings have gone extremely well. In his statements after each of the meetings Mr. Brandt has emphasized that the Commission is seeking to find common ground on which agreements of mutual interest to both developed and developing countries can be founded. I am certain this is the right approach and I am certain that the right way to conduct these discussions is in private between men and women of broad political experience. When these discussions are concluded - in about a year's time - the report will be made public and then will be the time to see if the Governments of the world, and their peoples, can seize the opportunity to end confrontation and begin to act as partners in the development of a more equitable world order.

Attached: List of Members of Commission.
Article by Willy Brandt on Commission

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

1818 H STREET, N. W.

WASHINGTON, D. C. 20433

Address Correction Requested

Japan

Additional Notes - RMcN
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64

OFFICE OF THE PRESIDENT

Meeting with Mr. Sagami, Vice Minister of Finance for International Affairs, Japan,
on September 6, 1978

Present: Messrs. McNamara, Sagami, Murayama, Gyohten, Okubo

Mr. Sagami said that his Government was most interested in intensifying its cooperation with the Bank in the borrowing area. Mr. McNamara replied that Japan had been most helpful in granting the Bank access to the country's capital market. The Bank's successful borrowing operations in Japan as well as in the Federal Republic of Germany and Switzerland represented a vote of confidence in the institution and also helped in U.S. money markets. He pointed out that the Bank needed Japan's support in the months ahead in order to overcome the impasse on the general capital increase. This matter had to receive urgent attention as soon as the aid bill had passed U.S. Congress.

Mr. Sagami pointed to the problems faced by his Government with the Japanese Congress due to the fact that Japan's share in the Bank and the Fund was considered too small. Mr. McNamara emphasized that, as he had told Mr. Fukuda, he would support an increase in Japan's share. As to IDA VI, he said that negotiations on the replenishment would have to begin before the end of the year.

Mr. Sagami enquired whether Mr. McNamara's Governors' speech would contain any specific message to Japan. Mr. McNamara replied that there was no such message but that a clear statement on a substantial increase of aid from Japan should come from the Japanese Governor. Finally, Mr. McNamara said that he had enjoyed his recent visit to Japan which had contributed to his understanding of the country. The West was still very ignorant on Japan.

CKW
September 18, 1978

THE
COTTON

65

24

OFFICE OF THE PRESIDENT

Meeting with Mr. Kimura, Director, Multilateral Corporation Division of Foreign Ministry, Japan, on September 13, 1978

Present: Messrs. McNamara, Kimura

Mr. Kimura said that Mr. McNamara's recent visit to Japan had helped significantly in shaping the country's foreign assistance program. His Minister had quoted Mr. McNamara frequently. He pointed to the following recent developments: 1) a budget item on foreign assistance had been included in the recent supplementary budget to stimulate the economy; this amounted to \$140 million of additional aid and increased the budget allocation for foreign aid to 0.31% of GNP; however these additional amounts were not likely to be disbursed within the current fiscal year; 2) aid had been extended, particularly to the poorest countries (e.g. Bangladesh), which was equivalent to debt repayments and interest; this amounted to \$1.2 billion for the period up to the year 2000; 3) a doubling of ODA in dollar terms with 1977 as base year had been decided; and 4) a consensus had been reached that in future budgets the ODA/GNP ratio should be improved and reach the international standard. For the fiscal year ending March 1978 the ODA/GNP ratio had been 0.22% and for this year the ratio was expected to be 0.23-0.24%. According to an unofficial estimate the ratio would be 0.26% (and not 0.29%) by 1980.

Mr. Kimura suggested that Mr. McNamara encourage the Japanese Delegation to the Annual Meeting to provide for a 1979 budget and supplementary budget for aid which would amount to 0.32% of GNP. This could bring the disbursed amounts (ODA) to 0.26% of GNP. He also suggested that means should be found to have the Ministry of Foreign Affairs participate in the deliberations of the Joint Development Committee.

CKW
September 18, 1978

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58 12
To: Files

From: Tarao Maeda *T.M.*

Subject: Mr. McNamara's Meeting with Mr. M. Fujioka
September 20, 1978 - Washington

1. Mr. McNamara met with Mr. M. Fujioka, Executive Director of the Export-Import Bank of Japan, on September 20, 1978 from 6:30 to 6:45 in his office. Also present were Mr. Stern and myself.
2. To Mr. McNamara's inquiry on Mr. Fujioka's view of the consultation meeting, he stated that he felt the meetings were very useful and productive. Through discussion of potential co-financing arrangements, the Ex-Im had clarified that there were ways to cooperate through import credits and direct investments in addition to export financing that had been discussed previously. Via these financing, the two institutions could explore to cooperate in resource-development financing. Mr. Stern agreed that through discussion of concrete projects from this angle, meetings proved useful.
3. Mr. Stern mentioned that Mr. Fujioka would lecture to the Bank staff on "The Current Situation of the Japanese Economy" the following day, for which Mr. McNamara expressed his appreciation.
4. Mr. McNamara inquired whether or not the Ex-Im would finance exploration of mineral resources, to which Mr. Fujioka replied negatively. Mr. Fujioka, in return, asked why had the Bank not so far financed resource development. Mr. McNamara replied that, heretofore, both exploration and financing had been led by major oil companies.
5. With regards to the specific ways of co-financing discussed between Mr. McNamara and Mr. Sumita during the former's visit to Tokyo, Mr. Fujioka explained that the Ex-Im had brought a list of 32 potential projects as well as commitment projections for FY78 and FY79 (both sector-wise and regional). According to these, it is estimated that \$7.1 billion would be committed in FY78 and \$9.2 billion in FY79. Mr. McNamara appreciated the useful information.
6. On a query concerning autonomy of the Ex-Im's lending policy, Mr. Fujioka replied that other than very political cases, usually credit decisions were made by the Ex-Im and the Government was informed if required.
7. Mr. McNamara inquired on the regional lending trend, with particularly reference to Egypt. Mr. Fujioka replied that Japan had not had much commercial transactions with Africa and therefore the Ex-Im was relatively inexperienced in that region. However, as the necessity would rise, particularly in the field of resource-development, there would be a possibility of increasing credits. As for Egypt, in addition to the small amount of trade volume, political factors, including the Israeli and Soviet relations, had been a constraint in increasing credits. Mr. McNamara replied that with the successful meeting at Camp David, these factors should prove to be a less constraint.

cc: Mr. Stern

67

5P 13

Mr. McNamara

TO: Files

FROM: Tarao Maeda *T.M.*

SUBJECT: Mr. McNamara's Meeting with President Ishihara of OECF
September 23, 1978, Washington

1. Mr. McNamara met with President Ishihara of the Overseas Economic Cooperation Fund. Messrs. Stern and Kock-Weser and T. Maeda also attended the meeting.
2. Mr. McNamara welcomed Mr. Ishihara and stated that the objective of the Bank's interest in co-financing was to facilitate the Japanese Government or the OECF in whatever they wanted. The Bank, however, needed to have some indications a year or two in advance of what sort of volume would be involved. He stressed that he did not want co-financing to be substitute of the Bank lending and that it had to be additional. It would require additional manpower and more projects in the pipeline. He was sure that over time co-financing would be in mutual interests of the both institutions.
3. Mr. Ishihara was apologetic on slow progress in the Japanese side but asked for Mr. McNamara's understanding on the Japanese process. Mr. Stern thought, however, that over time, involvement of the Government would help expedite and improve the situation.
4. Mr. Ishihara understood that the Government was interested in co-financing with the Bank in (i) Africa and Latin America where relatively little ODA went from Japan, and (ii) sectors where Japan was comparatively a new comer; i.e., population, small-scale farmers.
5. Mr. McNamara said that if Japan wanted quick ODA disbursements, the Bank stood ready to help. One way, for example, would be to pay into IDA in any amount Japan wanted. It was really up to the Government of Japan.
6. Mr. Stern was pleased to note that the OECF was also making program lendings.
7. Mr. McNamara inquired if the OECF was interested in Egypt. If so, the Bank would be able to help. The country had a great potential not yet realized. Mr. Ishihara said that the OECF would be financing the Egyptian Development Bank.
8. Mr. Ishihara stated that there would be a further budgetary increase for the next year. The OECF had more than doubled their commitments last year, which would help their disbursement this year and next year. He thought that there would be a gradual improvement in Japan's aid performance.

cc: Mr. Stern

SP 14

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MAY 06 2013

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TO: Files

FROM: Tarao Maeda *T.M.*

SUBJECT: Mr. McNamara's Meeting with Japanese Finance Minister Murayama
September 24, 1978, Washington

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

Mr. McNamara met with Minister Murayama. Also present were Messrs. Haruo Maekawa, Vice President of Bank of Japan; Michiya Matsukawa, Adviser to the Minister of Finance; Takehiro Sagami, Vice Minister for External Affairs of the Ministry of Finance; Hiroshi Hayami, Executive Director of Bank of Japan and Koichi Kakimizu, Deputy Director-General of International Finance Bureau, Ministry of Finance from the Japanese side and Messrs. Koch-Weser and Maeda from the Bank side.

1. Mr. McNamara expressed his sincere appreciation to Mr. Murayama's kind hospitality extended to him during his recent visit to Japan.
2. Minister Murayama congratulated Mr. McNamara for initiating the successful first World Development Report which had been unanimously supported by the Development Committee on Saturday, the 23rd.
3. Minister Murayama stated that Japan had already notified the Bank Japan's acceptance of the IBRD and IFC capital increases and stressed that Japan would strongly support a substantial increase in the forthcoming IDA VI Replenishment as well as the General Capital Increase of the Bank.
4. Mr. McNamara expressed his gratitude to the Minister's positive statements and emphasized the importance of both IDA VI Replenishment and the General Capital Increase. Mr. McNamara referred to the present US Congress situation where appropriations for the second tranche of IDA V and the third tranche of IDA IV would be finally decided at the conference to be held next week. He mentioned that discussions on Bank's General Capital Increase could be facilitated if the US Congress approves appropriation bills for IDA Replenishments. He stressed that without a significant capital increase, the Bank would be forced to cut its lending program for the next fiscal year, which would seriously affect not only the third world but also commercial banks which had been extending a large amount of loans to those developing countries. Mr. McNamara requested Mr. Murayama to urge US Secretary of Treasury Blumenthal to cooperate in facilitating discussions on the General Capital Increase of the Bank, since the timing became so crucial.
5. Minister Murayama replied positively to the request. Turning to the subject of co-financing with the Bank, he assured Mr. McNamara that Japan would take positive attitude according to the list submitted by the Bank recently. He requested for the Bank's cooperation in extending agricultural loans together with Japan's fund. Mr. McNamara mentioned that private commercial banks had recently become much more interested in co-financing with the Bank although most part of the Bank's co-financing were made with

Mr. McNamara's copy

the public resources until recently. He also expressed his willingness to cooperate with the OECF and the EX-im Bank of Japan in promoting co-financing between the Bank and Japan.

6. Minister Murayama asked for Mr. McNamara's assistance for Japan to increase its Bank share and the Fund quota commensurate with its equitable share in the world economy. Mr. McNamara replied that he would do his best in the Bank, although it would be difficult for him to press the Fund which he did not control. He asked what would be the most appropriate time for him to make an effective intervention to the Fund. Minister Murayama replied that he would inform him an appropriate timing later through the ED's Office.

cc: Mr. Cargill
Mr. Stern

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68

OFFICE OF THE PRESIDENT

Meeting with Mr. Matsukawa, Adviser to the Minister of Finance, Japan, December 15, 1978

Present: Mr. McNamara, Mr. Matsukawa, Mr. Murayama, Mr. Gabriel

Mr. Matsukawa said that he continued in his capacity as Adviser to the Finance Minister; his only fixed assignment was to deal with the OECD; otherwise he had a number of ad hoc assignments. The former Minister had delegated all international financial work to him. The new Minister of Finance, Mr. Kaneko, was an expert on taxes as were his predecessors. He therefore expected the Minister to be strong on the budget, less strong on the expenditure side and least strong in international affairs. He would stay for another 1-1/2 years as Adviser. He had not yet talked to the new Prime Minister about international finance issues. In response to a question from Mr. McNamara, he said that the Tokyo summit meeting would be held in late June 1979.

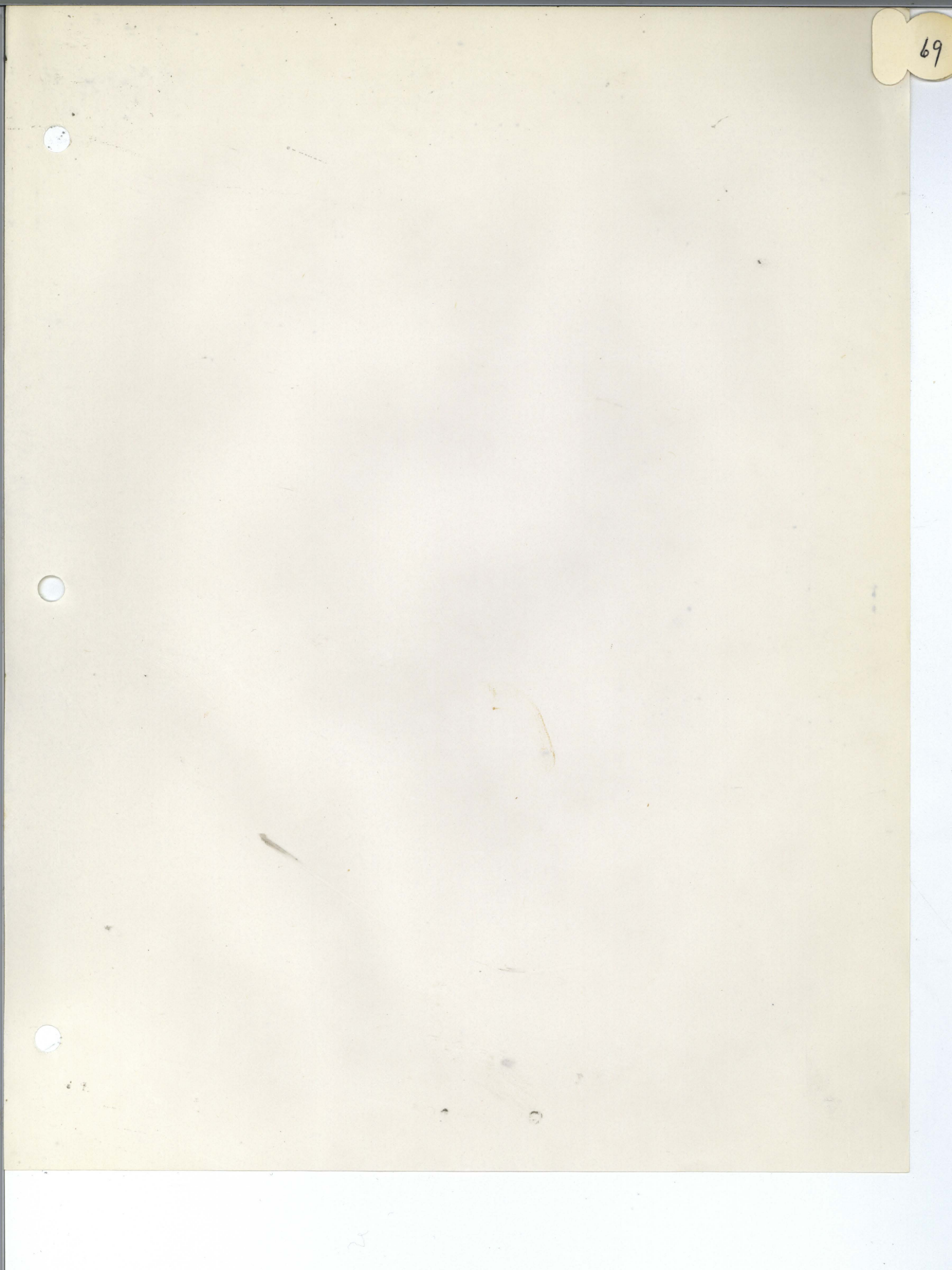
Mr. McNamara summarized the major Bank actions of interest to Japan. The policy paper on Energy proposed rather extensive financing by the Bank of all stages from sector studies and geophysical and geoseismic surveys for oil and gas to development drilling and production. The Bank would also finance exploration but would remain a lender of last resort. Mr. Matsukawa enquired about the possibilities for the Bank to evaluate the risk of financing exploration. Mr. McNamara replied that the Bank did not assume the risk but financed such activities only on a loan basis. Mr. Matsukawa questioned the possibility of a country paying back such a loan if the exploration did not lead to any production. Mr. McNamara replied that in such a case the country would have to pay back from other export revenues.

