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The World Bank Group  
**Archives**  
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Travel Briefings Japan Travel Briefings

Folder 1 of 3

VISIT TO JAPAN, April 17-20, 1973

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
April 17	0830	1330	Depart Washington	AA303
Tues.	0925	1425	Arrive New York (LaGuardia)	
	1100	1600	Depart New York (JFK)	PA801 (707) (Fairbanks GMT 2305-2350)
April 18	1640	0740	Arrive Tokyo	Hotel Okura
Wed.			Meet with Messrs. Rickett, Clark and Soejima	
	1930		Dinner with General and Mrs. Pursley	Continental Room Hotel Okura
April 19	0900		Mr. Kashiwagi	
Thurs.	1000-1100		President Sumita, ExImBank	
	1200-1340		Press luncheon and speech	Imperial Hotel
	1400-1420		Prime Minister Tanaka	Residence
	1425-1525		Finance Minister Aichi	Ministry
	1630-1730		Foreign Minister Ohira	Ministry
	1900		Dinner by Foreign Ministry and Bank of Japan	Kittcho Restaurant
April 20	0730-0815		TV interview 15-minute live on "Studio 102"	NHK Center
Fri.	1000-1100		President Okita, OECF	OECF
	1130-1200		Governor Sasaki, Bank of Japan	Bank of Japan
	1220-1340		Lunch with presidents of underwriters	Tokyo Hilton
	1630	0730	Depart Tokyo	JL002 (747)
	0850	1650	Arrive San Francisco	
	0945	1745	Depart San Francisco	UA62 (DC8)
	1730	2230	Arrive Washington (Friendship)	

Possible Meetings:

Mr. Nishihara, IFC Tokyo  
 Mr. Takeuchi  
 Mr. Mushakoti  
 Mr. Kamlyxa

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Mr. McNamara's Schedule

173  
April 18 (Wed) 16:40 Arrive at Tokyo via PAA#801  
18:00 Meeting with Sir Denis, Clark and Soejima  
19:30 Dinner with General and Mrs. Pursley at Hotel Okura  
April 19 (Thu) 9:00 Meeting with Mr. Kashiwagi at Hotel Okura  
9:40 Arrive at Tokyo Office and meet with Tokyo Office Staff  
10:00- President Sumita, Ex-Im Bank (accompanied by Sir Denis,  
10:45 Clark and Soejima)  
11:00- Finance Minister (accompanied by Sir Denis,  
11:50 and Soejima)  
11:55- Prime Minister (accompanied by Sir Denis and  
12:05 Mr. Soejima)  
12:15- Press Luncheon (accompanied by Sir Denis, Mr. Clark  
14:00 and Mr. Soejima)  
16:30- Foreign Minister (accompanied by Sir Denis, Clark  
17:30 and Soejima)  
19:00 Dinner hosted by MOF (accompanied by Sir Denis,  
Clark and Soejima)  
April 20 (Fri) 7:30- TV interview by NHK (Studio 102) for 15 minutes  
8:15 (accompanied by Clark and Soejima)  
10:00- President Okita, OECF (accompanied by Sir Denis,  
11:00 Clark and Soejima)  
11:30- Governor Sasaki, BOJ (accompanied by Sir Denis,  
12:00 and Soejima)  
12:20- Lunch with Presidents of underwriters (accompanied  
13:40 by Sir Denis, Clark and Soejima)  
16:30 Leave Japan via JAL#002

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# JAPAN

## BACKGROUND NOTES

Population: 103.7 million (1970 census)  
 Capital: Tokyo

Japan is a chain of rugged, mountainous islands lying in a 2,000-mile-long arc off the east coast of Asia. It comprises four main islands—Hokkaido, Honshu, Shikoku, and Kyushu—and more than 3,300 smaller islands. They lie at approximately the same latitude as the United States. The total land area of Japan is 143,000 square miles, somewhat less than that of California.

About four-fifths of the country is covered by hills and mountains, a number of which are inactive or active volcanoes. Japan's unstable geological position beside the Pacific deeps accounts for the earthquakes it experiences.

Climate ranges from subtropical on southern Kyushu (similar to northern Florida) to cool on Hokkaido (like that of southern Maine). Most of Japan is dominated by the Asiatic monsoon, which brings a pronounced summer rainy season (most intense in early July) and mild, sunny winters. Rainfall throughout the country is more than 40 inches per year and greatly in excess of this amount in certain areas. During the late summer and early fall Japan is often buffeted by torrential rains accompanying Pacific typhoons.

The Japanese flag consists of a red sun on a white field.

### THE PEOPLE

According to the 1970 census, the population of Japan is 103.7 million, with an average population density of more than 725 persons per square mile. The growth rate has been lowered to about 1.2 percent in recent years as a result of government encouragement of birth control and family-planning.

Japan's major cities and their 1970 populations are: Tokyo, 11 million; Osaka, 3.1 million; Yokohama, 2 million; Nagoya, 1.4 million; and Kobe, 1.2 million.

The Japanese are a Mongoloid people, closely related to the major groups of east Asia. However, there is some evidence of admixture with Malayan and Caucasoid strains. The only important minority group at the present time is the approximately 600,000 Koreans. There are also much smaller groups of Chinese and Caucasian residents.

### Religion

Buddhism occupies an important place in the religious life of Japan. It has exerted profound influence on fine arts, social institutions, and

thought, and most Japanese still consider themselves members of one of the major Buddhist sects.

Shintoism is an indigenous religion which is founded on myths, legends, and ritual practices of the early Japanese people. It was recognized by the Meiji government in the latter 19th century as the official state religion and was cultivated by the Government as a spur to patriotic and nationalistic feelings. