RECORD OF THE MEETING WITH FINANCE MINISTER KIICHI AICHI OF JAPAN

April 19, 1973, 11:00 - 11:40

Ministry of Finance

Attendants: Minister Kiichi Aichi, Mr. Koichi Inamura, Vice Minister for International Affairs, Mr. Daizo Hayashi, Director-General of the International Finance Bureau, Mr. Tarao Maeda, Deputy Director-General of the International Finance Bureau, Mr. Seitaro Hattori, Executive Director of Japan, and Mr. Shigemitsu Kurizawa, Counsellor at the Ministry of Finance, Mr. McNamara, Sir Denis Rickett, Mr. William Clark and Aritoshi Soejima.

Mr. McNamara began by telling the Minister how deeply grateful he was for all the support which we had had from the Japanese Government. The World Bank group could not be doing what it was but for the willingness of the Japanese Government to give us access to their capital market and to support successive replenishments to IDA.

Mr. Aichi said that he was glad that in the last 2½ years the World Bank had borrowed $1.2 billion in Japan. He asked about the progress of the Fourth Replenishment of IDA. Mr. McNamara said that this was the greatest single problem confronting the World Bank Group at the present time. For this, there were three reasons:

(1) The developing world must be the major source of capital for its own development. This was in fact the case since 80% of development was financed from domestic savings. The remaining 20% of its capital needs were, however, of the greatest importance. The UN Strategy for the Second Development Decade assumed an average rate of growth for the developing countries of 6% per annum and estimated that to make this possible, developed countries must raise their official development assistance to 0.7% of their GNP by 1975. In fact the level achieved was likely to be only half this. In consequence the 6% rate of growth was beyond the reach of many of the poorest and least developed countries.

(2) The shortage of capital on concessionary terms obliged many developing countries to rely excessively on capital made available on harder terms. The total debt outstanding of the developing countries amounted to 80 billion dollars and annual debt service was $7 or $8 billion and was growing at the rate of 14% a year, much faster than the foreign exchange earnings from which their debt service must be met. It was obvious that this could only lead to a growing debt problem.

(3) The US which in the past had been both the principal founder and the main supporter of IDA, for which it had provided both finance and leadership, was now no longer able to fulfill that role. If
IDA was not to be fatally weakened, other countries must increase their efforts. Japan, whose economy was growing so much faster than those of other countries, must bear an important part of the burden. In the present negotiations, the US was asking for a reduction in its share of IDA contributions. There was little economic justification for this request. Politically, however, the case was much stronger. It was unhealthy for any international organization to rely on a single donor for 40% of its resources. If the US share were to be reduced, the UK would have a strong case on economic grounds for some reduction in its share also. In the third replenishment, they had agreed to forego such a reduction only because he (Mr. McNamara) had persuaded other countries, including the U. S., not to ask for any change in their shares. If the US and UK shares were to be reduced, the shares of the other countries must be increased. Both on economic and political grounds, there would be strong justification for asking Japan to accept a higher share which would accord with her role in international affairs.

In a reply to a question from Mr. Aichi, Mr. McNamara said that we had hitherto avoided any discussion so early in the negotiations of the extent of the possible reduction in the US share. The US had talked of a figures as low as 25%. This was clearly un-negotiable and he could not accept any responsibility for such a proposal.

Mr. Aichi said he understood that the proposal made in London had been for a further replenishment at 1.5 billion Smithsonian dollars. Japan would support that level. Mr. McNamara said that Japan's willingness to do this had had a very important influence on the discussions in London. Mr. Aichi said that the Japanese Government was prepared to contribute to this total the same share as the German Federal Republic; namely, 9.76%. This would be equivalent to ¥43 billion as compared with ¥16 billion in the third replenishment, or in other words, an increase in Japan's contribution of 2.7 times. The Japanese Government would be prepared to maintain their contribution at this figure, even if the level of the replenishment dropped to §1.5 billion current or slightly lower. They would not be prepared to see their share in the total go above 11%. They were prepared to make this proposal at the third meeting of the Deputies on May 1 and 2.

He wished Mr. McNamara to know that the Japanese Government had made a very special effort as a mark of appreciation of his visit.

Mr. McNamara said that he was most grateful for this welcome which was in accordance with the Japanese tradition of hospitality. He would get in touch with Mr. Schultz as soon as possible on his return to Washington. Mr. Schultz had serious political problems. There was a sharp confrontation at the present time between the Executive Branch and the Congress over the issue of the President's action in impounding funds voted by the Congress for domestic projects. When the third replenishment
of IDA was ratified, the Executive had given an undertaking that no further commitments of that kind would be entered into without previous consultations with the Congress and Congressional approval therefore had to be obtained for any US position. The present was a particularly difficult moment at which to do this. What Mr. Aichi had just said would, however, be of the greatest help and Mr. McNamara would not press him in any circumstance to accept a share higher than that of Germany.

Mr. Aichi then referred to the exchange of letters which took place 10 years ago between the Japanese and US Governments on the repayment under GARIOA. A bill providing for advance repayment of $175 million to be made on May 1 had passed the Lower House and was to pass the House of Councillors in the next few days. The agreement had provided that this money, when repaid, would be used to help underdeveloped countries. He (Mr. Aichi) had been questioned on this point during the debate in the Diet. He suggested that Mr. McNamara should remind Mr. Schultz of this undertaking. While the amount was not big, it would be suitable that it should be used for IDA.

In conclusion, Mr. McNamara said that Mr. Schultz had not been at all sure that the US representative would be able to take a firm position at the Tokyo meeting. He felt sure, however, that Mr. Aichi's action in regard to this repayment would in the longer run prove most helpful.
SUBJECT: JAPAN - Visit of Vice-Minister for International Affairs, Ministry of Finance

Mr. Hosomi, Vice Minister of Finance for International Affairs, and Mr. Gyohcen, his chief assistant, called on Mr. McNamara yesterday afternoon. Mr. Hattori, Sir Denis Rickett, Mr. Soejima and I were also present.

The discussion focused on the China question, but Mr. Hosomi took the occasion to say that Japan was determined to increase its official aid, although the internal political situation made it difficult for the Government to say this as clearly as it would like. Japan appreciated Mr. McNamara's forthright speech at Santiago and wished that it were able to take such a strong position in the support of the developing countries. Mr. McNamara thanked Mr. Hosomi for these remarks and said that he in turn much appreciated the help that Japan had given to the Bank through its contribution to the Third IDA Replenishment and by permitting the Bank to borrow.

China

Mr. Hosomi said that the Japanese Government was relieved that the China issue had not come up at the recent ADB meeting although there had been rather active consultations among the delegates. Japan's basic position was to maintain the status quo in the ADB, the Fund and the IBRD, but was not able to be too categorical in view of the possibility of a change of position when the new government comes in. In response to Mr. McNamara's question as to whether the status quo could be maintained through the forthcoming Annual Meeting, Mr. Hosomi said that he was not sure that Taiwan could maintain its seat on the Boards of the Bank and the Fund, but that it should be able to hold on to its membership. He did not believe this would be seen by member governments as a political question -- in contrast to the position they were taking in other agencies -- so much as a question of who should assume China's assets and liabilities. Nobody knew what Peking intended and it seemed inadvisable to take any steps until its intentions were known. Since it was difficult for governments to approach Peking on the matter, he wondered whether the Bank would be willing to do so.

Mr. McNamara said that the problem was extremely difficult and that he had not wanted to do anything that might trigger the issue at ADB's Annual Meeting. Now that the Meeting had passed without incident, a decision would have to be made within the next few weeks whether the issue could be allowed to go unresolved until the Bank-Fund meetings. If no
decision had been taken by then, it was more than possible that a government hostile to Taiwan might propose a resolution that would cause difficulties for those other governments which, although unwilling to take any initiative themselves, would have to vote in favor of Peking if confronted with the choice. As to consulting Peking, the Bank could certainly do so, but would most probably get an unhelpful response along the lines that Taiwan's liabilities to the Bank were no concern of theirs, that they had no desire to join the Bank, but that the Bank had no right to allow Taiwan to continue as a member. In the circumstances he thought it would be better not to raise the matter with them.

Mr. Hosomi said he had consulted in Vienna only with the US delegation but that he had been informed of the attitude of certain other delegations by President Watanabe. A typical attitude was that of the Netherlands Government, which if forced to choose between Peking and Taiwan would vote for the former, but did not see any reason why they had to make this choice and had advised others -- including the Republic of China -- not to provoke the question. He had also talked with the delegations of Korea, Viet Nam and the Philippines and believed they were reaching an understanding among one another and with ROC on the forthcoming elections for Directors.

Mr. McNamara asked whether Japan's wish to maintain the status quo included the continuation of lending to Taiwan. Mr. Hosomi replied that he could not answer officially for Japan, but that in his personal view one might distinguish between lending for completely new projects, which he thought inadvisable, and lending for projects which were a continuation of earlier projects. Japan had made this distinction in supporting the last ADB loan to Taiwan which had been for a project closely related to one of Japan's own aided projects.

 Raymond J. Goodman

cc: Mr. McNamara
     Sir Denis Rickett
     Mr. Hattori
     Mr. Soejima

For information
Mr. Knapp
Messrs. Nurick/Broches

RJGoodman/am
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Douglas J. Fontein
DATE: April 20, 1972
SUBJECT: JAPAN - Visit of Vice-Minister for International Affairs, Ministry of Finance

1. The Vice-Minister for International Affairs (Ministry of Finance), Mr. Hosomi, and his Chief Assistant, Mr. Gyotken, will call on you at 2:30 p.m. on Tuesday, April 25. They are returning from the ADB annual meeting in Vienna. Although we have been informed that the visit is not merely a courtesy call, Mr. Hattori has received no indication of the specific subjects they would like to discuss. However, they may raise such matters as Japanese aid policy, the Taiwan problem and Bank-Group operations and policies.

2. Mr. Hosomi entered the Ministry of Finance in 1942 after graduation from the University of Tokyo, and has since then been working mainly on taxation and internal finance. He was the Director-General of the Tax Bureau and of the Finance Bureau before succeeding Mr. Kashiwagi when the latter retired from the civil service in June 1971. Mr. Gyotken worked at various times in the International Finance Bureau and the Banking Bureau. Before becoming Mr. Hosomi's chief aide, he was Special Assistant to Mr. Watanabe, President of ADB. He joined ADB, when the latter was formed, coming from the IMF. In the meeting with you, Mr. Gyotken will act as Mr. Hosomi's interpreter.

ZKalin:pq

President has seen
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Lars J. Lind

DATE: May 22, 1972

SUBJECT: Meeting with Mr. Ohashi of "The President", Tokyo

Mr. Ohashi will come to your office at 5:30 Wednesday, May 24. He will then have been told that he can have quarter of an hour—the time indicated to him when he made his initial request.

The questions, intended as "annotations" to your UNCTAD speech, are attached.

Questions 1) and 2) refer directly to that speech. The formulation of question 1) reveals perhaps a misunderstanding of your main point and would offer a good opportunity to stress again the imperative need for developing countries to attack the income distribution problem and the "helplessness" of foreign assistance in the form of capital and technology unless social justice measures and policies are adopted by the recipients. And also, the necessity to provide more ample ODA funds to countries who make such efforts.

Question 2) refers to the mobilization of public opinion. In your speech you stated that this is, in the end, a matter of leadership. You might wish to point out that some countries (the Nordics, Canada, Holland for instance) have initiated strong government-supported programs to inform the latent foreign assistance constituency of conditions in the ldc's, and of the efforts to improve the situation. You might wish to express the hope that the Japanese government take a similar lead.

Question 3) relates directly to the subject you will discuss in your upcoming Stockholm speech.

Question 4) invites several counter-questions: $10 billion over what period? on what terms? untied as DAC recommended in Tokyo a year ago? to what countries? why limit to these countries? etc.

Mr. Sanders from the Tokyo office comments on this question:

"There is a proposal floating around Japanese government and financial circles suggesting that the most political way out of the present dilemma of huge dollar reserves is to set up a special fund devoted to an enormous overseas aid program. It is part of the continuing debate in Japan about whether the economy needs to be completely restructured in order to meet the growing crisis brought about by the piling up of reserves, or whether some method can be found to dispose of the reserves thus requiring only relatively minor adjustment of the Japanese economic machine and the whole export-orientation of the economy. This kind of speculation about a new, massive attack on aid problems grows out of this debate."
East Asia and Pacific Department has provided rough notes on possible effects of such big-push programs in Korea, Thailand, Indonesia and Philippines. Briefly they state:

Korea: The possibilities for a significant development breakthrough with more external financing are probably nowhere more promising than in Korea. Additional foreign capital of say $400 - $500 million a year would mean ability to maintain current growth rates of 10-11%, maintaining full employment and to continue to spread widely the fruits of development.

Thailand: Thailand needs to borrow from foreign sources about $2,200 million in the next five years; if a major part of this could be provided as ODA on concessionary terms, it would greatly alleviate the debt problem and make it possible to regain the economic momentum of the 1960s.

Philippines could easily absorb some $300 million ODA annually in the next five years provided the bulk is in non-project form. Assistance of this magnitude could have a major impact on the level of industrial growth and social sector spending, and would constitute major relief from debt burden.

Indonesia: Here there are constraints in absorptive capacity – particularly the lack of technical and managerial skills. An additional $400 - $500 million in ODA in commodity form – combined with more technical assistance and continued political dedication to development, could raise the economic growth rate to 7 - 8% (currently 5-6%) and provide more room for attention to some qualitative development problems, such as more balanced regional development and unemployment.

Question 5. I'm sure that in the quarter of an hour allotted, time will not permit this question to be handled and in any case it might best be ducked, being of a somewhat internal political nature.

I would not be sorry to see the entire time devoted to the first question, your answer to which conveys the most urgent message.

Attachment

LJL:jhg
1. In your UNCTAD speech, you referred to the necessity of a 'Climate of Growth' in the developing countries. What can the developed countries do in your opinion to encourage that climate of growth in the developing countries? Is it enough simply to supply capital and technology on generous terms, or is something more necessary?

2. As to official development assistance, you pointed out the ignorance of the inhuman conditions that characterize the lives of people in the developing countries. Can we conquer this ignorance? How?

3. In speaking of the expansion of trade, you ask for a continuing expansion of trade. Can this expansion be continued at the rate you suggest necessary for development in the developing societies without an equally vast increase in the menace to the world's ecology? Are we not going to pollute the world beyond human endurance? If not, how do you suggest we proceed?

4. In discussing the question of the capital to be made available by the donor countries, as you know, some experts have now estimated that Japan's reserves are some dollars 10 billion in surplus. If this $10 billion could be devoted to a gigantic new Japanese aid program in East and South Asia in the coming few years, do you think this might make possible a break-through in the world development problem?

5. As you know, in the post-world War II period, Japanese companies were under the strict control of the Japanese government, particularly their international operations. There is general agreement in Japan now that control must be modified. How do you see Japanese private capital in this regard moving out into the international markets and do you see this movement as a source of aid for the developing countries? Under what conditions do you think this is possible?
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**REMARKS**

The attached hypothetical speculation about additional Japanese aid for these 4 countries alone comes to over $6 billion over 5 years as follows:

- Korea 2,250 m
- Indonesia 2,250 m
- Philippines 1,800 m
- Thailand 700 m
Korea

Korea's demonstrated capability for rapid economic development is larger than can be financed by domestic saving and foreign financing presently in prospect during the next several years. Hence, with a very large expansion of financial help from Japan the rate of economic improvement and progress toward self-supporting development could be accelerated.

The development planning of Korea during 1972-76 involves a slow-down in economic growth from the annual 10 or 11% of recent years to about 8.5% during the next five years. This will be necessary despite expected gains in domestic saving and large increases in Korean exports and in gross capital inflows. The difficulty arises from expected slowing of invisible receipts from abroad and heavy increases in foreign debt service which has been rising rapidly and which we expect to double in the next five years from the present level of about $400 million. We estimate that around $4,000 million of gross foreign borrowing from official and private sources will be needed by Korea during 1972-76, even at the reduced economic growth rate contemplated by Korean planners. This would be an increase in current dollars of about two-thirds compared with the last five years for a considerably lower rate of economic development. Such financing is probably feasible, but not enough for Korea to make the most of its potential for rapid development.

The possibilities for a significant development breakthrough with more external financing are probably nowhere more promising than in Korea. Additional foreign capital of say $400-500 million a year, would enable Korea to raise its prospective investment level by 15 or 20%.

It is reasonable to expect from this such development impact as follows:

1. A return to recent rates of economic growth of 10 or 11% which
have been enough not only to make Korea one of the outstanding achievers of the developing world in productivity but also one of the few cases of a developing country which has been able to avoid an unemployment problem and where the fruits of development have been widely shared among the population.

2. An acceleration in the transformation of the economic structure to one with an increasingly varied and deepened industrial capability.

3. In the latter process, a larger and more varied export expansion than now contemplated for the longer run, and at the same time a relative reduction in import dependence. It is these processes which, in combination with further gains in savings, promise to accelerate Korea's progress toward economic independence.

4. Such progress would be hastened if the assumed availability of larger assistance from Japan were on favorable interest and repayment terms, and were untied so that Korea's relative dependence on short-term and other disadvantageous forms of foreign financing could be reduced and its opportunities to purchase abroad under advantageous competitive conditions could be increased.

Thailand:

Substantially larger official development assistance from Japan would allow Thailand to resume the rapid pace of development of the 1960's without incurring debt burdens so heavy as to jeopardize the capabilities for sustained development in the longer run. Prospects are that for the next few years anyway, Thailand will in any case be able again to achieve an impressive record of development. But this will require much more external financing than now seems likely to be available from official sources. Hence, increasing reliance on hard term foreign borrowing from private sources
will be necessary and this would push Thailand's already heavy debt service up to levels which would be a drag on further development in the late 1970's and 1980's. If perhaps half of these private financing needs over the next five years could be met instead by concessional assistance from Japan, this could well reduce Thailand's debt service ratio in the latter 1970's by 4 or 5% points, i.e. to around 20%, which would be manageable without serious interference with Thailand's development capabilities.

Thailand was one of the "success stories" of the 1960's among the developing countries. The growth of GNP averaged 9% a year during 1966-69 and this was achieved with price stability and a large accumulation of foreign exchange reserves. The results reflect an unusually aggressive and flexible pattern of economic behavior among private Thais in both agricultural and non-agricultural activities but they were also attributable to favorable external forces which provided Thailand in this period with large receipts in foreign exchange. These were the very substantial U.S. military expenditures in Thailand and a strong world market for rice which is Thailand's main export. There were, however, unfavorable aspects of Thailand's growth in the 1960's which are relevant to the question of Thailand's need for additional external finance in the 1970's. There was little increase in exports. And most of the development with its benefits was concentrated around Bangkok and in the Central Plains. Economic activity was also stimulated in the Northeast Region by U.S. military spending. But economic development of a lasting and self-sustaining character outside of Central Thailand was limited. Since 1969 the development pace has slowed considerably to a rate of GNP growth of about 6%.

Thailand's development problem for the 1970's is to regain the economic momentum of the 1960's inspite of considerable weakened export markets and declining receipts from the U.S. military. This will require the build-up of a more varied export capability in agriculture and industry to compensate for the sluggish market for rice and rubber and at the same
time Thailand will need a wider distribution of development benefits than during the 1960's. We believe that these development objectives are feasible in view of Thailand's resource potential and the demonstrated economic capabilities of the Thai people. However the costs of reaching these development objectives suggest need for a very large increase of development assistance from abroad. During the last five years, Thailand borrowed from foreign, private and official sources about $1,100 million. The borrowing needs for the next five years, if Thailand is to reach its attainable economic capabilities, are more than double this amount. Of this, present prospects are at half or more would have to come from private sources such as private loans and suppliers credits. It is in this connection that substantially larger official assistance from Japan would be of great advantage in furthering Thailand's progress toward economic independence, by keeping the debt problem within manageable bounds.

The possibility of transferring such a substantially larger amount of Japanese assistance would depend partly on its availability in non-project and widely usable form, and also on Thailand's progress in improving project and institutional capabilities for channeling foreign funds into public and regional projects and into private investments.
INDONESIA

Despite the impressive performance of the Suharto Government in the past eight years, Indonesia, with an annual per capita income of $80-100, is still in the early stages of the development process. Indonesia remains quite dependent on foreign aid. Such assistance which accounted for 100% of the development budget in 1968, still accounts for as much as 70% of it despite an impressive increase of budgetary revenues as a consequence of improved fiscal management and sharply increased oil revenues. The main source of external assistance to Indonesia is the Inter-Governmental Group on Indonesia (IGGI) which since 1968 has been making a growing contribution to Indonesia's development. For FY 1972/73 IGGI has committed $724 million of which $185 million (26%) is Japan's contribution.

Despite the dependence of Indonesia on foreign assistance, it would be unrealistic to assume that a massive one-shot increase in the level of aid would result in a quick breakthrough on the development front. Possibly the most serious obstacle to Indonesia's development is the extreme scarcity of the skills essential for development - particularly technical and managerial skills at all levels. Improvement of human resources is very much dependent on the availability of sizable resources over a considerably long time.

While a massive increase in foreign assistance would not enable Indonesia to achieve self-sustaining growth within a relatively short time, it could have a number of important effects. It would hasten the process of development and reduce by a multiple the future dependence of Indonesia on foreign assistance. It would permit a higher level of investments in the social sectors and in pursuit of social objectives than is presently possible
with the obvious and understandable preoccupation with rehabilitation of productive capacity. Finally such an increase in resource availability could enable the Government to undertake some ambitious and costly experiments (e.g. transmigration from Java to outer islands) which the present level of resources does not permit and which if successful could be the first steps of a breakthrough. In view of the low level of incomes, the continuing dependence on external assistance in the foreseeable future, and the already existing level of debt, it is important to provide new debt on concessional terms if future debt servicing problems are to be avoided.

Of course, it cannot be emphasized enough that any sizable increase in the level of assistance to Indonesia, to be effective, would have to be matched by an equally sizable increase in technical assistance. Nor would both be adequate without the continued dedication of the Government to economic development.

It would also be of crucial importance for the effectiveness of additional aid that it be in a form to supplement Indonesia's low level of domestic saving. Severe shortages of domestic resources can be expected for some time to be a serious constraint on private development, public infrastructure, and social programs including the resettlement programs mentioned above. At present the Indonesian saving rate is less than 10% of GNP. Investment is about 13-14% of GNP with the difference filled by foreign, public and private saving. The investment figure is low compared with many other developing countries and with Indonesia's needs. An important reason is the shortage of domestic saving. Every additional $100 million of foreign support could add another 1% to the investment level.

This would present some problems of Indonesia's capability to absorb foreign capital. But the problems could be minimized if the foreign capital were in a commodity form which could generate counterpart domestic resources available for larger private investment and the domestic expenditure component.
of public development expenditures. An additional $400-500 million a year of assistance in this form, in combination with more technical assistance and continued Indonesian dedication to development, could well raise the rate of economic growth to 7-8% or perhaps more compared with the current 5-6%, and at this pace there would be room for increased attention to the qualitative development problems of excessive population pressure in Java, more balanced regional development, unemployment, and closer inter-island integration.
Philippines

The Philippines, which has enjoyed an average growth rate of 6 percent per annum during the last decade, is faced at present with a serious foreign exchange constraint. Notwithstanding an expected average growth in exports of 7 percent per annum during 1972-75, real imports would rise little unless the effect of rising import prices and higher debt service payments can be offset by substantially larger official aid flows.

A sharp rise in official assistance on concessionary terms can make a major contribution in extricating the Philippine economy from the predicament in which a heavy reliance on suppliers' credits and Central Bank borrowing during the latter half of the sixties has placed it. Because of the concern with the present high ratio of debt service to foreign exchange earnings (26 percent in 1971), a net increase in suppliers' credits' type of financing is not desirable and the net inflow of resources must come, therefore, entirely from official sources.

In the last few years, the flows of official development assistance to the Philippines have been very small, but the economy can quite easily absorb average annual official assistance of $300 million during 1972-75, the provided/bulk of this can be made available in the form of non-project assistance. An assistance of this magnitude would have a major economic impact on the level of industrial growth, investment, exports and social sectors.

The most immediate impact of a sharp rise in official commodity assistance would be to assist the expansion in industrial activity. The rate of manufacturing growth can easily be pushed to 8-9 percent per annum during 1972-75 instead of 6-7 percent if the shortages of imported intermediate goods continue. Can be overcome.
2. The counterpart funds generated by commodity assistance would enable a sharp rise in public sector investment spending, which has lagged seriously behind. This will particularly facilitate small-scale agriculture and support the drive to regain the momentum of growth in rice production.

3. For the longer run, important private investment plans in mineral exports and import substitution fields, which at present indications must be postponed to latter part of 1970's, can be brought forward thus strengthening the viability of long-term balance of payments.

4. Finally, the debt service burden would be greatly reduced and thus improve the chances of self-sustaining growth during the next ten years.
MEMORANDUM FOR THE RECORD

Subject: Discussions with Part I Members - Japan

The Japanese Minister of Finance, Mr. Ueki, and the Governor of the Bank of Japan, Mr. Sasaki, called on Mr. McNamara on Saturday, September 23rd, at 3 p.m. In addition to the Governor, the Minister had with him Vice Minister Inamura, Mr. Hayashi, Director General of International Finance Bureau, Ministry of Finance, Mr. Yukawa, Executive Director, Bank of Japan, Mr. Hattori, Executive Director for Japan, and Mr. Sugisaki, Interpreter. Mr. McNamara had with him Mr. Knapp, Mr. Aldewereld, Sir Denis Rickett, Mr. Soejima, and Mr. Ljungh.

After welcoming the Minister, Mr. McNamara said that he would like to say to him, as he had said to his predecessor, how grateful he was for the constant support which Japan had given to the World Bank Group both through their contributions to IDA and through the access which they had given to the Bank to the Japanese capital market. Japan's help had enabled the World Bank Group to act in a way which he hoped was in the interests both of Japan and of all their member countries.

Mr. McNamara said that on the previous evening he had received from the U.S. Government their notification that they would make the contributions and subscriptions required of them under the Third Replenishment arrangements. In consequence those arrangements had now become fully effective and the IDA was in a position to sign credits already approved by the Board but not signed for lack of commitment authority. It would also enable the Association to proceed with its future lending program.

The Third Replenishment of IDA had been intended to cover the needs of the Association for resources in FY 72, 73, and 74. If, therefore, we adhered to that plan, the Association would have exhausted its commitment authority 21 months from now (June 30, 1974). Experience showed that at least that period was needed both for the negotiation and the ratification of a new agreement. Inevitably, therefore, we had been turning our thoughts towards the Fourth Replenishment of IDA and if the commitment authority needed was to be available when it was required, we ought to act promptly. It was his present thought that negotiations should begin at some time in the latter part of this year and that governments should be asked to appoint deputies for that purpose. We should endeavour to reach agreement between governments by next summer. This would allow one year for action by legislators before July 1st, 1974.

If this schedule was to be followed and if the Minister would find it helpful, Mr. McNamara would ask Sir Denis Rickett to visit Tokyo before the first meeting of the deputies so that we might know the thoughts of the Japanese Government and take advantage of them at that meeting. We should expect it to be held in Europe before the end of the year.

Further meetings would, no doubt, be necessary and if the Japanese Government agreed, the second meeting might be held in Tokyo in the early part of next year. He felt sure that an invitation to meet there would be extremely welcome to all the participating governments.

In the preliminary discussions, it would be most helpful to Sir Denis Rickett to hear at least the provisional views of the Japanese Government both

President has seen
on the total level of the Fourth Replenishment and on the share which the
Japanese Government might be willing to contribute to it. Mr. McNamara had
no doubt that there would be a need for a substantial increase in the amount
of the Fourth Replenishment over the level of the Third. Since the Third
Replenishment was negotiated, Japan's economic strength and importance in world
affairs had grown so greatly that he hoped that they would feel it would be in
their interests to assume a larger share of the Fourth Replenishment.

The Minister thanked Mr. McNamara for the excellent news which he had
given about the Third Replenishment of IDA. As regards the Fourth Replenishment,
he was much encouraged by what Mr. McNamara had said about the attitude of the
World Bank Group which would be welcome to all developing nations. The World
Bank had contributed enormously to the reconstruction of the Japanese economy
and he greatly appreciated their cooperation. He would be happy for Japan, in
its turn, to help the World Bank both through making their contribution to IDA
and by giving them access to the Japanese capital market. The Japanese Government
considered it a privilege to help developing nations in that way and would continue
to give their fullest cooperation and support to the World Bank. He was glad to
hear of the proposal for a visit to Tokyo by Sir Denis Rickett and would be glad
to welcome him there.

Mr. McNamara then referred to the position of the Republic of China.
Since its expulsion from the United Nations, virtually all the UN agencies except
the World Bank and the IMF had taken the same course. The position of the
Republic of China in the IMF and the World Bank might be raised at the meeting
in the following week. The suggestion had been made that if it were raised, it
should be dealt with as one not of substance but of procedure. Would the Japanese
Government support that?

The Minister said that on the 25th September the Japanese Prime Minister,
Mr. Tanaka, would be visiting Peking and this clearly made the position of the
Japanese Government somewhat delicate at this juncture and would make it difficult
for them to give a firm opinion. The question was one which had many complex
aspects and would take time to resolve. Japan could therefore probably support
the kind of proposal to which Mr. McNamara had referred. He did not, however,
wish to take any position on the matter in public at the moment.

Mr. McNamara agreed that the position was extremely complex both legally,
financially, and politically. It was in order to avoid drawing hasty conclusions
that there might be agreement between the Governors that the matter should be
considered thoughtfully and over a period of time.

The Minister repeated that in order to avoid repercussions on Mr. Tanaka's
visit to Peking, he could not take any public position or give any definite answer
at this stage. Nevertheless, he thought that the Japanese Government would be in
sympathy with the proposal to treat the matter not as one of substance but of
procedure.

Mr. McNamara thanked the Minister. He wished finally to refer to the
future borrowing program of the World Bank. He did not wish to discuss that in
detail at the present meeting. He would like to arrange for Mr. Aldenward, 
Vice President (Finance), to visit Tokyo in the near future to discuss with the
Japanese authorities the World Bank's borrowing program and the extent to which
it could be met in the Japanese capital market.
The Minister said that he was delighted to hear that Mr. Aldewereld might come to Japan. The Japanese Government was always ready to give as much support as they could to the borrowing program of the World Bank.

Mr. McNamara said that Governor Sasaki had been of the greatest help in this matter. We would schedule the visits to which he had referred in such a way as to suit the convenience of the Japanese authorities. He hoped that Mr. Aldewereld could visit Tokyo at an early date.

Governor Sasaki said that it had always been a pleasure to the Bank of Japan to lend to the World Bank and they would continue to give all the support they could.

Finally Mr. McNamara said how much relations between the World Bank Group and the Japanese Government were helped by the fact that the Japanese Government had made available the services of such an able Executive Director as Mr. Hattori and such an outstanding head of the Tokyo Office as Mr. Soejima.

The Minister said that both Mr. Hattori and Mr. Soejima would continue to give their services to the World Bank.

D. H. F. Rickett
Vice President
September 23, 1972
MEMORANDUM FOR THE RECORD

Meeting with Mr. Itoyama, Friday, March 23, 1973

Mr. Itoyama, a private businessman from Osaka, visited Mr. McNamara accompanied by an interpreter. Mr. Itoyama said that he was quite a successful businessman owning a large number of entertainment enterprises and that he wanted to devote his energy to improving relations between nations of the world. He asked Mr. McNamara's advice as to whether he should stay in business or enter into politics. He had asked the same questions of Vice President Agnew the day before. He also asked Mr. McNamara to comment upon the attitudes of the young generation to politics.

Mr. McNamara recommended that Mr. Itoyama enter into politics in order to pursue his goals.