With regard to the IBRD Capital Increase, Mr. McNamara said that the question of shares would not be discussed initially. Governments should first focus on amount, then decide on the paid-in ratio and finally agree on shares. He emphasized that he would recommend increasing Japan's share considerably and he would look forward to learning from the Japanese Government what order of magnitude it was aiming at. As to IDA VI, the recent Paris Deputies' Meeting had been successful in terms of creating a consensus for a large replenishment. Further, the Board would also shortly discuss a paper on currency allocation to borrowers. Finally, the report by the Kafka Committee on Staff Compensation would be finalized next week; but it would probably take another three months to settle the issue completely.

Mr. Murayama said that, as soon as the basic policy stance of Mr. Ohira was clearer to him, he would let Mr. McNamara know. Mr. Fukuda had a clear-cut occidental mentality. Mr. Ohira was difficult to understand even for him. Mr. McNamara said that it had been his impression from earlier meetings with Mr. Ohira that he was interested in development issues.

In response to a comment by Mr. Matsukawa, Mr. McNamara said that he could not go to China because Taiwan was still a member. In his view, China would not pursue its ambitious trade and borrowing course without joining the IMF. This would create problems to be addressed by the Bank. He would be grateful for Mr. Matsukawa's thoughts on the China issue. Mr. Matsukawa said that the sudden change in Chinese external policies was projected to result in a borrowing of about \$200 billion abroad. He was slightly concerned that the pendulum might swing too far to the other extreme. Mr. McNamara said that the recent change in Chinese policy would tell other LDCs that something could be gained from doing business with MNCs.

CKW
December 18, 1978



Meeting with Mr. Okita, Japan Economic Research Center, February 26, 1979

Present: Messrs. McNamara, Okita

Mr. Okita made the following points:

(a) He had received an invitation from the Chinese Government to assist them in their economic planning. They were interested in the Japanese experience on how to achieve rapid growth. He had spent three weeks in Peking and had been asked by the Chinese authorities to keep his findings confidential. He had been impressed with the improvement of the situation of the intellectuals in China; the technocrats had clearly gained influence. The academic institutions increasingly realized that economics training at universities had to be improved greatly.

(b) For some time, he had been working on setting up a policy and research platform for the economic cooperation of Pacific Basin countries; this idea had emerged from meetings of international economists about 10 years ago. OPTAD (Organization for Pacific Trade and Development) was based on the belief that a regional approach was at times preferable over a global approach. For example, in 1977 U.S. trade with the Pacific countries exceeded its trade with Europe and growth rates in those countries were higher than in Europe. China would probably grow at 6%-7% in future years. The idea had gained further strength after the emergence of ASEAN and had been developed in the direction of including developing and developed countries of the region a la Lome. The new Prime Minister, Mr. Ohira, had asked him to pursue that approach and was interested in assuring a continued close U.S. relationship with the Pacific area, particularly in view of recent Chinese developments. In response to a question by Mr. McNamara, he said that OPTAD could deal with a number of important issues: (i) energy, e.g., Australian and Canadian coal and uranium exploration; (ii) shipping programs; (iii) commodity issues, possibly including preferential treatment; (iv) adjustment policies in rapidly industrializing countries, such as Korea and Taiwan; (v) air transportation which was still much more expensive over the Pacific than over the Atlantic; (vi) the isolation of New Zealand and Australia; (vii) the fear of ASEAN countries of being dominated by either Japan or the U.S.; and (viii) regionalization of U.S./Japan trade imbalances, i.e., the possibility of Japan buying more from East Asian countries which in turn would buy more from the U.S.

(c) Japan's historically high savings rates would perpetuate Japan's current account surplus for the foreseeable future. The country had reached limits in stimulating growth through fiscal measure. Japan therefore had to export capital. Investment in developing countries should be expanded. An OECF bill was presently under consideration which would subsidize interest rates of OECF so that loans could be made on concessional terms. OECF could then borrow large amounts in capital markets. The Japanese Government had to be pushed to become more outward looking.

Mr. McNamara reported that the Bank was presently trying to negotiate the Sixth Replenishment of IDA and was counting on an increased Japanese share of 13%; however, Japan was only willing to increase its share if its share in IBRD capital stock would also be significantly increased. Management's proposal for a special increase of IBRD capital stock for Japan met fierce French opposition, possibly because the French authorities feared that, if China comes in, they would then lose their appointed seat.

Mr. McNamara enquired about China's attitude towards Bank and Fund membership. Mr. Okita said that they were planning to explore this possibility because of rapidly increasing external capital requirements. Their past position of not accepting aid was changing; however, there seemed to be no definite view yet on Fund and Bank membership. In his view, they would eventually approach the Bank.

CKW
March 5, 1979

70

OFFICE OF THE PRESIDENT

Meeting with Mr. Matsukawa, April 9, 1979

Present: Messrs. McNamara, Matsukawa, Murayama, Akira Iida

Mr. McNamara suggested to Mr. Matsukawa that he call Mr. Solomon at Treasury before leaving Washington in order to say that it was absolutely essential that the IBRD \$40 billion General Capital Increase be approved on April 24. The U.S. was presently in a very difficult economic and political situation and, because of these pressures, U.S. action could easily be delayed.

Mr. Matsukawa said that he would call Mr. Solomon. He expressed the Japanese Government's appreciation of the Bank's forceful action in obtaining an increase in Japan's share of the Bank's capital. This made the Japanese Government's relations with Parliament much easier.