AL
April 4, 1973

President has seen
RECORD OF THE MEETING WITH THE GOVERNOR OF THE BANK OF JAPAN

April 20, 1973, 11:30 - 11:50

The Bank of Japan

Attendants: Mr. Tadashi Sasaki, Governor, Mr. Hitoshi Yukawa, Executive Director of the Bank of Japan and Mr. McNamara, Sir Denis Rickett, and Aritoshi Soejima. Mr. Hattori, Executive Director of Japan to the World Bank was also present.

Upon Mr. McNamara's inquiry, Governor Sasaki mentioned that the general trend of the interest rate would move upward for sometime: BOJ had just increased its discount rate by 0.75% and had been strengthening the tight money policy. This was necessary because the wholesale price of March indicated 10.7% higher than a year ago. He believed, however, that the interest rate would not go up as high as those in Europe.

Mr. McNamara asked about the Governor's view on the gap of interest rates between the secondary market and the issuing market and whether or not this gap would be narrowed in the future. The Governor replied that since an upward revision of the Government bonds would take place in May, he expected that the gap would narrow.

Mr. McNamara then asked whether or not the Government bonds could be sold to the public to which the Governor replied that only 15% of the Government bonds were purchased by individuals. In answering Mr. McNamara's question on whether the Governor would want the World Bank to continue its public issues, the Governor answered affirmatively, and pointed out that sales of only 15% of the Government bonds to the public seemed too low and that increased sales of Government bonds to individuals had to be considered. Mr. McNamara then mentioned that in view of the higher interest rate of the secondary market, in order to sell our bonds to individuals, the interest rate had to be high enough to meet investment desires of the public. The Governor replied that the World Bank had to find out a compromise between the interest rate of the Government bonds and that of the secondary market. This was necessary for harmonization of interest rate in Japan.

Mr. McNamara then asked the Governor's view on the further development of the Japanese capital market. Governor Sasaki said that under the present tight money policy, the capital market may not expand so much, but in a long-range perspective, he believed that the Japanese capital market would definitely expand both qualitatively and quantitatively. To Mr. McNamara's inquiry on the volume of issuance of private corporate bonds, the Governor answered that they were more or less stable due to the excessive liquidity of the private companies, but that it would certainly expand in the long run. Governor Sasaki added that foreign exchange market had been stable for sometime: The dollar-yen exchange rate was at more or less $1 = ¥265. The U.S. dollar was presently even short in the exchange market and the Bank of Japan had to sell dollars from time to time.
Since the BOP account in March had witnessed a substantial change and at this rate Japan's surplus in the trade account would be approximately $3.5 billion instead of the projected one of over $8 billion, Mr. McNamara asked whether or not the trend would be continued. The Governor pointed out that exports were still expanding but increase in imports far exceeded that of exports (almost the double compared to the year before due partly to the price increase in imports). Upon Mr. McNamara's further inquiry as to what kind of commodity imports were increasing, Governor Sasaki replied that a substantial increase had been witnessed in imports of raw material, but imports of finished goods, such as textiles and clothing, were also showing a substantial increase, reflecting a higher living standards of the Japanese.

Mr. McNamara then asked whether or not a decrease in surplus on the trade account would affect the Japanese export of capital. The Governor answered that it might be affected to some extent but because of tremendous surplus accumulated in the trade account, there had been an even exaggeration about the necessity of capital exports these days. The Governor cited, as an example, that export of vessels which had been done hereto on credit basis was shifted to cash basis recently.

Mr. McNamara then asked the Governor the reason the Ex-Im was expanding its import financing in the face of excess liquidity in commercial banks. Governor Sasaki responded that this was designed to avert exchange risks on the part of the commercial banks. Mr. McNamara said that still the reason was not clear to him, because import financing by Ex-Im was a sort of subsidy to which the Governor answered the Ex-Im had an enormous amount of funds available even compared to commercial banks.

Mr. McNamara then asked whether or not the high rate of saving would continue despite the relatively high rate of inflation. Governor Sasaki answered that the saving ratio was not declining, because the Japanese had a habit of saving with the twice-a-year bonus system. Mr. McNamara told Governor Sasaki that it was difficult to understand the increase of saving particularly at the time the prices of land and stocks were increasing at a tremendous rate. The Governor said that it was very difficult even for him to explain but it was the fact that the saving was increasing.

Mr. McNamara understood that the Government was pushing strongly for more welfare programs, improvement of social overhead capital, pollution measures, etc. and asked whether or not the Government would finance such increased needs by way of increased taxes. While avoiding a direct reply, the Governor pointed out that there would be a gradual shift from savings in the private sector to those of the public sector. Nevertheless since social welfare programs were not regarded as sufficient, the Japanese people would continue to save for their old age.

Then the meeting was adjourned.
RECORD OF THE MEETING WITH OVERSEAS ECONOMIC COOPERATION FUND

April 20, 1973, 10:00 - 11:00

At the Overseas Economic Cooperation Fund President's Office

Attendants: Dr. Saburo Okita, President, Executive Director Hirose, Executive Director Takagi and Executive Director Okita from OECF. Mr. McNamara, Sir Denis Rickett, Mr. William Clark and Mr. Aritoshi Soejima from the World Bank. Mr. Hattori, Japan's ED to the Bank was also present.

Mr. McNamara opened the discussion by extending his congratulations to Dr. Okita for his appointment as the President of OECF, and expressed his belief that Dr. Okita's appointment was not only good for OECF but also for the entire developing world. Dr. Okita replied that he accepted the job with some initial reluctance because of the strong bureaucratic system of Japan. OECF, fortunately, did not come under any particular ministry but administered jointly by several ministries and he had felt that it would be easier to manage such an organization than the ones directly supervised by a particular ministry.

Mr. McNamara asked Dr. Okita's view on what area of the World Bank did he seek most assistance. Dr. Okita responded that the systematic and periodic Bank-OECF meetings (the last one held last September and the second scheduled for November this year) and frequent exchanges of views between officials of the two institutions should provide arenas for further and closer cooperation between the two organizations.

Dr. Okita explained that OECF was presently extending aid on a concessional terms, e.g., interest rate of 3 to 3.5%, maturity of 20 to 25 years. He thought that these conditions had to be further softened. Dr. Okita also pointed out that since the Japanese Government would increase its ODA up to 0.7% of its GNP, OECF would be increasing its importance as a channel for Japan's ODA in the future.

As asked by Mr. McNamara whether or not the Government had any time schedule to achieve that target, Dr. Okita replied that Mr. Aichi had not specified any target year at the UNCTAD meeting last year, but that it was generally accepted in Japan that she would reach this target around 1980 in line with the Pearson Commission's recommendation that the Part I countries should achieve that target by "at latest 1980." Dr. Okita stressed that in order to achieve that target even by 1980, Japan's ODA would have to increase by 30% to 40% annually and this had to be done with further softening of the terms of ODA. For that purpose, the Government would have to provide increasingly large amount of interest-
free money to aid-giving agencies. Dr. Okita explained that currently OECF was receiving 50% of its fund as interest-free money and the remaining 50% from the Government Trust Fund Bureau to which OECF had to pay 6.2% interest annually. Softening of the Japanese aid terms, therefore, would mean more tax money. He further pointed out that even with increasing "direct grants" to the developing countries, Japan's ODA which had stood at 0.23% of GNP in 1971 would perhaps decline to 0.22% or 0.21% in 1972 due partly to the devaluation of the US dollars and therefore renewed efforts to increase ODA was of absolute necessity. Asked by Dr. Okita where the 0.4% as Japan's ODA in 1975 mentioned in the table in his speech came from, Mr. McNamara replied that it was based on the government sources, just as all the other figures.

Elaborating on the recent account of OECF activities, Dr. Okita mentioned that 85% of the total credit extended by OECF was governmental loans on concessional terms and the remaining 15% was credits to Japanese enterprises in the developing countries on less concessionary terms (4 to 5% interest rate for around 10 years of maturity). He pointed out three problems that OECF was facing currently:

(1) OECF was not permitted to make "equity investment."

(2) The Government tax money to OECF had been increasing only by 30% annually during the past 5 years.

(3) There had been a widening gap between the commitments and disbursements.

Although OECF credits up to now had been mainly extended to the Asian countries (Indonesia being the largest recipient followed by Korea, Thailand, Malaysia and Taiwan, though OECF had ceased to extend new credit to Taiwan), they would expand their operations to Latin America and Africa in line with the Government's policy. Asked by Mr. McNamara if the loans to Latin America were on harder terms than those to the Asian countries, Dr. Okita replied affirmatively saying that Japan was still in the third stage of development assistance where aid was still centered around the Asian countries. When Japan moved into the fourth stage, the terms and conditions of aid would depend on the development stage of the recipient country rather than by which continent they were located in.

Dr. Okita further expressed that in order to improve Japan's pre-investment study, OECF should jointly work with OTCA (Overseas Technical Cooperation Agency), another government agency who was exclusively handling Japan's technical assistance to the developing countries. Dr. Okita admitted that one of the factors attributing to Japan's weakness in project preparations and appraisals was the lack of use of independent consultants for such purpose. The recent consultant seminar by Dr. Baum was extremely helpful for the development of consultant industry in Japan.
In answer to Mr. McNamara's question, Dr. Okita said that OECF at this moment had 130 staff among which half were professionals and 8 new positions being created in this year's budget. OECF therefore had to heavily depend on studies made by other institutions. He stressed that strengthening of research institutes on both economic and technical aspects was very important for Japan.

Mr. McNamara agreed to Dr. Okita's view on the importance of research and study in development assistance and took up the subject of the International Consultative Group for Agriculture Research. He asked if OECF was involved in this consultative group and added that this group was now tackling with food problems the developing countries were now facing. In view of the future food situation of the world, particularly in Asia, he regarded the role of this consultative group very important. He pointed out that Japan's contribution to this group was only $250,000 (1% of the total) whereas Rockefeller Foundation and Ford Foundation were donating $3 million each, the World Bank $2 to $3 million and the UK and Germany making substantial amount of contribution. Mr. McNamara urged Japan to increase her assistance to this group. Dr. Okita replied that he was not well aware of this group but thought that since the project called for more direct government grants, this was the matter handled directly by MOPA. He said that Japan's "direct grant" had a weakness in that they had so far been given on an ad-hoc basis by the Ministry of Foreign Affairs. He wished that OECF could be involved in this field institutionally.

Mr. McNamara said that he was not sure to what extent the World Bank should be involved in this kind of research work. He felt that without the participation of the World Bank this kind of program would not move quickly. He explained that the World Bank had joined this kind of research group first in agricultural sector but felt that similar research studies on other sectors such as education and urban development seemed also necessary.

Dr. Okita repeated that a weakness in the Japanese aid was found in research field and said that the Japanese aid method was "fighting a battle without strategy." Mr. McNamara agreed but stressed that this was not the case only with Japan. Dr. Okita further added that since there was no big foundation in Japan, the Government should strengthen its research projects.

Dr. Okita then inquired Mr. McNamara's opinion on how the World Bank would tackle the social development problems of the developing countries. Mr. McNamara took an example of nutrition and cited the small scale agricultural project in West Africa where a change in diet would extend the average daily working hours of farmers from the current 4 hours to 7. It was an illustration of how nutrition would directly influence the motivation and energy to work. The World Bank had hired a nutrition specialist from the Brookings Institute to make a comprehensive study on what were the problems and what the World Bank could do about them.
Mr. McNamara further cited a case in Brazil where the Government had shown enthusiasm with the help of the World Bank to improve the nutrition conditions of the people (20% of the entire population suffered from malnutrition). The project would take up the age group of 6 months fetus to 5-year old children as the case study, since it was in this age bracket that one’s brain was developed. Asked by Dr. Okita on what terms the Bank would finance such projects, Mr. McNamara replied that there were no rigid rule but the terms were basically decided by the debt-servicing capability of the recipient country.

Dr. Okita then mentioned of a tripartate seminar among the U.S., Japan and European institutes about development assistance in which it was agreed that terms of aid should not be decided by projects but by the financial conditions of recipient countries. Dr. Okita asked Mr. McNamara whether the Bank would apply the same principle to its agricultural loans and credits, the latter replied affirmatively by citing a case in Iran to which the Bank had never extended agricultural loans in soft terms.

Upon Dr. Okita’s inquiry as to whether the Bank would extend intermediate terms of loans, Mr. McNamara replied that this was admittedly the Bank’s weakness, although the Bank was blending IDA and Bank money to soften terms. He added, however, that this kind of blending had not been done much in the past.

Then Dr. Okita touched upon the problem of untying aid. The Government of Japan decided to untie her aid 2 years ago, expecting other major donor countries to follow, and have been gradually moving towards untying of its aid. OECF had up to now extended untied loans to Burma, Indonesia and more recently to Thailand, but there were still a lot to be studied, such as procedure on international bidding, etc., and the World Bank’s technical assistance in this regard was highly desirable. Mr. McNamara stressed that the Bank was prepared to extend any help to OECF in this respect.

Then Dr. Okita turned to the subject of the International Development Center. He told Mr. McNamara that the purpose of establishment of IDC was to study the strategy of development assistance and to train development experts both in Japan and neighboring countries. IDC had invited quite a few lecturers from all over the world and expressed his appreciation for the close cooperation given by EDI and hoped that IDC would gradually develop into a very useful institution in the future. Asked by Mr. McNamara how the IDC operations were financed, Dr. Okita replied that they were partly financed by contributions by business circles and also by various ministries by a way of research contracts. The recent contract with IBRD, it was pointed out, was very useful.

In connection with Mr. Tanaka’s concept of remodeling of the Japanese Archipelago, Dr. Okita, as a member of the Advisory Council to Remodel Japan, had advised Mr. Tanaka that remodeling of Japan should be implemented in consideration of its overseas impacts, such as relocation of labor-intensive industries from Japan to the developing countries.
Lastly, Dr. Okita mentioned that Japan's GNP would reach $1,000 billion in current dollar terms by 1980 from $400 billion in 1973. This meant that Japan's ODA in aggregate amount in 1980 would be $7 billion. In order to achieve such high level of ODA, Japan would have to establish a new aid formula, something like a Japanese version of the Marshall Plan. For realization of such program, Dr. Okita felt that:

(1) Japan should work jointly with recipient countries in Asia

(2) Study should be made by non-governmental organizations

(3) IDC was the most appropriate institution for undertaking of such studies.

Dr. Okita admitted that it was still too early to tell in more details about this plan but believed that the recent contract with the IBRD could be incorporated into such over-all study program.

Mr. McNamara then touched on the subject of environment, stating that the Bank had established a very small unit of environmental advisory body (consisting with 2 professionals) but every single Bank project had to be cleared through this office. Anti-pollution investment would consist with only 2% to 3% of the entire cost in the developing countries and some of the anti-pollution projects could be carried out even without any cost, if planned well in advance. Dr. Okita replied that the new 5 year program anticipated 7% of the total new investment in anti-pollution measures.

Mr. McNamara closed the meeting by saying that he was so shocked with the polluted air in Bangkok, Manila, and Lagos and stressed that he was not about to finance any urban highways which would lead to increased importation of passenger cars, which he considered was a serious misuse of resources in the developing countries.
MEETING WITH PRIME MINISTER TANAKA OF JAPAN

April 19, 1973, 11:50 - 12:05

Prime Minister's Office

Attendants: Prime Minister Kakuei Tanaka, Mr. Kiyohisa Mikanagi, Director-General of the Economic Cooperation Bureau of the Ministry of Foreign Affairs, Mr. Seitaro Hattori, Executive Director of IBRD and Mr. Kiuchi, Personal Assistant to the Prime Minister from the Japanese Government. Mr. McNamara, Sir Denis Rickett, Mr. William Clark and Aritoshi Soejima from the Bank.

Mr. McNamara expressed deep appreciation for the past Japanese cooperation to the World Bank and particularly for the special consideration made by the Japanese Government for the IDA IV replenishment which he had just heard from the Finance Minister. He emphasized that this leadership meant a great deal to other members, to the Bank and in help to the less developed countries.

Mr. Tanaka welcomed Mr. McNamara to Japan and stated that since Japan had owed a great deal to the World Bank for her economic reconstruction of the postwar era, Japan wished to extend as much cooperation as she could to the World Bank. He appreciated Mr. McNamara's comments and expressed his satisfaction that Mr. Soejima had contributed greatly to the smooth relationship between Japan and the World Bank and considered him as Japan's most important contribution to the Bank.

Mr. McNamara said that the World Bank regarded Japan as a model graduate of the World Bank school of economic development. It was hoped that there would be similar graduates in the future.

The Prime Minister recalled the time when Japan had been an important borrower of the World Bank. He particularly recalled about the 1964 Annual Meeting when he was the Finance Minister and was extremely happy that Japan could now return her indebtedness to the World Bank.

Mr. McNamara then touched on the Prime Minister's idea of remodeling Japan by saying that he did not know of any country which had done or planned so much to relocate industry and people and expressed his respect for the Prime Minister's imaginative idea. Mr. Tanaka explained that this plan would relocate 20 million people (out of the 110 million) from the Tokaido megapolis by creating 100 new satellite cities. (When Mr. McNamara pointed out whether or not it was 80 cities, the Prime Minister responded that 20 cities had been added as academic centers.) His plans called for the construction of 9,000 km of super-express railway networks and double trucking of 15,000 km of the present railways.
Mr. McNamara asked if these great plans would involve new and heavier taxes and would the people and Diet support such taxes. The Prime Minister replied that there would not be any special tax measures in the offing except for the recent new tonnage tax on vehicles. The tax was also designed to move goods from roads to railways for the medium range transportation and to the coastal shipping for the long-range ones. He further pointed out that there would be a general rise in the tax revenues along the rise in the CNP and gradual shift in emphasis to indirect taxes. He said that since Japan was no bigger than California, remodeling Japan would be quite an easy task.

The Prime Minister told McNamara that he would like to implement this plan by 1985, thus leading to a decrease in urban population, so that after 1985 the Government could start a large-scale rebuilding of big cities like Tokyo. He believed the cost of rebuilding after 1985 would be only one twenties of the cost to remodel them now. The question was whether the people in Tokyo would be prepared to wait until 1985 for the new Tokyo. The Government, therefore, would have to do "minimum" acceptable public works for urban areas until such time. The meeting was then adjourned.
April 19, 1973, 16:30 - 17:20

Ministry of Foreign Affairs

Attendants: Foreign Minister Masayoshi Ohira, Mr. Kiyohisa Mikanagi, Director-General of the Economic Cooperation Bureau and Mr. Watanabe, interpreter from the Foreign Ministry and Mr. McNamara, Sir Denis Rickett, Mr. William Clark and Aritoshi Soejima. Mr. Seitaro Hattori, Executive Director of Japan to IBRD, was also present.

Mr. McNamara began by saying that he was extremely grateful for all the help Japan had given to the World Bank by making their capital market available and by taking the lead in IDA IV. Japan's financial contribution was not only vital for the Bank in itself but also quite helpful for the Bank's fund raising from other member countries.

The Foreign Minister said that he had just been sitting next to the Finance Minister in the Diet and had heard of the useful meeting he had with Mr. McNamara that morning.

The Foreign Minister said that the House had just passed a bill which aimed to repay in advance the postwar reconstruction debts to the United States (GARIOA and EROA Fund). It was stipulated in the original Agreement that this money should be used for the benefit of the less developed countries. The Foreign Minister said that they had all agreed amongst themselves that the money could hardly be better invested than in the World Bank.

Mr. McNamara asked what was the Foreign Minister's view of Indochina reconstruction. Mr. McNamara went on to say that to recount his understanding of the present situation Hanoi had been unwilling to accept any multilateral aid and that they had rebuffed the UN offer made by Secretary-General Waldheim and would only accept, according to the information from International Red Cross, help from UNICEF and WHO, it did not seem likely to accept any help from international financial institutions including the World Bank. Mr. McNamara said that although the World Bank could not extend financial assistance to the countries which were not the members of the Bank, the Bank could extend technical assistance or form a consortium for aid before the countries concerned become a member of the Bank as was the case for Bangladesh. In the case of South Vietnam, however, President Thieu had been just to visit Mr. McNamara and had definitely asked for aid and indeed for the Bank to set up an aid group for South Vietnam. Mr. McNamara had replied to President Thieu that the Bank would help if the members so wished and only in relation with the Asian Development Bank.
The Foreign Minister said that Japan was not going to get into the position of posing aid to those who were unwilling, but Japan did wish to help the reconstruction of Indochina in view of the Japanese position in Asia and her economic capability. There would be considerable public pressure to also help Hanoi, if help were to go to South Vietnam.

Presently, Minister Ohira said, Japan was extending only humanitarian and emergency aid. Recently, Japan contributed a certain amount to IOG (organization within the International Red Cross) to cover both North and South Vietnam. But this was very small in amount. If economic assistance were to be asked, it would be very much larger. Therefore he thought it better for Japan to join an international aid group for that purpose. He was not sure at this stage whether or not a formation of such international group was possible since the intention of the recipient countries, e.g., South and North Vietnam, Laos and Cambodia was not yet clear. Therefore Japan would consider it when such request was made.

The Foreign Minister continued to say that as far as North Vietnam was concerned he heard from Secretary-General Waldheim that she was extremely reluctant to accept any international help. His understanding became even clearer now with Mr. McNamara's remarks.

The Foreign Minister said that Japanese officials were now in North Vietnam, whom he instructed to talk with North Vietnam authorities on non-committal basis not only on aid matters but also over any matters in anticipation of establishment of diplomatic relation with Hanoi. They were not sending any messages back about how things were going because of the communication difficulties but would return by Monday.

The Minister said that he was in close touch with America and in fact, he was informed of the U.S. position on this issue just before Mr. McNamara's visit. He thought the U.S. position was understandable and would like to find out a possible workable formula.

Asked by Mr. McNamara to expand this last statement, he said he thought it might not be possible at the beginning to set up a framework to cover all of Indochina, including Hanoi. In that case, in consultation with the United States and other countries an international aid group should be set up for those countries who wished to receive aid through such channel and Japan would consider to join such a group. This channel should clearly be open to Hanoi at anytime Hanoi so wished. Even so, Minister said that there would be some complaints at home, if the Japanese aid seemed to be going to only such countries who wished to receive aid through a multilateral channel and he might have to consider to extend aid on bilateral basis to the countries who did not wish multilateral aid.
Mr. McNamara said that he believed the Minister's idea were both entirely possible and desirable. North Vietnam was not likely to request any international help initially but Mr. McNamara agreed with Minister Ohira that some sort of international aid framework should be set up for those countries who wish to receive aid through such multilateral framework but leave the door open to North Vietnam for her possible future participation. He hoped that Japan could join such international aid framework.

Mr. Ohira said that it would be justifiable for Japan to join such framework so long as the door was open to North Vietnam provided that the U.S. and major European countries would join. He proposed to Mr. McNamara to have a preparatory meeting between the donor countries without the participation of any recipients to discuss about the aid formula as mentioned. Mr. McNamara replied that it seemed possible and desirable to do so. The Bank would like to consult with other countries on this matter while at the same time to exchange views with the ADB. Mr. McNamara said that he had instructed the Bank's representative to talk with Mr. Inoue during the ADB Annual Meeting. He added that he would also like to consult with Secretary Rogers upon his return along this line.

Mr. McNamara read the newspaper report that China had raised the expulsion of Republic of China from the Asian Development Bank at the ECAFE meeting and wanted to know whether that the matter would be raised in the ADB Board and what was the likely reaction to be? Mr. Mikanagi responded that China's remarks at the ECAFE had been very brief and didn't touch on any specific reaction. In the so-called "Summary Statement" by the Secretary-General of ECAFE (U Nyun) at the end of this discussion, the Secretary-General stated that although ADB was "born from ECAFE" it was now quite an autonomous agency and that the matter should not be taken up by ECAFE but by ADB itself. The Japanese delegation had noted with pleasure that Pakistan did not raise the issue later in the session. They were not sure whether the matter would be raised at the ADB's Annual Meeting, but they hoped that it would not.

At the very end the Foreign Minister mentioned that the Republic of Korea had asked him through diplomatic channel to give support to their plead for continuation of IDA credits to Korea. He added that there was certain feeling that too much of IDA was going to West Asia and not enough to East Asia, and asked whether or not more IDA credits could be given to East Asia so long as these countries met the IDA criterion.

Mr. McNamara replied the South Koreans were getting per capita a very large amount of aid from the Bank but it was admittedly mostly on the Bank terms, not on IDA terms. This was because of the fact that the IDA resources were scarce and there were so much pressure from Indonesia and more recently from Bangladesh which were clearly incapable of servicing Bank loans. Korea was, therefore in a sense, facing an unbeatable competition with those countries for IDA money.
In conclusion, Mr. McNamara paid a personal tribute to what the Foreign Minister had done in restoring normal relations with China in such a speedy manner.
RECORD OF THE MEETING WITH THE EXPORT-IMPORT BANK OF JAPAN

April 19, 1973, 10:00 - 10:45

President's Office, The Export-Import Bank of Japan

Attendants: Mr. Satoshi Sumita, President of the Export-Import Bank, Mr. Haruo Maekawa, Vice-President, Mr. Kobayashi, Manager of Business Department and interpreter and Mr. McNamara, Sir Denis Rickett, Mr. William Clark and Aritoshi Soejima. Mr. Hattori, Japan's ED was also present.

Mr. McNamara opened the meeting by saying that the World Bank was prepared to extend any assistance to the Export-Import Bank, and asked Mr. Sumita to give a brief account on recent operations and activities of the Export-Import Bank.

Mr. Sumita replied that the revision of the Ex-Im Law of November last year changed Ex-Im operations in that it permitted them to expand their financing of imports as well as overseas investment and to extend untied loans under certain cases. And he elaborated as follows:

(1) With regards to import financing Ex-Im had until that time been only financing imports in the form of advance payments. Now the promotion of imports was a policy of the Government, and in compliance with that policy, they could extend financing for payments of imports of raw materials and natural resources as well as equipments. (Import of a jumbo jet is a good example of this development.)

(2) As regards to overseas investment financing, Ex-Im had previously been only allowed to extend financing to Japanese companies or foreign companies controlled by Japanese enterprises. After the revision of the law, Ex-Im could now extend financing of overseas investments to foreign enterprises. Also financing of overseas investment could now be extended for both purchasing of equipments and for long-term working funds. In answer to Mr. McNamara's question, Mr. Maekawa replied that the maturity of such loans (financing for working funds) would be approximately 5 to 6 years.

Mr. Sumita then explained to Mr. McNamara the plans for the current fiscal year. The total amount of credit to be extended by Ex-Im would be approximately 23% more than that of last year. The export credit would increase only 1% (e.g., financing of export vessel would remain unchanged and financing of plant export would increase by 4%). On the other hand, import financing would jump as much as 5 times compared to the last fiscal year and overseas investment financing would rise by 40%, thus two combined would show an increase of 120%. According to Mr. Sumita, this new trend was a development as a result of the revision of the law. Mr. Sumita added further that direct loans which was mainly governmental loans would show a 21% increase this year.
Mr. McNamara asked whether the commercial bank could extend import financing and if so why should Ex-Im extend such loans to private enterprises. Mr. Sumita replied that the acceleration of imports by lowering interest rates on import credit and increase in interest rate on export was now the important government policy and therein lied the reason why the Ex-Im was expanding the import financing. He gave the following examples:

(1) In the case of imports of natural resources, particularly mineral resources, it normally took many years between the investment and import and did not pay at conventional commercial basis terms; in such case, it was the normal pattern that the Ex-Im would finance 70% of the total loans and the commercial banks would take up the remaining 30%.

(2) In the case of a jumbo jet, there was a financing formula under the U.S. Ex-Im loans that 50% be financed by the U.S. Ex-Im and the remaining 50% be financed by American commercial banks. In order to keep the overall interest rate the same as before on this particular case, Ex-Im would finance 80% whereas the Japanese commercial banks would finance only 20% of the first down payment.

Mr. Sumita further stated that Ex-Im, in compliance with the agreement reached between the U.S. and Japanese governments to rectify the trade imbalance, paid $320 million to the U.S. Atomic Energy Commissions for the importation of enriched uranium in the form of advance payment for the next 10 years.

Mr. McNamara then asked Mr. Sumita whether or not import financing was mainly from that of the developing countries. Mr. Sumita replied affirmatively. Most of the natural resources were imported from the developing countries with an exception of Canada and Australia.

Mr. Sumita further explained that in order to facilitate Japan's import, the Ex-Im had also started to extend dollar loans to the Japanese companies so as to avoid their exchange risks. In such case, the Ex-Im would extend 70% of the total loans in dollar and the remaining 30% in yen, since the exchange risk involved in 30% portion was not so crucial.

Then the discussion turned to untied loans of the Ex-Im. Mr. Sumita told Mr. McNamara that now that the financing of working funds and direct investment could be extended not only to Japanese firms but also to foreign firms, how to use these funds was completely at their disposal. In this sense, this was regarded as untying.1/

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1/ This point will have to be clarified. My understanding is that revision of Ex-Im Law permits the Ex-Im to extend the untied loans to foreign governments or government agencies and foreign financial institutions only (Soejima).
In answer to Mr. McNamara's question, Mr. Sumita said that in the
case of the governmental loans it was normally the government who
decided interest rates and the interest rate was normally in the range
of 4 to 5%, but since OECF received much larger amount of interest free
money from the government, concessionary aid was mainly extended by OECF
recently.

Mr. McNamara then asked about the cost of financial resources of the
Ex-Im. Mr. Sumita answered that the main part of its resources were the
postal savings and the government insurance money to which Ex-Im had to
pay the interest rate between 6.2% to 6.5% per annum. Ex-Im would receive
also some interest free money from the government to finance mainly con-
cessional term governmental loans.

When Ex-Im would extend direct loans to foreign governments or
foreign institutions under its own initiative, the interest rate on such
loans would depend on (1) the economic situation and the credit worthiness
of the recipient countries and (2) financial position of Ex-Im Bank at
that time.

Mr. McNamara asked Mr. Sumita whether he could give some idea as to
how we could improve the working relationship between the two banks.
Mr. Maekawa stated that (1) Ex-Im found it tremendously difficult in
dividing its past credit to Pakistan between West Pakistan and Bangladesh
and wished that a third body should draw the line and thought that the
World Bank would be the most appropriate party to do so. (2) Since Ex-Im
was short staffed and relatively inexperienced, they depend heavily on
the IBRD for the country economic surveys and project appraisals and quicker
the reports were sent the better it was. He cited a case of a steel mill
project in Mexico. While Ex-Im had been waiting for a completion of assess-
ment by IBRD for that project, an international bidding was called before
its completion. Since Ex-Im had repeated to the Mexican Government that
they would not make any decision before the IBRD assessment was available,
the Ex-Im sort of lost their face to the Mexican Government, when they had
to be involved in this international bidding.

Mr. McNamara replied that in the former's case it was rather a delicate
political question but promised that the World Bank would try its best to
solve this problem. Recent talks between the leaders of India and Bangladesh
for the possible return of POWs would help towards such solution. In the
Mexican case, however, he stated that the World Bank could not do much.
He mentioned that while in the case of Brazil everything worked very well,
in the case of Mexico, the government was moving alone. Even now the
World Bank had not come to the final conclusion on that project because of
objections within the Bank, but since an appraisal mission was returning
this month, he hoped this problem should be resolved soon.
OFFICE MEMORANDUM

TO: Mr. William Clark, Director, External Relations

FROM: P.B. Sison

DATE: July 16, 1973

SUBJECT: Mr. Koshiba's Interview with Mr. McNamara

This morning I gave Mr. Koshiba, the Japan Times' Political-Economic Editor, a copy of the written replies to his questionnaire. He has requested me to course, through you, three additional questions which he hoped Mr. McNamara would be willing to consider. These questions are:

1) Will you identify some of the areas in which Japan can best contribute to promoting the Bank's development policy?

2) What do you propose to do in order to increase the number of Japanese professionals in more responsible positions in the Bank?