In response to a question from Mr. McNamara, Mr. Matsukawa said that business in Japan was now much more concerned about the profitability of its exports than in the past. There was a change in mentality and a realization that the pie had to be not only large but also thick. The savings rate had reached its peak in 1974 and was now gradually declining. The country seemed to be at the brink of inflation; wholesale prices had increased by 0.8% last month. This year's spring wage offensive had been very restrained, partly because the CPI had moved up by only 2.5% over the last year. With respect to energy, Japan was more concerned about the curtailment of oil supplies rather than prices. There was strong resentment against nuclear power, traditionally strengthened by the Hiroshima experience.

Mr. McNamara said that finally there was more concern about oil conservation in the U.S. The inflation problem was extremely serious. The Teamsters might get 10% under their current negotiations and others would then table similar demands. The Government would have to tell the different groups of society that life is unfair, particularly in an inflationary world. Much stronger action was needed. The outcome of next year's election would depend crucially on President Carter's success in controlling inflation. With regard to the Republican nomination, Mr. Connally seemed to be ahead of Mr. Reagan.

Mr. Matsukawa said that the Japanese Government was preparing for the June Tokyo Summit Meeting. Unfortunately, three out of the seven heads of state might change between now and that date.

CKW
April 16, 1979

71

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
Mr. I.P.M. Cargill

FROM: Eugene H. Rotberg *ER*

SUBJECT: MITSUBISHI TRUST: Visit of Mr. Suda, President,
Mitsubishi Trust & Banking Corporation, Tokyo,
May 2, 1979, at 6:30 P.M.

DATE: May 2, 1979

Attached for your information is a proposal of March 16, 1979, from Mitsubishi Trust, which offers a long-term syndicated bank loan for ¥100 billion at 7.6 percent, to be managed by Mitsubishi Trust.

5/2
As you know, interest rates have changed since then. It may well be that on the occasion of the visit of their President this evening, they will submit a new proposal to you. I suspect the new proposal will be at 8.1 percent although the new rate increase would call for 8.2 percent. Nonetheless, I think they might agree to an 8 percent rate.

A loan of this size (\$440 million equivalent) would be the largest the Bank has consummated for single maturity--a competitor, the Bank of Tokyo, arranged a similar operation for ¥70 billion last year, as did Mitsubishi for ¥30 billion.

Attachment



The **MITSUBISHI TRUST** and Banking
Corporation

4-5, MARUNOUCHI 1-CHOME CHIYODA-KU
TOKYO 100, JAPAN

CABLE ADDRESS : MITUBISITRUST
TELEX : MBTRUST J24259

Tokyo, March 16, 1979

Mr. Eugene H. Rotberg
Vice President and Treasurer
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Rotberg:

I am very pleased to convey to you our informal indication related to your financing program for the fiscal 1980 commencing from July 1979.

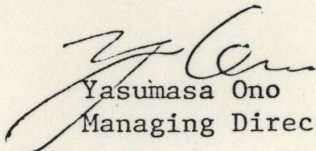
It is always a great pleasure for us to be of some assistance to you. Taking this occasion, I should like to remind you of our strong willingness to serve you throughout the next fiscal year.

We believe that, if present environments continue to exist, we would be able to manage a Yen 100 billion loan from Japanese trust bank circles for this period. In this regard, I take the liberty of forwarding to you an unofficial indication for your reference. As this is our initial indication based upon prevailing market conditions, any comments you may have on this will have our best attention. We should like to assure you of our readiness to work out a mutually satisfactory plan in co-operation with your fine institution.

I would appreciate it very much if you would study our scheme as indicated and provide us with your comments at your earliest convenience.

Looking forward to hearing from you, I remain,

Sincerely yours,


Yasumasa Ono
Managing Director

YO/mi/ma



The **MITSUBISHI TRUST** and Banking Corporation

4-5, MARUNOUCHI 1-CHOME CHIYODA-KU
TOKYO 100, JAPAN

CABLE ADDRESS : MITUBISITRUST
TELEX : MBTRUST J24259

March 16, 1979

Terms and Conditions
of
the possible Japanese Yen loan
for
International Bank for Reconstruction and Development

Borrower:	International Bank for Reconstruction and Development
Amount:	Japanese yen 100 billion
Term:	20 years
Grace Period:	15 years
Average Life:	17.5 years
Interest Rate:	7.6% * (see other conditions (3))
Repayment:	Semi-annual installments after grace period
Prepayment:	Prepayment is allowed after 5 years from the drawdown date at a premium 1/2% flat, with 90 days prior notice
Interest payment:	Semi-annually
Taxes and Other Deductions:	All payments under the loan shall be made by the Borrower free and clear of all taxes, levies, imposts, duties, charges and/or withholdings of any nature whatsoever.
Governing law:	The Laws of Japan
Management Fee:	1/2% * (see other conditions (3))
Commitment Fee:	1/2% for any undrawn amount for each quarter
Expenses:	All legal and other actual expenses shall be for the account of the Borrower, but maximum Yen 5 million.
Lenders:	The Mitsubishi Trust and Banking Corporation and trust banks in Japan.

Manager and Agent: The Mitsubishi Trust and Banking Corporation

Agent fee: Included in the management fee.

Other conditions:

(1) Subject to mutually satisfactory documentation and approval from the Japanese Ministry of Finance.

(2) Drawdown should be made under the following schedule.

The first drawdown	-	between July - Sept. 1979	** ¥35 billion
The second drawdown	-	between Oct - Dec. 1979	¥35 billion
The third drawdown	-	between Jan. - March 1980	¥30 billion

(** see Remarks (4))

(3) Interest rate and management fee should be reviewed prior to the each drawdown.