3) What do you think about the view that the present system of weighted voting should be replaced by one which provides for greater representation of developing countries?
1. Your Bank just completed the Five-Year Program. What are the major achievements that have been made? What are some of the areas in which the program fell short of its goals?

**Answer:** The major change over the past five years has been a qualitative one. Bank Group lending has attempted, in various ways, to help borrowers increase the social benefits of their development efforts, and especially to improve the lives of the poor. We like to think that the Bank has made an impact not only on economic development itself but on the thinking about development.

In quantitative terms, Bank-IDA financial commitments in the 1969-73 fiscal period totaled $13.4 billion, compared with $5.6 billion in the preceding five years. While this is all in current prices, which is not a fair comparison, even in real terms it represents a doubling of commitments.

The quantitative increase has permitted much greater diversification into new sectors — agriculture, education, urbanization, population planning, tourism and industry. There has also been a shift in emphasis from more developed to less developed countries.

You ask how the program fell short of its goals. Let me just cite our experience in one sector — agriculture. In the 1973 fiscal year, Bank agricultural lending approached $1 billion, a tremendous increase over the comparable figure, approximately $173 million, five years previously. The Bank, however, is still not directly reaching the small farmer to any
great extent. Out of 150 million small farms in developing countries, 100 million have five hectares or less and 50 million one hectare or less: the Bank and other development agencies have done little directly for the 500-600 million people, on the 100 million farms of five hectares or less. It will require a great effort to help them. Emphasis is needed on rainfed agriculture, land and tenancy reform, credit, fertilizer, seed and on institutions to provide these.
2. Official development assistance is running far below the target -- 0.7 per cent of GNP by 1975. Why do you think affluent nations have failed to attain this goal?

Answer: I have said in the past that it is not a case of the wealthy countries' not being able to afford it, or because the peoples of these countries lack generosity or are indifferent to justice. Rather, this regrettable state of affairs is mainly a matter of ignorance. The peoples of the developed world, particularly the development aid constituency in these countries, must be better informed about the inhuman conditions which characterize the lives of hundreds of millions of people in the developing world and about the severity of the maldistribution of income between rich and poor nations. I am confident that if they knew the reality of the situation in the developing world, the decline in ODA flows would be reversed.

By the end of this century, the peoples of the developed countries will be enjoying per capita incomes of over $8,000 in 1973 prices. Hundreds of millions of poor people in the developing world will on average receive less than $200 per capita, and some 300 million of these will receive less than $100.

There must be a recognition in the developed countries -- and this essentially will come about through political leadership -- that a very modest portion of the wealthy nations' incremental income, if made available to the developing countries, would make a great difference in the ability of these poor countries to meet minimal growth objectives. The collective GNP of the developed countries in 1970 totaled about $2,000 billion, and this is projected to grow to about $3,500 billion by 1980, all in current
prices. To reach the targeted 0.7% of GNP, the developed countries would need to devote less than 2% of the amount by which they themselves will grow richer during the decade.
3. If the ODA target is not achieved before 1980, how will that affect the Bank's effort to narrow the income gap among the peoples of the developing world?

**Answer:** Narrowing the income gap is a task for everyone. Political will to make the effort is the first requisite. In the end, each country must make its own decision as to how and when to deal with its internal inequities.

The Bank Group proposes, for the period Fiscal Years 1974–78, to increase its assistance to developing countries by an average of 8% per year, in real terms, and we hope to make an increasing percentage of these commitments in International Development Association credits, which are for 50-year terms, interest free, and which carry a charge of only 3/4 of 1% to defray IDA's administrative costs.

I am confident that the Bank Group can obtain the necessary funds for expansion of its operations during the Second Five-Year Program. The Bank's borrowing achievements in the last five years has been outstanding -- net borrowings, at $3.7 billion, are about four times the total for the preceding five years. There have been six public issues of the Bank's bonds in Japan; total funds raised by the Bank in Japan amount to Yen 500 billion.

In previous public statements, I have outlined certain approaches to narrow the income gap. I have suggested that specific targets be established within the development plans of individual countries, for income growth among the poorest 40% of the population. I have also proposed that unemployment and underemployment must be attacked head-on, and that job
creation must become a direct objective in itself. The Bank is prepared
to help finance rural and urban public works projects, for example, and
other similar low-skill, labor-intensive, and economically useful projects.
The Bank is also prepared to support institutional reforms to increase the
equity of the distribution of the benefits of economic growth -- specifi-
cally, land reform, tax reform, credit and banking reform and other
measures.
4. Skepticism has been expressed about the efficiency of development assistance because of instances of waste, mismanagement or incompetence. What do you propose to resolve this problem?

**Answer:** First, I want to emphasize that the charges in wastefulness in aid are not often directed against the Bank. I am sure we have made mistakes not only in the past five years but also in the previous 20 or 25 years as well. On balance, however, our quality has significantly improved in the past five years -- mainly because our analyses are much more sophisticated today.

In our operations, we insist that every project we finance be directly related to the priority development problems in a country. We also insist that each project yield a satisfactory return to the economy of that country. Of those projects that we can estimate returns for, roughly 70 to 80% of them, the average return on our fiscal 1973 financial commitments, which total more than $3 billion, is approximately 19%.

We carefully scrutinize how our funds are used -- reports from the borrower are supplemented by periodic visits to the project by Bank staff, and disbursements of Bank and IDA funds are made only as expenditures are incurred for specific goods and services. For more effective use of aid, the Bank and IDA do not tie the use of the proceeds of their loans and credits to any particular sources of supply; borrowers are required to obtain goods and services financed by Bank and IDA funds by means of international competitive bidding.
The Bank's expanded program of Country Economic Missions, started a couple of years ago, assists developing countries in formulating an overall development strategy, and provides a basis for bilateral and other international agencies to channel their financial and technical assistance in as productive a manner as possible.

There is also the Bank's work in organizing and supporting multilateral groupings which provide for periodic reviews of the development performance of aid recipients. For most aid coordination groups, the Bank has acted as both sponsor and chairman, and in the case of the Inter-Governmental Group for Indonesia, chaired by the Netherlands, and the Consortium for Turkey, sponsored by OECD, the Bank has provided staff support.
5. Agricultural modernization, family planning and education are three new priority areas you have mentioned in your public statements. What progress has been made in these fields? What are some of the problems your Bank has encountered -- and your prescriptions for resolving them?

**Answer:** The increase in the volume of the Bank's lending for agriculture in fiscal 1973 has been accompanied by a diversification in patterns of lending. From its early emphasis on basic irrigation infrastructure, the Bank has moved to financing on-farm activities, such as provision of credit and technical services. During the past five years, the Bank has become more heavily involved in storage, marketing, seed multiplication, forestry and fisheries. It has also recognized the importance of agricultural research both in individual projects and through support of international research institutions.

I stated earlier that one problem in agriculture is how to directly reach the small farmer. Towards this end, many of the agriculture projects supported by the Bank have adopted a more comprehensive approach. Recent projects for rural development or integrated smallholder development not only aim to increase agricultural production but also to improve the quality of life for the people of a specific geographical area, by including facilities for education, domestic water supply, health or other social services.

With respect to family planning, I am very pleased with the acceptance of this concept in most of the developing countries. Of the two billion people in these countries, 80% live in countries that have accepted the desirability of population planning.
The Bank and IDA have approved assistance totaling $65.7 million for seven projects in India, Indonesia, Iran, Jamaica, Malaysia, Trinidad and Tobago, and Tunisia. Much more, however, needs to be discovered about the causes and effects of demographic changes. Just recently, a prominent expert concluded that "our knowledge of the demographic facts are inadequate and we cannot explain the facts we know." We have cooperated closely with the UN Fund for Population Activities in this field.

The Bank's lending for education has quadrupled in the last five years. Still, in many countries, the educational system is failing to deliver the technical and vocational training relevant to the country's needs. The Bank's work will increasingly be directed to this problem.

As the Bank has gained more experience, it has diversified its activities in this sector. From assistance to educational "hardware" -- construction and equipping of schools -- the Bank has increasingly paid attention to "software" -- to such aspects as curriculum improvement, producing better teaching materials, and planning systematically the education that is offered. Current studies and research reflect a new strategy -- to find ways to enable education systems to promote both economic development and social justice.
6. What are the common barriers to the desired economic growth of developing countries? What is your Bank doing in order to help remove these obstacles?

**Answer:** Our concept of development goes beyond the simple limits of economic growth. Economic progress is sterile without corresponding social improvement, and increases in national income will not benefit the poor unless they reach the poor. I have said that growth without reference to the distribution of the benefits of growth is undesirable. Over the next five-year period, the Bank will make this one of its major objectives -- to start addressing the problems of roughly the 40% of the developing peoples who have been bypassed by their countries' economic growth.

The major long-term obstacles to economic and social progress are those problems which prevent individuals from realizing their own potential and from making a productive contribution in their society. This is the reason why we are now addressing ourselves to such issues as excessive population growth, severe malnutrition, rising unemployment and growing inequality in the distribution of income. Our assistance can take the form of policy advice leading to sound social and economic development programs and an increased capacity to provide financial support for these programs.
7. Is your Bank prepared to open its doors more widely to Communist nations? It seems that both Communist and non-Communist nations should make concerted efforts to meet more effectively the needs of the entire development world.

Answer: Yes, we would be delighted to see that happen. There are now 122 member governments of the Bank; approximately 100 are developing countries. Excepting for the Soviet Union and a few of the Eastern European countries, and for the People's Republic of China, essentially all of the members of the United Nations belong to the Bank. There are two East European members -- Yugoslavia and Romania.
8. What ought to be the common aid philosophy of developed countries -- other than the basic belief that the richer nations have the moral obligation to help the poorer nations.

Answer: Development of the poorer countries is in the self-interest of the richer nations. The Pearson Report (Report of the Commission on International Development) has stated that the fullest possible utilization of all the world's resources helps not only the economically weak countries but also the strong and wealthy ones. As the Report noted, this can be done through direct benefits from a bilateral aid relationship and also by the general increase in international trade which would result from international development. This is particularly true if developed countries decide to remove trade restrictions.

Looking at this question from a broader perspective, we ought to keep in mind that the problems of development are worldwide in scope and the wealthy countries should respond to these problems with a recognition of the interdependence of all nations.
9. What are some of the important projects your Bank identifies with new goals set under the next Five-Year Program?

Answer: During the Fiscal Years 1974-78 the Bank will pay special attention to the poorest countries in Africa, particularly in view of the sub-Saharan drought; to rural development and population in Asia; and to income distribution in Latin America.

I have spoken about the prospects in agriculture, education, and population planning, and certain new thrusts in the Bank’s lending in these fields. The following are some of the new challenges in other sectors: In industry, present challenges include unemployment in urban areas, maximizing the employment effects of Bank projects and adapting technology to labor-surplus economies. In public utilities, the major new challenge is to help redress the imbalance of services between urban and rural areas; an important effect could be a reduction in urban migration. Although transportation has been a notable feature of the Bank’s work for decades, comprehensive transport planning, particularly for urban areas, remains necessary, including a close examination of the role of public transportation and the private automobile.

The Bank has made a good start in the tourism sector, but much remains to be learned about the complexity of tourism projects which are high-cost, long-term and slow in maturing. The Bank has begun a study which seeks to evaluate the benefits which developing countries derive from tourism. The Bank’s work in urbanization, although just getting under way, has included sites and services projects in Managua and Dakar; other urbanization projects are in preparation in many parts of the world.
In the field of environment, the impact of the Bank's concern, both in its own projects and elsewhere, has been significant. The Bank is beginning cautiously to get into questions of disease control.

I expect the next five years to be a much more difficult period than the last five years. These are some of the major issues which will confront us: 1) the severe food shortages in the developing countries despite the earlier progress in agriculture; 2) the rising debt-service burden on developing economies, with debt service rising faster than export receipts; 3) rising expectations of progress in the developing countries, outstripping the world's capabilities to respond; 4) increasing dissatisfaction over inequitable distribution of the benefits of growth; and 5) controversies over energy, natural resources, trade, and monetary systems, which tend to polarize the developed and developing worlds.
MINUTES OF MR. McNAMARA'S MEETING WITH THE JAPANESE DELEGATION

Date: September 25, 1973 (4:30 - 5:00)

Present: IBRD (Mr. McNamara, Mr. Knapp, Mr. Aldewereld, Soejima)
Japan (Minister Aichi, Governor Sasaki, Vice-Minister Inamura,
Messrs. Matsukawa, Hosomi, Yukawa, Hori, Kuriyama)

1. Minister Aichi expressed his appreciation for Mr. McNamara's remarks on Japan's achievements in agriculture in his annual speech of the morning, to which Mr. McNamara replied that what Japan had done in small-scale agriculture, as a result of achievements in land reform and education, was a model case which he would like to see the developing countries follow.

2. Mr. McNamara expressed his appreciation for Japan's support to the IDA IV Replenishment. (Mr. Aichi reconfirmed Japan's final proposal of 11% share of the annual replenishment of $1.5 billion.) He emphasized that without the huge increase in Japan's contribution, it would not have been possible to come to an agreement, which he expected would come through by the end of the week. He said, however, that he anticipated a serious problem in meeting the time schedule due to legislative difficulties that some of the Part I countries will have. He felt that some sort of emergency measures would have to be considered in order to avoid a breakdown of the IDA operations. In this respect, the World Bank would be working very closely with the US authorities but that more actions were needed. Mr. Aichi said that he had met Secretary Shultz earlier and had an impression that the Secretary understood this difficulty. This was explicit in the fact that he had brought so many Congressmen to this meeting. Mr. Aichi explained that although the Japanese legislative procedure was not as difficult as that of the US, it would be gradually becoming difficult. He told Mr. McNamara that he originally planned to bring a number of Diet members to this Annual Meeting but due to limitations in hotel accommodations, he feared that unpleasant experiences might have a reverse effect. Japan, too, has come to the stage where public relations on aid, particularly with the legislative branch has become very important. This was even more so, because the Finance Ministry now had not only the IDA bill but also the bill for the contribution to the special fund of ADB.

3. While agreeing with Mr. McNamara on the necessity of quantitative increase of the Bank group lending, Minister Aichi hoped that the Bank would pay more attention on the quality of its lending as enumerated in Mr. McNamara's speech. Mr. McNamara agreed with Mr. Aichi that the quality of the Bank's lending was very important. With respect to the quantitative increase in the Bank's lending, he appreciated that the Japanese Government had agreed to receive Mr. Aldewereld sometime in the end of November to talk about the Bank's borrowing program in CY74.
4. Mr. Aichi then turned to the matter of aid to Indochina. Japan's position on aid to Vietnam was basically unchanged since he had met Mr. McNamara in April. For a political reason Japan had to extend aid to Indochina as a whole. This was particularly true now that Japan had established a diplomatic relation with North Vietnam on September 21. As a practical matter, however, if North Vietnam would not want to receive aid through a multilateral channel, Japan was prepared to give aid to South Vietnam through a multilateral channel so long as the door is open to North Vietnam. He asked for Mr. McNamara's understanding on Japan's political situation. Mr. McNamara replied that he fully understood Japan's position and that the Bank's position with respect to this region was receptive to the stand of Japan. Although North Vietnam, not being a member of the Bank, could not receive the Bank loans, the Bank could form a consortium, extend technical assistance, etc. as in the case of Bangladesh before she had become a member of the Bank, should North Vietnam so wish. He personally believed, however, that North Vietnam would not want any aid through multilateral channels, particularly from the World Bank and the ADB.

5. With respect to the formation of a consortium, the Bank was facing a very difficult problem at the present moment since there are diverse opinions with respect to aid to this region within the Bank members. Sweden, in particular, informed the Bank that they may withdraw IDA IV Replenishment, if IDA money went to South Vietnam, whereas the US insisted that IDA credits to South Vietnam was vitally important. The situation was now very difficult but Mr. McNamara believed that with the increased replenishment, the problem could be solved. He felt that Japan's stand to differentiate politics from practicality was very right.