(4) The first choice regarding the form of financing is a syndicated bank loan. If there might be any difficulty in doing so, the form of private bond placement will be considered under the same terms and conditions.

Remarks:

1) Bank of Japan's policy for bank loans

Since the end of 1978 the Bank of Japan has become cautious of the increase in money supply, being afraid of the recurrence of inflation caused by excess liquidity, and the effects of this change seem to have led to the tightening of short term lending by some of the commercial banks here. This does not necessarily mean that the long term syndicated loan market will suddenly shrink.

More important technical factor which will affect large scale syndicated loans would be the establishment of the ceiling for the net increase in each quarter to be imposed by Bank of Japan on each banks.

This is the reason why we suggest that relative drawdown should be divided into 3 tranches as indicated in our proposal.

2) Possibility of private bond placement

Private bond placement is not subject to the Bank of Japan's ceiling for the loans.

This is the reason why we included the possibility of raising fund in the form of private bond placement to avoid problems which might come to the fore in the case of bank loans.

3) Review of the interest rate and management fee

Japanese Government bond of 6.1% coupon issued in April 1978 was first listed in the market on Jan. 4th, 1979 at 97 but quoted lower since then. It is quoted 94.80 on March 14th. It symbolizes the basic problems in the long-term bond market in Japan. Moreover, there is a possibility that Japanese banks, one of the major group of holders of 6.1% government bonds may start to sell these bonds in the market after April 1979.

Reflecting this market condition we have been able to buy Samurai bonds such as yours from overseas investors in the 7.7 - 7.8% range although the amounts of purchase are not so large.

(example)

World Bank	No.5	7.0%	Price	96.2%
World Bank	No.6	7.5%	Price	98.5%

These facts suggest that it is quite hard to expect any improvement in the long term bond market in Japan for the time being and that all bankers have become quite nervous about the future interest trends although we cannot expect strong loan demands in the near future especially for long term funds.

4) The Amount of loan available for a July - September period

If you prefer either a top-heavy drawdown system or one lump sum drawdown instead of plural drawdowns in the above period, the amount of first drawdown could be adjusted upward.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
Mr. I.P.M. Cargill

FROM: Eugene H. Rotberg *ER*

SUBJECT: The Mitsubishi Trust and Banking Corporation: Briefing Note

DATE: April 27, 1979

1. Trust Banks

These banks were introduced in Japan in the early 1900's and occupy a unique position in the Japanese financial system. They are financial intermediaries which promote public savings by offering "Trust Certificates of Deposit" which are transformed into medium and long-term loans for capital investment in key industries. In addition they manage the assets of the corporate institutions with which they are affiliated and of private clients. They are the only financial institutions which are authorized to provide fiduciary services in Japan and therefore play a predominant role in the management of Japanese pension funds. In the last few years these trust banks - there are only seven - have expanded their international operations and assist Japanese firms with their investments abroad.

The respective position of trust banks in the Japanese financial system is as follows as to deposits and managed funds on September 30, 1977:

	<u>%</u>
City Banks	27.5
Regional Banks	17.7
Trust Banks	10.3
Credit Associations	10.0
Insurance Companies	8.5
Mutual Savings Banks	8.1
Others	8.1
Long-term Credit Banks	7.2
Credit Cooperatives	2.6

2. The Mitsubishi Trust and Banking Corporation

This trust bank is the leader in the member banks of The Trust Company Association of Japan, which comprises a total of seven trust banks plus a commercial bank engaged in trust business - The Daiwa Bank, Limited. The Trust Company Association of Japan is composed of the following:

The Mitsubishi Trust and Banking Corporation
The Daiwa Bank, Limited
The Mitsui Trust and Banking Company, Limited
The Sumitomo Trust and Banking Company, Limited
The Yasuda Trust and Banking Company, Limited
The Toyo Trust and Banking Company, Limited
The Chuo Trust and Banking Company, Limited
The Nippon Trust and Banking Co., Ltd.

Mitsubishi Trust holds a dominant position. As of September 1978 total deposits of the Mitsubishi Trust were ¥1.3 trillion (\$5.9 billion equivalent) versus ¥4.8 trillion (\$22 billion equivalent) deposits of all trust banks, thus representing 30% of the trust banking group deposits.

3. The Mitsubishi Group

The Mitsubishi Group is the largest business conglomerate in Japan. It is an informal association of some 50 companies, including joint ventures with foreign companies. Most of these companies are leaders in their respective fields. Mitsubishi Trust is the trust banking arm of the Mitsubishi Group.

4. World Bank Relationship with Mitsubishi Trust Bank

In August 1978 the Bank borrowed ¥30 billion (\$148 million equivalent) for 20 years at an interest rate of 7.6% from the 8 institutions listed in 2 above. Mitsubishi Trust acted as the leader of the consortium and its share in the loan was ¥15 billion, i.e. 50%.

We opened up negotiations again with Mitsubishi Trust earlier this year under the same terms as August '78 and they responded in March with a preliminary proposal for a loan of ¥100 billion (\$459 million equivalent) for 20 years (average life 17.5 years) at a coupon of 7.6%. As you know since then the prime rate has been raised by 60 basis points; we expect that the revised offer will be for a coupon of about 8 - 8.10%. These funds would be in addition to a similar long term loan currently being negotiated with certain long term credit institutions (and The Bank of Tokyo) who might take, in aggregate, a similar amount for their account and for the account of the major Japanese insurance companies.

OFFICE OF THE PRESIDENT

Meeting with Mr. Suzuki, Nomura Securities, Japan, June 5, 1979

Present: Messrs. McNamara, Suzuki, Cargill

The meeting was a brief courtesy call. Mr. Suzuki reported on his attendance at the recent IDB meeting and his business with Brazil and Chile. He briefly analyzed the present economic situation in Japan, particularly recent developments in the capital market.

Mr. McNamara reported on the main problems presently facing the Bank, namely, to reach agreement on the general capital increase and IDA replenishment. In response to a question by Mr. Suzuki, he said that there had not been a single official contact with China on the issue of membership in the Bank. He was amazed at that, in view of the very substantial capital and technical assistance needs of that country. Mr. Suzuki said that the disclosure requirements associated with IMF and Bank membership were very much on the minds of the Chinese authorities.

CKW
June 20, 1979

THE BOND

OFFICE OF THE PRESIDENT

Meeting with Mr. Matsukawa, Japan, September 4, 1979

Present: Messrs. McNamara, Matsukawa, Advisor to Minister of Finance, Kondo, Morioka, Qureshi

Mr. Matsukawa reported on the ongoing Japanese election campaign. The changing circumstances could best be described by the fact that the Prime Minister was campaigning under a slogan which had been very unpopular in past campaigns, namely, that tax revenue would have to be increased because of the large budgetary deficit and inflation.

In response to a question by Mr. Matsukawa, Mr. McNamara explained that it was very important to expedite the voting by Governors in the IBRD general capital increase. This would put pressure on the U.S. to act accordingly. The U.S. Executive Branch supported that view but was weak with Congress. The new Secretary of the Treasury, Mr. Miller, was very supportive of the Bank. Mr. Matsukawa promised to raise the issue with his Minister upon his return to Tokyo.

Mr. McNamara expressed his concern about the very heavy burden on the LDCs resulting from the recent oil price increases. He was not sure to what extent this additional burden could be financed by private capital markets. Mr. Matsukawa added that, as far as public financing of LDC deficits was concerned, the LDCs did not like to accept the conditionality of such funds because it was difficult for politically unstable countries to take the required action of structural adjustment. Mr. McNamara said that this was also true in the case of the U.S.; he was not sure that President Carter would be able to enlist the necessary public support for needed economic adjustment.

Mr. Matsukawa observed that it would be very dangerous if all governments became inflation-minded and built price indexation into their economic systems. Mr. McNamara agreed; the only good thing about the present U.S. situation was that no indexing had been introduced. Mr. Matsukawa found it surprising that U.S. workers' unions had been so cooperative and restrained. Mr. McNamara agreed; however, the salaries of the auto workers were already indexed.

Finally, Mr. Matsukawa stated that the Bank had to move on the maintenance-of-value issue because of its significance at a time of differential inflation and exchange rates.

CKW
September 26, 1979

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Moeen A. Qureshi *MAQ*
SUBJECT: Mr. Michiya Matsukawa

DATE: August 14, 1979

I attach a brief note on Mr. Matsukawa. I understand that you met with him earlier this year.

Mr. Matsukawa is holding and has held senior positions in the past in the Ministry of Finance. He has been a key person on the Japanese side in earlier negotiations that were handled by Peter Cargill. As Hattori says, Matsukawa is due to leave the Ministry of Finance in mid 1980, presumably to join one of the major financial institutions. Mr. Sagami (the Vice Minister referred to in Hattori's note) is currently in Washington and neither he, nor the people in the Japanese Embassy appear to be aware as to what Mr. Matsukawa wishes to see you about. In the past, he has handled special assignments at the behest of the Deputy Minister and this could be another such occasion. On the other hand, Mr. Matsukawa is not reputed to be on very good terms with some of his senior associates, including the Deputy Minister. Therefore, it is unlikely that he could be a bearer of important tidings.

Attachment
MAQureshi:sav

OFFICE MEMORANDUM

CONFIDENTIAL

DATE August 14, 1979

DECLASSIFIED
MAY 6 2013
WBG ARCHIVES

TO: Mr. Robert S. McNamara
Through Mr. Warren A. Gurevski
FROM: Masaya Hattori
SUBJECT: Mr. Michiyoshi Matsukawa

Mr. Matsukawa is currently Special Adviser on International Finance to the Minister of Finance. He was appointed in the summer of 1978 upon retiring from the Civil Service. It is expected that he will resign from his present assignment before July 1980, to take up a prestigious position in the financial sector (private or government owned institution).

Mr. Matsukawa entered the service of the Finance Ministry in 1947 and soon was recognized as one of the top two contenders of his class for the post of Deputy Minister. He has spent most of his career in the international field, including a tour of duty as Minister-Counselor for financial affairs in the Embassy in Washington. His last two posts in the Civil Service were Director General of the International Finance Bureau, and Vice-Minister for International Finance. He is widely known as an expert on international monetary matters in international financial circles, and for some time he was the Chairman of Working Party Three of the OECD.

He has not been deeply involved in aid policy in the past, although he did make a couple of supportive interventions in the discussions within the government when IDA-2 negotiations were in difficulties.

Mr. Matsukawa has gained a reputation of being abrasive and too independent, and it is felt that this was the reason why he did not make Deputy Minister. His relations with Mr. Fujioka, his successor as IFR and with Mr. Sagami, his successor as Vice-Minister are not as cordial as they should be.

MHattori:mb

1979 AUG 14 AM 4: 30
IFC OFF. EX V.P.

Briefing Note

Japan: Sumitomo Trust and Banking Company

This note describes the activities of Sumitomo Trust and Banking Company.