6. Mr. Aichi then told that in connection with the monetary reform, the hypothesis that there are chronic surplus and deficit countries would no longer be valid. In fact, Japan's trade balance which had enjoyed a huge surplus was dwindling drastically during the past few months, due mainly to the government measures. The Government, therefore, must take the careful attitude towards its aid policy in the future. Mr. McNamara agreed with Mr. Aichi that a huge surplus of the balance of payment for Germany and Japan for the last few years would not repeat in the next few years.

7. Governor Sasaki then mentioned about Japan's recent monetary situation resulting from a series of restrictive financial measures. The Japanese bond market had shown a substantial change. In this connection, he welcomed a talk in detail on the Bank's borrowing program with Mr. Aldewereld when he came to Japan in November.

8. Mr. Knapp mentioned that he was also coming to Japan in early November to exchange views with OECF and EXIM.

9. Finally, Mr. Aichi asked Mr. McNamara's cooperation on US contribution to ADB in parallel with Japan when he negotiates with US authorities on IDA IV Replenishment.
OFFICE MEMORANDUM

TO: Memorandum for the Record  
FROM: Raymond J. Goodman  
SUBJECT: Courtesy Call by Sumitomo President

DATE: October 25, 1973

President Hosai Hyuga of Sumitomo and Mr. Fujimura of the New York office of Sumitomo called on Mr. McNamara on October 23. They were accompanied by Mr. Akizawa, personal assistant to the Chairman and one other Sumitomo staff member. Mr. Knapp, Mr. Hori and Mr. Goodman were also present.

Mr. Hyuga's visit was in the nature of a courtesy call, following a pattern established for some years according to which officials of Sumitomo have visited the Bank annually to express the company's appreciation for the two Bank loans made in 1958 and 1960.

Mr. Hyuga reported briefly on the recent accomplishments of his company. In token of his appreciation for the Bank's assistance he presented Mr. McNamara with a framed painting by Seison Maeda. Mr. McNamara congratulated the President on Sumitomo's highly successful operations in recent years and thanked him warmly for the painting. The latter would be hung in the new Executive offices in the 19th street building.

cc: Mr. Knapp
    Mr. Loos

RJGoodman/rf

President has seen
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Raymond J. Goodman
SUBJECT: JAPAN - Visit of Sumitomo Officials

DATE: October 19, 1973

1. Messrs. Akizawa and Fujimura of Sumitomo will call on you at 2:45 p.m. on Tuesday, October 23. I am attaching a note on Bank lending to the Japanese steel industry including Sumitomo Metal Industries, Ltd., which received two Bank Loans in 1958 and 1960.

2. Mr. Akizawa has been with Sumitomo for over twenty years and is, at present, Personal Assistant to the Chairman of the Board of Sumitomo Metal Industries Ltd. His English is good. Mr. Fujimura has also been with Sumitomo for a considerable length of time. For the last seven years, he has served as the Manager of Sumitomo's New York Office. He is fluent in English.

Z Kalim:rm
BANK LOANS TO JAPANESE STEEL COMPANIES

During the period 1955-1960, the Bank made ten loans to six leading Japanese steel companies (Yawata, Kobe, Sumitomo, Kawasaki, Nippon Kokan and Fuji) in the total amount of $157.9 million. The loans helped finance various projects for the expansion of iron and steel-making facilities. Another purpose of the loans was to make the companies acceptable in the New York capital market.

The loans were channeled through the Japan Development Bank (JDB) which was, at that time, the only entity allowed to contract foreign loans. Loan Agreements were signed for each project between JDB and the Bank; Subsidiary Loan Agreements, drafted by the Bank, were signed by the companies and JDB. A major stipulation included in the Loan Agreements was that JDB could not waive any of the protective covenants in the Subsidiary Loan Agreements without the Bank's prior consent. One of the covenants in the Subsidiary Loan Agreements dealt with the debt/equity ratio, which the companies were to achieve and maintain. This covenant provided, in effect, that the companies receiving Bank financing had to achieve a 50:50 debt/equity ratio by certain prescribed dates. However, the Sumitomo Metal Industries, Ltd. was allowed to maintain a ratio of 55:45 because of the strong financial backing it received from the Sumitomo Bank and the Sumitomo Life Insurance Company. Sumitomo received two loans from the Bank - a $33 million loan in July 1958 and a $7 million loan in December 1960. (Details of these are given in Annex I). When the loans were made, Sumitomo had a debt/equity ratio of about 60:40. The Company agreed to attain the 55:45 ratio by March 1963. The rapid rate of economic growth in Japan during the succeeding years led the steel companies to make heavy new investments largely by borrowing. Thus, it became evident that the companies would not make serious efforts towards reaching their debt/equity targets. The Bank was, therefore, placed in the position of waiving the debt/equity covenants as a less embarrassing alternative to prematurings the loans. In 1967, Mr. Woods decided that the Bank should disassociate itself from JDB's sub-lending to the steel companies and that the Bank no longer be involved in overseeing any of the operations of the steel companies. This decision was satisfactory to both JDB and the steel companies. At this stage, all the projects for which the loans were made had been completed, the loans were fully disbursed and substantial amounts had been repaid. Accordingly, the Loan Agreements between the Bank and JDB were amended in March 1967 to sever our link with the steel companies by eliminating references in them to the Subsidiary Loan Agreements.
I. Loan No. 201-JA (Sumitomo Project)

1. Date of Agreement: July 11, 1958
   Amended: April 24, 1967

2. Loan Amount: US$33 million

3. Terms:
   - Interest rate: 5-3/8% per annum
   - Amortization: 15 years, including 3 years of grace (August 1, 1961 - August 1, 1973)

4. Borrower: Japan Development Bank (JDB)

5. Guarantor: Japan

6. Relending terms: The proceeds of the Loan were on-lent to Sumitomo Metal Industries, Ltd., under a Subsidiary Loan Agreement on the same terms as the Bank Loan, except that Sumitomo was required to pay JDB additional interest at three-tenths of one percent on the principal amount withdrawn and outstanding from time to time.

7. Purpose: Financing of part of a plan for the modernization and expansion of Sumitomo's production facilities at Wakayama, Osaka, Amagasaki, and Kokura, which was designed to increase Sumitomo's annual production capacity to about 1,050,000 tons of pig iron, 1,800,000 tons of steel ingots, and about 1,450,000 tons of finished and semi-finished steel products.

8. Repayment: The Loan has been fully repaid.
II. Loan No. 273-JA (Second Sumitomo Project)

1. Date of Agreement: December 20, 1960
   Amended: April 24, 1967

2. Loan Amount: US$7 million

3. Terms:
   - Interest rate: 5-3/4% per annum
   - Amortization: 15 years, including 3 years of grace (August 1, 1963 - August 1, 1975)

4. Borrower: Japan Development Bank (JDB)

5. Guarantor: Japan

6. Relending terms: The proceeds of the Loan were on-lent to Sumitomo Metal Industries, Ltd. under a Subsidiary Loan Agreement on the same terms as the Bank Loan, except that Sumitomo was required to pay JDB additional interest at three-tenths of one percent on the principal amount withdrawn and outstanding from time to time.

7. Purpose: Financing of part of a plan to expand Sumitomo's production facilities at Wakayama, which was designed to increase Sumitomo's annual production capacity for pipes and tubes from 398,000 tons to 518,000 tons and for hoop, strip and plate from 216,000 tons to 600,000 tons.

8. Repayment: Approximately $1.2 million remains to be repaid.
OFFICE MEMORANDUM

TO:           Mr. Robert S. McNamara
FROM:         Raymond J. Goodman
SUBJECT:      JAPAN - Visit of Sumitomo Officials

DATE: October 23, 1973

1. I sent you a note on October 19, 1973 giving some background information on Bank lending to the Japanese steel industry and a few biographical details on Messrs. Akizawa and Fujimura, who are due to call on you at 2:45 p.m. today. We have just been informed by Sumitomo's New York Office that their President, Mr. Hyuga, is in Washington today and may also attend the meeting.

2. Mr. Hyuga is in his mid-60's and is regarded as one of the leading Japanese steel industry executives. His name has been associated with Sumitomo's impressive progress during the last two decades. He has been President of the Company for the last eight years. He speaks a minimal amount of English but Mr. Akizawa will act as interpreter during the meeting.

ZKalim:sk
MEMORANDUM FOR THE RECORD

Meeting with Minister of Finance of Japan, Mr. Ohira, September 28, 1974

Present: Messrs. McNamara, Ohira, Yoshida, Vice Minister, Hori, Sagami, Sawano, Cargill and Soejima

After some mutual pleasantries, the Minister said that this was a difficult period for Japan and that he hoped that Japan could be more responsive to the needs of the Bank in the future. A year since the oil crisis started he asked Mr. McNamara for his views on the outlook.

Mr. McNamara said he was going to ask the same question but said that oil prices, inflation and other developments had led to substantially increased capital requirements for developing countries. What was Japan's view on the recycling of OPEC revenues? The Minister said that it was questionable whether the commercial banking system would suffice. The Bank, the Fund and the BIS would have to assume new and larger roles, since smooth recycling was very important. Many schemes will have to be tried.

Mr. McNamara agreed with the need for many channels. The Bank and the Fund can do more than previously. The Bank role will, however, be modest in relation to total recycling necessary. But the Bank does need to borrow more from oil producers. Is this wise?

Oil producers are looking for safe and profitable investments and consumers need capital. Therefore, the transfer must take place. Japan has taken in medium-term money through its exchange banks.

Mr. McNamara repeated the question as to the wisdom of Bank borrowing. The Minister said that the Bank is one channel but that other channels are needed too. Recycling must take place at market terms as well. Mr. McNamara agreed to the need for several channels and said that the Bank, the Fund and the BIS are certainly possible ones. The problem is that, if the Bank and the Fund do not increase their role, the LDCs will not get the resources they need.

Mr. McNamara asked the Minister's views on the Development Committee, its Chairman and its Executive Secretary. The Minister said that he had no specific suggestions for individuals but felt that the Chairman and Executive Secretary should be from different groups: one from a developing country, one from a developed country.

Mr. McNamara asked what subject the Committee should address itself to first. The Minister felt that recycling was most important. The Vice Minister said that it should emphasize the monetary side and not focus on oil prices.

Mr. McNamara asked whether Japan in the future would be prepared to make increased contributions to research institutes for agriculture, since they would be vital to world food production. The Minister said that he understood the point and that Japan would emphasize agriculture in aid in the future, since its industrial development strategy had been less than successful. Japan would consider a contribution as the economy permits.

Mr. McNamara thanked the Minister for Japan's support and for the good work of Messrs. Hori and Soejima.

cc: Messrs. Knapp, Bell, Cargill, Soejima

AL
October 4, 1974
Name: Masayoshi Ohira
Date of Birth: March 12, 1910
1935 Passed the Civil Servant Examination (senior level)
1936 Graduated from the Hitotsubashi University
June 1948 After serving in the Taxation Bureau and Budget Bureaus became Secretary to the Minister of Finance
1952 Became member of the House of Representatives (the Lower House) 9 times consecutively
July 1960 Chief of Cabinet
Prime Minister Ikeda's Cabinet
July 1962 Minister of Foreign Affairs
Prime Minister Ikeda's Cabinet
July 1963 Minister of Foreign Affairs
Prime Minister Ikeda's 2nd Cabinet
December 1963 Minister of Foreign Affairs
Prime Minister Ikeda's Third Cabinet
November 1968 Minister of International Trade and Industry
Prime Minister Sato's 2nd Cabinet
July 1972 Minister of Foreign Affairs
Prime Minister Tanaka's Cabinet
December 1972 Minister of Foreign Affairs
Prime Minister Tanaka's 2nd Cabinet
Present Minister of Finance
Prime Minister Tanaka's 2nd Cabinet
OFFICE MEMORANDUM

TO: Files
FROM: Warren C. Baum
SUBJECT: Visit of Mr. Nakagawa to Mr. McNamara

DATE: October 24, 1975

Mr. Nakagawa, an influential member of the Japanese Parliament and Chairman of its Agriculture Committee, visited Mr. McNamara on July 31st. I was present.

Mr. Nakagawa's presence in Washington resulted from an invitation I had extended to him to visit Washington during Centers Week and then to visit some of the international agricultural research centers. The conversation was a general one. Mr. McNamara stressed the importance of the work being done by the CGIAR towards relieving the world food problem. Mr. Nakagawa, who by this time had attended a session of the Consultative Group, said that he was very impressed both by the importance of its work and by the inadequacy of the Japanese contribution. He promised to use his best efforts upon returning to Japan to secure a larger contribution, and has in fact been working hard to this end since his return.

WCBaum: rma

cc: Mr. McNamara's office
    Mr. Lejeune
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Warren C. Baum

DATE: July 17, 1975

SUBJECT: CGIAR - Visit by Mr. Nakagawa, Member of Japan's Parliament, During International Centers Week

For some time we have been seeking ways to increase Japan's contribution to the CGIAR. This year, Japan is providing $675,000, all to IRRI. This is a significant increase from the $265,000 of 1974, but well below the $3 - $4 million which we believe would be appropriate, considering Japan's level of development and its contributions to other aid groups, such as IDA.

At the suggestion of the Tokyo Office, we have invited a member of the Japanese parliament, Mr. Ichiro Nakagawa, to participate in International Centers Week and subsequently to visit two international centers,—IITA and ICRISAT.

Any substantial increase in Japan's contribution to the Consultative Group would need parliamentary approval. Mr. Nakagawa is an influential member of the House of Representatives and has twice been Parliamentary Vice Minister of Finance. He is also on the Agricultural Committee of Parliament. His visit here, at the Bank's expense, has the support of both the Foreign Ministry and the Finance Ministry.

Mr. Nakagawa will arrive in Washington on July 30 and will attend the Consultative Group meetings on July 31 and August 1. Following briefing sessions on Monday, August 4, he will proceed to Brazil (at his request) and then to IITA and ICRISAT, before returning to Japan on August 18.

Mr. Nakagawa has requested a meeting with you, which I believe would be very helpful. May I suggest that he meet with you briefly after the Consultative Group meeting on Friday, August 1, perhaps about 6 p.m.? His English is not good and he, therefore, will probably be accompanied by Mr. Sakai of the Tokyo Office.

Our intention would be to try to persuade Japan to contribute at least $2 million to the Consultative Group in 1976. For your discussion, I am attaching Annex 6 of the Integrative Report showing Japan's past contributions relative to other Consultative Group members.

c.c. Mr. Burmester

DanielRitchie/ms/D16
### DONOR CONTRIBUTIONS TO CENTERS

($ millions)

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**Total** 15.03 24.905 33.775 48.955

**Sources:**
- 1973: OJAR Allocations Table dated Oct. 1, 1973
- 1974: OJAR Allocations Table dated Aug. 21, 1974
- 1975: OJAR Secretariat Estimate as of July 1, 1975

(Based on exchange rates prevailing at time pledges were made.)
MEMORANDUM FOR THE RECORD

Meeting in Tokyo Airport, September 30, 1976, to discuss Japanese attitude towards IDA replenishment

Present: Messrs. McNamara, Cargill, Maeda and Burmester

Mr. Maeda said that the Japanese attitude towards the IDA replenishment had become much more positive since Mr. Yoshida's departure for the Asian Development Bank. (Mr. Yoshida had insisted that Japan's share of IDA could not be higher than Japan's share in the IMF, and that a 10-11% target therefore was unobtainable.) The Japanese authorities had been delighted about the willingness to eliminate direct reference to Japan's poor performance on ODA and the IDA replenishment in Mr. McNamara's speech. It was expected that Mr. Ohira would say in Manila that IDA 5 should show an increase in real terms over IDA 4. He would not mention any figure in Manila, but the Japanese delegation to the meeting in Kyoto, which would include Messrs. Watanabe and Matsukawa, would state specific amounts for the Japanese contribution to IDA 5. Mr. Matsukawa might seek an appointment with Mr. McNamara in Manila.

Mr. McNamara said that he was delighted to hear about the change in the Japanese attitude and that he would be happy to meet with Mr. Matsukawa during the annual meeting.