1. History. Sumitomo Trust, was founded in 1925; it is one of the two major financial institutions of the Sumitomo group. After the war, Sumitomo Trust, like the other trust banks, was allowed to change its status to bank and added commercial banking business, mainly long-term financing as well as foreign exchange transactions, to its trust activity.
2. General Activities. With total employable funds of \$32.6 billion equivalent, Sumitomo Trust currently ranks 13th among the Japanese financial institutions. Among the seven Japanese trust banks, which represent 17% of the funds in the banking system, Sumitomo Trust stands in second position after Mitsubishi Trust and its profits are the highest.
3. With a staff of about 6,000, Sumitomo Trust operates forty-six domestic branches, three overseas branches (London, New York, Los Angeles), one representative office (Frankfurt) and one overseas subsidiary (Hong Kong). Their main role is to manage the pension funds of the Sumitomo industrial complex and raise further resources by issuing their own "investment certificates" for long term lending to Japanese industry and, in recent years, to non-residents.
4. International activities. Sumitomo Trust has regularly extended its international banking activities which include foreign exchange transactions, foreign trade financing, participation in international syndicated loans, project financings, private placements in Japan of foreign bonds etc.
5. Transactions with the World Bank. To date, Sumitomo Trust participated in all of our Yen transactions with the trust banks in Japan, namely (a) 2 private placements, and (b) 4 syndicated loans for a total of ¥135.0 billion (\$666.7 million). We estimate that they hold over \$100 million of World Bank Bonds in portfolios which they manage.
6. Forthcoming transactions. We are planning a new syndicated loan before the end of FY81 with trust banks in Japan in which Sumitomo Trust would participate. There may also develop a possibility for a private placement with trust banks before the end of FY81.

7. The following table summarizes Sumitomo Trust's operations with the Bank to date:

		<u>Sumitomo Trust</u>		<u>% issue</u>
		<u>Amount Subscribed</u>		
		<u>billion ¥</u>	<u>mill. \$ equivalent</u>	
<u>Private Placements</u>				
(1)	6.90% ¥10 billion Notes of 1973	1.0	4.9	10.0
(2)	8.06% ¥15 billion bonds of 1979	<u>2.0</u>	<u>9.9</u>	<u>13.3</u>
	Sub-total	3.0	14.8	12.0
<u>Syndicated Loans</u>				
(1)	7.60% ¥ 30 billion of 1978	3.0	14.8	10.0
(2)	¥ 30 billion of 1979 - Tranche A 8% ¥12 billion	1.8	0.9	15.0
	- Tranche B 8.10% ¥18 billion	2.7	1.3	15.0
(3)	8.30% ¥30 billion ^{1/} of 1979	9.0	44.4	30.0
(4)	8.90% ¥20 billion of 1980	3.0	14.8	15.0
	Sub-total	19.5	96.3	17.7%
	Total	22.5	111.1	16.7%

1/ lead manager

February 10, 1981

76

TA-NON-KA
BOND

5/28/81

Briefing Paper

Mr. McNamara's Meeting with Mr. Shimokobe

Visitors: Atsushi Shimokobe - President, National Institute for Research
Advancement (NIRA), Japan
Yoichi Aki - Washington Representative, Overseas Economic
Corporation Fund (OECF), Japan

Date: Friday, May 29, 1981 6:00 - 6:30 p.m.

Subject: World Bank Assistance to China

As former Director General of the Economic Planning Agency and subsequently Vice-Minister of the National Land Agency, Mr. Shimokobe has been directly in charge of formulating Japan's master plan for national development. Based on his experience in preparation and implementation of multipurpose regional development programs, he has provided advice and assistance to various agencies in Japan and abroad associated with development planning. He is an expert on China and has been associated with Japan's technical assistance to China at various occasions.

He is visiting the U.S. this time under an "Intellectual Exchange Program" organized by the Japan Society. He will be visiting the Harvard University, Columbia University, Ford Foundation, Rockefeller Foundation, Asia Society, Brookings Institution, AEI and CSIS, etc., and will be discussing Reagan Administration's economic policies, urban development programs, etc.

At the meeting with Mr. McNamara, he wishes to ask about the Bank's lending strategy for China and the Bank's official assessment of or Mr. McNamara's personal views on China's current development program (i.e. four modernizations with reform and readjustment) and major obstacles foreseen.

Mr. Shimokobe's curriculum vitae is attached.

CURRICULUM VITAE

NAME · Dr. Atsushi Shimokobe

PLACE OF BIRTH Tokyo, Japan

DATE OF BIRTH 30 September, 1923

ACADEMIC CAREER September, 1947 Graduation from Tokyo University
Doctor of Architecture

PROFESSIONAL CAREER

October 1947 Board of War Damage Reconstruction

December 1952 Planning Bureau, Economic Planning Agency, Prime
Minister's Office, Government of Japan

April 1957 Planning Bureau, Ministry of Construction

August 1962 Development Bureau, Economic Planning Agency
Formulation of the Second Comprehensive
National Development Plan

May 1971 Chief of Office for Research on R&D (Research and
Development), Development Bureau
Economic Planning Agency

June 1972 Director-General, Development Bureau,
Economic Planning Agency
Formulation of the new Comprehensive National
Development Law

March 1974 Establishment of NIRA

June 1974 Director-General, Planning and Coordination Bureau
National Land Agency, Prime Minister's Office,
Government of Japan
Formulation of the Third Comprehensive National
Development Plan

November 1976	Vice-Minister of National Land Agency
July 1979	Special Advisor to the Minister of National Land Agency
November 1979	President of NIRA Special Advisor to the Minister of National Land Agency

NOTE: Comprehensive National Development Plan is to be formulated and to be adopted by the Cabinet on the basis of National Comprehensive Development Law.