SB
October 1, 1976
OFFICE MEMORANDUM

TO: Mr. R. McNamara

FROM: Mr. Taro Maeda, Director of Tokyo Office

DATE: October 8, 1976

SUBJECT: Mr. McNamara's Meeting with Mr. Morinaga

Mr. Morinaga, Governor of Bank of Japan, visited the President McNamara at Mr. McNamara's office from 4:00 to 4:30 in the afternoon, Thursday, October 7, 1976, Philippine International Convention Center, Manila, Philippines.

Also present were Mr. Matsukawa, Vice Minister of Finance for International Affairs, Ministry of Finance; Mr. Kaya, Director, Public Investment Division, Ministry of Finance; Mr. Fujimoto, Executive Director, Bank of Japan; Mr. Wakatsuki, Director of Coordination Division of Foreign Affairs Bureau, Bank of Japan; and Mr. Maeda, Director of Tokyo Office, World Bank.

1. Mr. Morinaga apologized for Finance Minister Ohira's absence from this meeting, who was, until last week, fully expecting to attend and was greatly looking forward to this occasion. Mr. Morinaga said that Minister Ohira had asked him to express to Mr. McNamara his personal apology and sincere regrets.

Mr. McNamara expressed his high appreciation to Japan's support of IDA Fifth Replenishment at this Annual Meeting, which would greatly help further progress in the Fifth negotiations.

2. Mr. Morinaga mentioned that he was greatly impressed by the speech delivered by Mr. McNamara, particularly the part pertaining to emphasis on the need of self-help by the developing countries themselves.

Mr. McNamara responded that he was pleased to hear for the first time at the forum of international meetings, speeches stressing importance of self-help or self-reliance by many ministers of the developing countries themselves, which, he believed, reflected a responsible attitude of the developing countries in their development efforts.

3. Mr. McNamara pointed out two important financial issues now pending. One was the Fifth Replenishment of IDA and the other was general capital increase.

(a) As to IDA Fifth Replenishment, he was expecting much progress, if not the final conclusion, in the Kyoto meeting and hoped that Japan would play a constructive role at that meeting. He emphasized that he could not over-emphasize the importance of IDA Fifth Replenishment and that the Agreement be reached by early March, 1977.

(b) As to the general increase of capital, he stressed that the Bank's lending program should maintain an appropriate level in real terms or in constant value. He expressed his sincere appreciation to the Japanese Government especially, then the Finance Minister, Mr. Fukuda, who initially approved
the Bank's borrowing in Japan. He appreciated the historically close relationship between Japan and the Bank - a mutually reciprocating borrowing pattern - once Japan borrowed from the Bank, and the Bank has borrowed from Japan since.

4. Mr. Matsukawa replied as follows:

(a) As to the time-table of conclusion of the final Agreement concerning IDA Fifth Replenishment, he would make every effort to reach the agreement by early March, 1977 as mentioned by Mr. McNamara.

(b) As to a bridging action for IDA FY78, he mentioned that Japan would prefer three full years' agreement to the one year interim measure, because it would be necessary for Japan to go to the Diet twice if the interim measure was involved. Mr. McNamara referred this to Mr. Cargill.

(c) As to the Bank's capitalization, he asked the Bank's intention on this. Mr. Hori elaborated that he understood the general capital increase should be made only after discussions of the long-term policy of lending programs at the Board.

Mr. McNamara replied that it was true and he intended to discuss it at the Board early next year. He emphasized strongly that he had no intention to propose a lending program which required further capital increase, or a lending program which would be seriously disruptive of the Bank's operation.

(d) Mr. McNamara pointed out that it took long time before the selective increase was agreed because discussions on the voting rights of developing countries has long been discussed emotionally. He mentioned that practically speaking, the discussion on the voting rights is not fruitful because: (1) the developing countries could not borrow more money even if they could get a bit larger share in the voting rights; (2) they could not have much occasion to use voting power because 90 to 95% of the Board decisions were made in consensus.

(e) Mr. Hori then interrupted in Japanese, whether it was proper to take up the Japanese share in IDA Fifth Replenishment. Mr. Matsukawa immediately turned it down. Discussion then came to an end.

5. Comments on this meeting and prospects for IDA Fifth Replenishment

(a) This meeting was very important and helpful in restoring confidence in the Bank by the Japanese, particularly in the following two points:

(1) Mr. McNamara reiterated a special feature in the relationship between Japan and the Bank. This would remind the Japanese people the benefit they had enjoyed in the past as the largest borrower from the Bank.

(2) Mr. McNamara suggested that the voting rights to which Japan was adhering to was not so important in actual operations of the Bank's decision-making.
(b) Mr. Morinaga, who has been cooperative with the Bank since he joined the Bank of Japan, presented his view on Mr. McNamara's speech very appropriately, although he was not an expert on this subject. This could help our future relations with the Bank of Japan.

(c) Mr. Matsukawa showed his leadership in the group of the Finance Ministry officials. It is very important to note that he opposed to argue the Japanese share in IDA Fifth Replenishment at this meeting against suggestions made by Mr. Hori and Mr. Kaya. Their future argument for a reduction in the Japanese share in IDA V is likely to weaken.

(d) It appears to be most appropriate for IDA Fifth Replenishment to hold the meeting in Kyoto immediately after the annual meetings in Manila, where strong pressures have been placed upon Japan not only from the developing countries but also from the developed countries to take a more responsible attitude towards IDA Fifth Replenishment. Although Japan could go along with $7.2 billion in Kyoto, the burden sharing would be still pending. The Bank should maintain a firm position to Japan on this issue and keep Japan to maintain same burden sharing as in IDA Fourth Replenishment.

The Japanese position in aid, which lacks any coherent and logical basis, depends heavily on external pressures and consensus of the OECD countries. In this sense, skillful and diplomatic pressures will be most effective and decisive.

cc: Mr. B. Knapp
    Mr. I. P. M. Cargill
    Mr. W. Clark
    Mr. Adler
IDA V 12/4/77

Matsukawa - He said Japan should go to 9%.

I stated: (a) There was no possibility of our negotiating an offsetting increase in shares of other countries.
(b) The Kuwait meeting in January would collapse on this issue if it were not settled ahead of the meeting.
(c) If the meeting collapsed on this issue, Japan would be charged with causing the failure.

He replied it might be wise for Cargill or McN to come to Japan to settle the matter after the new government was formed (by 12/20 or 12/30) and before the Kuwait meeting.

I said one or the other of us would be willing to do this if it was necessary. I left with him the responsibility for initiating a request that we do so.

Yoshino -
a) He was very critical of the Finance Ministry's buckmaship.
b) He said the matter would be settled satisfactorily before Kuwait.

I stated: a, b, and c of above.

He agreed to contact Cargill or McN if either of us should come to Japan before the Kuwait meeting.

Matsukawa said he would be in Washington about 12/13 - I invited him to join me for lunch or dinner if convenient to him.

(Matsukawa and Mayazaki Came on 12/17.
Mem Con attached.)
On 21st February, there was the possibility of reaching an agreement in the case of the 2nd February. The tenants in Japan would settle on the second of the 1st March. The tenants in Japan would be satisfied with the resolution. He asked me to meet the 1st of April for a meeting in New York. We discussed the matter after the new agreement was formed (by June 1st) and before the new agreement was made. He asked me on the 1st of July to settle the matter before it was too late.

I was very critical of the agreement and the decision. We said the matter would be settled satisfactorily before it was too late.

I advised on 1st August that we agreed to contact Council on Monday morning and that we should come to Japan before the agreement.

The signatories are ready to be in touch about 1st August.
Mr. McNamara said he very much hoped the question of the shares of the traditional donors would be resolved quickly; there was no way that other donors could be persuaded to make up for a 2% reduction in Japan's share. If there was anything he (McNamara) could do, Mr. Matsukawa should feel free to ask him to come out at any time, as this was his top priority.

Mr. Matsukawa thanked Mr. McNamara but said he did not think a personal visit would be necessary.

cc: Mr. McNamara's office
    Messrs. Knapp
    Cargill o/r
    Diamond/Vibert
TO: Files
FROM: Raymond J. Goodman
SUBJECT: Luncheon with Mr. McNamara and Japanese Officials

DATE: December 17, 1976

Mr. McNamara entertained Vice Minister Matsukawa and his assistant Mr. Mayazaki to lunch today. Executive Director Matsumaga and I were also present.

Mr. Matsukawa raised the following points:

1. There was concern in Japan that as the higher-income developing countries reached the point of take-off, more of the Bank's lending was going to countries which might not be able to use the loans effectively or might run into debt servicing difficulties. Perhaps the Bank's lending had been expanding too rapidly. He had asked Mr. Matsumaga to look into the circumstances of countries that might give rise to a need for a rescheduling. For his own part, he acknowledged a responsibility to help quiet these concerns in Japan.

Mr. McNamara stressed the importance the Bank attaches to projects meeting the twin tests of providing an adequate ERR and contributing to development. It was of utmost importance that Mr. Matsukawa and the Executive Director should examine the record in order to reassure themselves about the quality of Bank loans, and offered the latter any help he might need. As to the scale of Bank lending, this depended on the willingness of the OECD countries to provide the Bank with adequate resources; he was sure that a number of member countries (e.g. Korea) could make effective use of more funds than the Bank was able to lend them.

2. Mr. Matsukawa enquired about the prospects of Bank borrowing from the oil exporting countries. The Bank could fulfill a valuable role in recycling part of the growing surpluses of these countries.

Mr. McNamara referred to some of the difficulties we encountered in persuading these countries to lend us substantial sums at market rates. However, we continued to keep in touch with them. Undoubtedly a significant portion of our public issues in the United States, Germany and Switzerland were bought by these countries.

3. IDA 5. Mr. Matsukawa said that Japanese officials would have to await the formation of the new Cabinet before deciding how to move on this, but he personally would do everything he could.
Meeting with Fukuda 3/22/77

I. Thanks for: a) IDA V support
   To have shifted % to Europe or US would have caused serious
   problems. A modest deficit remains: hope Japan can con-
   tribute small amount to be appropriated for next 3 years
   and paid over approximately 8.
   b) opportunity to borrow in Japanese market - will always
      be indebted to him for his personal support in 1970 -
      $1b to roll over 3 yrs - +$200 m pa.
      Bank performs a major intermediation service: discipline,
      repayment, little cost to OECD.

II. North/South Dialogue
   Situation characterized by requirements for action on part of both LDC's
   and DC's.
   A. LDC's must initiate action to
      Increase public revenues and control current expenditute, thereby
      increasing savings for investment.
      Expand food production through price incentives and agricultural support.
      Stimulate exports: proper (?) exchange rates, export incentives,
      liberalization of imports.
      Reduce population growth.
   B. DC's must help them meet continuing current a/c balance (oil deficit).
      Action required differs for poorest compared to middle-income.
      Both would benefit from relaxation of trade restraints, e.g., processing
      But poorest need more concessional aid and middle-income more support
      for market-term borrowing.
      Increased concessional aid requires action on ODA
      Japan los: Japan .21 in '76 and .22 in '77.
      Aver. .35 .34
      More market-term borrowing for M-1 requires support for Fund and Bank.
      Commercial banks likely to limit loans below what is needed unless
      World Bank and IMF expand underpinning.
      For Bank will require a capital increase to permit continued modest
      expansion of lending in real terms (Japanese share 4.15%; ($1.25b),
      paid 1983-85.
      For Fund a temporary facility, supported by voluntary ___ and
      expansion of quotas.
   C. What I believe unlikely and undesirable would be any
      General foregiveness of debts
      General indexation of ___ prices to manufactured goods.

III. Brandt Commission
   A follow on of the Pearson Committee to expose to the OECD citizens
   and the LDC political leaders actions that should be taken by their
   respective governments (e.g., population planning) in their own long-
   run interest.
   Support.
I thank for: DIA I support

they shifted 2% in our US would be made sense for a modest deficit remains. They can control central to be effective for next 3 yrs. And put a hawk in Aug.

1) Persons + Vernon 25% of watch will always be against the line for future. Support in 1970

RA combines the major combination: 

- life/health, charter, little cost + OEC

II N/5. Dialogue

Situation characterized by major interest + a host with LDC's + DCs

LDC's must initiate action.

The only major interest feels doubly nervous from effort and due to linear creative, efforts, up well.

Stimulate efforts: plan, plan efforts, efforts, interactions, Washington, staff, Redman, left, growth.

B. DC's must initiate action to continue with the LDC (all joint)

Action due to losses for current effort. Indian middle, DC could bleed from relationship. Take restraint, effort, but prevent need must concessional and win-n-win support.

For more terms knowing, and need for ODC. 0

For B. In 1975

For 1974. Need, need for more support, for

Fradle & BK

Can Bios likely t count hours. Help that is
needed unless VBE & MSE Hand Agreement
- For BK will ignore, i.e., be thrust continuosly
- Either I'm taking, no need (e.g., 70, 70, 70-83)
- For BK: a temporary facility, relatively well-off.

vertex & definitely not desirable. Could be an
- excel progression tables.

current information. Is new human interest.

III. Network

At least one of the Pearson in the CDC, do the CDC other actions that should be taken by their
- interested parties (e.g., building) in their own long-run

interest.

Suppose
OFFICE MEMORANDUM

TO: Files
FROM: Taro Maeda, Director, Tokyo Office
SUBJECT: Current Situation of Japan

DATE: March 18, 1977

Political Scene

1. For the first time in the post-war era the Government and the ruling LDP had to compromise with opposition parties on the Government's proposal for the FY77 Draft Budget. Against the original proposal to cut taxes by ¥353 billion, the oppositions united in demanding a cut of ¥1 trillion. In order to ensure an early passage of the Budget, the LDP compromised by increasing the tax cut to ¥653 billion as well as by improving various pensions which will entail additional ¥62.8 billion. This is the first time the oppositions succeeded in revising the Government's Draft Budget and is an indication that the one-party rule by the LDP is approaching to an end. The Budget is now expected to be approved by mid-April.

2. Facing the House of Councillors election in July 3, the Government's top priority now is business reflation since the two-week delay in the budget implementation will further stall the economy. Business stimulation from the fiscal side alone was considered insufficient and the official discount rate was cut by 0.5%, making the new rate at 6% effective 12th. (This will bring a possibility of borrowing from this market not so remote.)

3. Even if a recovery from the current recession is attained by this summer, the LDP will face a grave difficulty in the House of Councillors' election scheduled on July 3. Very few even question that the LDP will lose a majority in the Upper House. In a recent political poll, the Fukuda Cabinet received only 28% of the popular support, which is the lowest level of the LDP cabinet in history. To improve the picture, Mr. Fukuda is trying to make the U.S.-Japan Summit Meeting and the Summit Conference turn into his political plus. These diplomatic activities, however, will have virtually no effect on his popularity. As another gesture to appease the public, Mr. Fukuda has dissolved his faction within the LDP, the practice which other factions will likely to follow. The business circles, however, evaluate highly his voluntary step to dissolve his faction combined with his effort to reflate the economy.

4. An interesting phenomenon is the popularity of the New Liberal Club which seceded from the LDP last July. It received a 13% support, the second most popular opposition party after the Socialist Party. Dr. Okita's candidacy from the New Liberal Club symbolizes the receding LDP popularity. The failure of the LDP to win a majority in the House of Councillors will lead to an early dissolution of the House of Representatives and most believe that another general election will be held either late this year or next spring. There is no way that the LDP could prevent the ebbing tide and a possibility of a coalition Government within a year or so has become very strong.
Economic Situation

5. The Japanese economy is still stalling, with industrial activities, personal consumption expenditures and equipment investments remaining sluggish. However, there are indications that they are showing an upward trend and the official growth target for FY76 of 5.7% in real terms will be attained. For FY77 the Government has set a target growth rate of 6.7% in real terms with an expectation of better balanced increase in personal consumption expenditures, private plant investments, and export, supported by the substantial increase in public work expenditures.

6. As for prices, the official commitment to keep the consumer prices increase for FY76 at 8.6% will not be attained. The February CPI increase over a year before stood at 9.3%. The official commitment to hold the wholesale price increase down to 5.1%, on the other hand, is likely to be attained.

7. Japan's overall balance of payments in January recorded a surplus of $533 million, indicating a surplus trend fixed on the Japanese economy. The good performance was due chiefly to a 31% year-to-year increase of exports and a major inflow of foreign capital in pursuit of higher interest rates. The current balance registered a surplus of $717 million; the trade balance a surplus of $1,302 million ($6,418 million in exports and $5,116 million in imports, both the highest in history) and services and transfers a deficit of $585 million. The long-term capital balance recorded a surplus of $2 million (the first surplus in 6 months) and the short-term capital balance a deficit of $217 million.

8. Japan's foreign exchange reserves at the end of February amounted to $16,823 million, which is an increase of $343 million over the previous month and the highest level in 4 years. The major reason for the large increase was the estimated $200 million support purchasing by the Bank of Japan during February in order to prevent a further upvaluation of the yen. With sound exports the reserves will climb further and the Finance Ministry officials expect reserves to top ¥17 billion at the end of March.

9. The yen exchange rate to the US Dollar on the Tokyo foreign exchange market upswung to about ¥280, which is a new high in 2 years and 9 months. Although the upsurge of the yen calmed down somewhat, exchange banks here take the view that the yen rate will renew its upswing and go beyond the ¥280 mark in view of the current surplus key note of Japan's trade balance. Another factor accounting for the yen upswing is the gap of money rates between the Japanese and overseas markets. Growing overseas rumour about future growth of the yen also have served to spur speculation in the higher yen rate. Japanese industries are responding to the hike of yen rate rather calmly. But they fear that continuous advance of the yen rate is likely to retard normal growth of export trade. They seem to fear that the ¥280 rate appears to be the maximum limit acceptable by the Japanese economy and that an excessive rise of the yen rate will serve to affect domestic business adversely.
IDA Legislation

10. The only party likely to oppose the IDA Bill is the Communist Party. All of the other opposition parties recognize the IDA value. In this sense, we do not foresee much difficulty. However, the other oppositions may use the IDA legislation as a bargaining measure and there is a possibility that the 80th Ordinary Diet Session will close before the legislation is cleared. We feel, therefore, that persuasive lobbying in cooperation with the Finance Ministry will be crucial from now till the end of May.

Mr. McNamara's Visit to Japan

11. The Ministry of Finance is of the opinion that if Mr. McNamara wishes a visit to Japan, sometime from the end of May to early June will be advisable. In view of the new administration's emphasis on international cooperation and solidarity, it will be very useful for Mr. McNamara to pay a visit to Japan to renew the cordial relationship.
### ANNEX I

**FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE FROM DEVELOPMENT ASSISTANCE COMMITTEE MEMBERS b/**

(Calendar Years, U.S. $m. and % of Projected GNP)

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**Notes:**
- Figures for 1975 and earlier years are based on actual data. Those for 1976-80 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.
- b/ Finland became a member of DAC in January 1975.
- c/ New Zealand became a member of DAC in 1973. ODA figures for New Zealand are not available for 1960 and 1965.
- d/ In 1949, at the beginning of the Marshall Plan, US Official Development Assistance amounted to 2.7% of GNP.
- e/ Includes the effect of parity changes. Figures through 1975 are based on DAC figures. Deflators for 1976-80 are the same as those for GNP.
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<th>Real GNP</th>
<th>% Increase in Real Terms</th>
<th>IBRD Capital Subscription</th>
<th>IFC Capital Subscription</th>
<th>IDA: Calls on IDA 1-7</th>
<th>Total Bank Group</th>
<th>Regional Banks</th>
<th>Other Multilateral</th>
<th>Total Multilateral</th>
<th>Bilateral</th>
<th>Total ODA</th>
<th>ODA Constant 1972 Prices</th>
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<td>75%</td>
<td>38%</td>
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</table>


假设：1）这是一个IBRD选择的资本增加（相对于INF提供者增加的，但不包括第一4,4565，即1973年为10%）在1970年达到FYZ8的3年平均值。2）这是一个IBRD总资本增加，其中30%在FYZ8的3年平均值在1970年达到FYZ8的3年平均值。3）30%在FYZ8的3年平均值在1970年达到FYZ8的3年平均值。
MEMORANDUM FOR THE RECORD

Meeting with Heads of the Japanese ExImBank and the OECF, September 22, 1977

Present: Messrs. McNamara, Knapp, Maeda, from ExImBank, Messrs. Sumita, President, Agata, Assistant Manager, and Uemura, Chief ResRep, Washington, and Mr. Yuki, Executive Director of OECF

Mr. Sumita said that he was grateful for the cooperation that his delegation had received from the Bank during its visit to Washington. He particularly wanted to thank Mr. Knapp and Mr. Maeda for their efforts.

Mr. McNamara enquired about the plans for expansion of the Japanese development effort. Mr. Sumita said that the ExImBank had been split from the OECF during the reorganization two years ago and no longer was involved with development assistance on a grant basis. Mr. Yuki said that it was the intention of the Japanese Government to double its ODA over the next five years. However, it was doubtful whether this objective could be reached because disbursements were always lacking considerably after commitment.

Mr. McNamara asked about the possibility of cofinancing among the Bank Group and the two Japanese institutions. Both Messrs. Sumita and Yuki said that this had been one of the main topics discussed during their meetings with Bank representatives in Washington and that they were hopeful that much more could be done on this score. Mr. McNamara said that we needed some lead-time to ensure that the cofinancing was truly additional but that we would be more than happy to cooperate fully.

SB
October 3, 1977
1977 Bank-Japan Annual Aid Coordination Meeting

Areas of Operational Issues for Discussion

1. In the context of Japan's membership in the Aid Groups for Bangladesh, Burma, India, Korea, Laos, Nepal, Pakistan, Philippines, Sri Lanka and Thailand and in the light of the decision recently taken by the Government of Japan that a concerted effort be made to increase the flow of external assistance, we would like to explore with appropriate members of the Japanese Delegation:

   (a) how they see the prospects for Japanese assistance to the countries in South Asia and Southeast Asia;

   (b) whether they see significant changes in prospect in the composition of Japanese assistance to the countries in South Asia and Southeast Asia, between project and commodity assistance;

   (c) whether the measures taken or contemplated include moves towards untying procurement and local currency financing, particularly under project assistance, and towards greater flexibility for OECF in the exploration of projects potentially suitable for co-financing.

2. In the same context, we should like to discuss the current status of Japan's plans for a major effort in assisting the expansion of food production in developing countries with chronic deficits in food and the activities foreseen under development plans in these countries.

3. In our discussions with representatives of OECF we should like to discuss the following subjects:

   (a) In our view, co-financing would be facilitated greatly if OECF's involvement in potential projects could begin at an earlier stage in the process of preparation/appraisal than is now possible; we should like to explore what the scope now is for moving in that direction.

   (b) In Bangladesh, Japan's involvement in agricultural extension has been and will be very useful to the Bank's work in this area. To continue the dialogue, we would like Japan to participate in discussions on Rural Development in Bangladesh to be held in Dacca in October. Concerning extension specifically, we would want to ask Japan to join us in urging the Government of Bangladesh to revive the National Committee on Rural Training, which was to be responsible for all extension training activities.

4. In conjunction with potential Bank Group lending for oil/gas development in South Asia, particularly in India and Pakistan, we should like to discuss with Ex-Im Bank what possibilities they see for financial participation by them in future operations in this field.
BIOGRAPHICAL NOTE

(1) Name in full: Satoshi SUMITA

(2) Date of Birth: September 4, 1916

(3) Present Occupation: President,
The Export-Import Bank of Japan

(4) Home Address: 26-14, Higashi-Tamagawa 2 chome, Setagaya-ku,
Tokyo

(5) Education:
March 1937: Graduated from the First Higher School
March 1940: Graduated from the Tokyo Imperial University,
Faculty of Law

(6) Professional Career:
April 1940: Entered the service of the Ministry of Finance
July 1952: Appointed First Secretary,
Embassy of Japan in Belgium
March 1955: Appointed First Secretary,
Embassy of Japan in France
June 1957: Appointed Director of the Co-ordination
Division, Financial Bureau
April 1963: Appointed Deputy Director-General,
Budget Bureau
April 1965: Appointed Deputy Vice Minister,
Economic Planning Agency
July 1966: Appointed Director-General,
Banking Bureau
August 1969: Appointed Vice Minister of Finance
June 1971: Retired from the Ministry of Finance
October 1972 - Present: President,
The Export-Import Bank of Japan
BIографical Note

Name: YUKI, Shigeru

Date of Birth: October 18, 1925

Career:

1949 Graduated from the Tokyo University
1949 Entered the Ministry of Finance (MOF) - Banking Bureau
1965 Deputy Director-General of the Prime Minister's Office
1966 Director, International Finance Bureau, MOF
1969 Director, Banking Bureau, MOF
1972 Deputy Director-General, Economic Planning Agency
1974 Deputy Director-General, Minister's Secretariat, MOF
1975 Director-General, Mint Bureau, MOF

July 1977 Executive Director, Overseas Economic Cooperation Fund
TO: Files

FROM: Kelko Atsumi

SUBJECT: Minutes of the Meeting Between Mr. McNamara and Finance Minister Boh of Japan

DATE: September 25, 1977

DECLASSIFIED
MAR 23 1979
WBG ARCHIVES

1. Minister Boh called on Mr. McNamara on September 25, 1977. Accompanying the Minister were Governor Morinaga of the Bank of Japan; Mr. M. Matsukawa, Vice Minister of Finance for International Affairs; Mr. H. Dan, Director-General, IFB, Ministry of Finance; Mr. Inose, Director of Overseas Investment Division I; Mr. K. Nakada, Personal Assistant to the Minister; and Mr. S. Murayama, Executive Director for Japan. Also present from the Bank were Mr. J. B. Knapp, Mr. I. P. M. Cargill, Mr. T. Maeda, Mr. C. Kurt-Weser and K. Atsumi.

2. Minister Boh expressed his pleasure in meeting with Mr. McNamara, whom he had long looked forward to meeting, and congratulated the President on his election to the third term in the office. He looked forward to a continuation of the successful work that had been carried on. Mr. McNamara replied that the Bank's successful work in large part owed to the support the Japanese Government had given to the Bank Group. He wanted to reiterate that the Bank was most grateful for the support, represented most recently in the agreement by the Japanese Government to give an advance contribution to IDA V, in the willingness of the Bank of Japan to restructure their rollover operations, and in the Government's willingness for the Bank to borrow 50 billion yen from the Japanese capital market in December. These were very important not just in the sense of providing financial support to the Bank but because they showed to the world the importance the Japanese Government attached to development assistance and towards international institutions at the time when there was no universal support for such institutions.

3. Finance Minister Boh stated that the Government of Japan paid the highest tribute to the role the Bank played in the field of development assistance, particularly the leadership the President had shown, and they were very grateful for his effort. For example, the recent decision to extend IDA credits to countries like Thailand, the Philippines, and Indonesia was an indication of the Bank's goodwill, which encouraged them greatly. He thought that soundness of an institution depended much on the quality of the management. But the Government of Japan was confident that the Bank, having the effective and efficient management with a strong sense of responsibility, would continue the good work well into the future.

4. Mr. McNamara mentioned that one major problem coming up would be the capital increase of the Bank. Governments of both the developed and developing countries had agreed in principle to the increase but the Bank would need an early decision for planning both lending and borrowing.
programs. He hoped very much that the Japanese Government would support the Bank on both substantial increase in the amount and on an early decision. He pointed out that the allocation of shares of the members would be an issue affected by the action in the IMF and that he was aware that the Japanese Government felt that its share in the IMF quota was less than appropriate to the position of Japan in the world. Although it was not something under his responsibility, he would personally see to it that the Bank would try its best for the cause of the Japanese Government.

5. Finance Minister Boh appreciated the statement. He also understood well that in order for the Bank to expand its activities, the capital increase was necessary. In this connection he hoped to hear soon the magnitude of increase, allocation plans, etc. that the Bank had in mind. If the Government agreed that the Bank proposal would be appropriate, Japan would try its best to support and comply with the wish of the Bank. He continued that as Mr. McNamara mentioned, Japan's share in the IMF quota had been a very important issue for Japan. In view of the present Japanese position in the world economy, the Government wished to see an increase of their IMF quota which duly reflected the Japanese position. The Minister was encouraged by Mr. McNamara's understanding of the Japanese position, which, added to his leadership and influence, would be a great support.

6. Mr. McNamara inquired what share the Government felt was appropriate for Japan. Vice Minister Matsukawa replied that politically it was difficult to change rankings in the share of the IMF quota. Japan was behind France and Germany and the gap between Japan and France, which had the fourth largest share, was so large. As the first target, Japan was striving to obtain the quota at least equal to that of France, although this was not their final objective.

7. When the Minister asked Governor Morinaga to comment on any other item, the latter replied that since he had maintained very close contacts with Mr. Cargill he had nothing to add at this moment.

8. Mr. McNamara mentioned that the Bank's borrowing program had been moving very well in the US, Germany and Switzerland. The strength had been shown in narrowing in the spread with other issues. He knew that the Bank bonds in the Japanese market as well as the Bank of Japan lending contributed to the successful borrowing in other parts of the world. The Euro Yen issue, for example, went very well. Mr. McNamara revealed that the Bank still had a difficulty in borrowing from the OPEC countries. He felt that it was a matter of understanding rather than the nature of financing. In the case of Kuwait, they wanted to establish the Kuwaiti Dinar as an international currency, and wanted the Bank to lend in the Dinars, which at this time was still difficult. Saudi Arabia, on the other hand, wanted to lend to the Bank at a much higher yield than the Bank would like to see. However, the Swiss Government had informed the Bank that they would allow the Bank to borrow in Swiss Francs both in Saudi Arabia and Kuwait Substantially.
In general, the Bank's borrowing operations throughout the world was going very smoothly.

9. Mr. McNamara requested the Finance Minister to convey his best wishes to Prime Minister Fukuda and to remind him that it had been he who had approved the Bank's first borrowing operation in Japan. Everything that happened since had been built on that. Finance Minister Boh replied that among the people the Prime Minister had wanted him to meet in Washington, Mr. McNamara's name had been on the top of the list. He was delighted to hear the reciprocity from Mr. McNamara and would be very happy to convey the message.

10. Mr. McNamara welcomed the statement of the Government of Japan to double its ODA in approximately five years. It would be extremely helpful. As one looked at the developing world, the middle income countries, with an access to private capital and prudent management, could achieve a per capita growth rate of approximately 4% in real terms. But the poorest countries, such as Indonesia that the Finance Minister had mentioned, did not have this prospect. They were in bad need of official aid. He knew that the decision of the Government to double its ODA would be greatly appreciated by the world and particularly by the World Bank.

11. The Finance Minister replied that doubling the ODA in five years had been definitely decided. The principle behind it was, as the Japanese saying went "Supporting the others in order that one can stand on his own feet". Self-centered economic activities to seek profits and advantages were no longer acceptable in today's world. Prosperity of partners was necessary, if one wanted to prosper. Never before had there been time of such inter-dependence. The Minister felt that the world was currently facing an important turning point whereby the management of the world economy had to change the course. The important point was that the ones who decided and directed the course of change were such dynamic leaders as Mr. Fukuda and Mr. McNamara. He trusted that Mr. McNamara would continue his effort in fulfilling his responsibility.

12. Mr. Matsukawa explained that there were two factors involved in doubling of the ODA; one was the budgetary appropriation and the other was the actual transfer or disbursement. Since it was a very strong political determination to double the ODA, the Government would try their best, but it was necessary to look carefully at the both factors. At the present time, the latter posed more problem and it was necessary to establish a streamline to ensure smooth disbursement. Mr. McNamara replied that the Bank Group could help in this context, if the Government wished to cofinance with the Bank for example. Mr. Knapp added that the Bank had just had a consultation meeting with the EXIM and OECF of Japan to strengthen cooperation and coordination and to study possibilities of more cofinancing.

13. The meeting adjourned with assertions from the both sides that the cordial and cooperative relations between Japan and the Bank would continue.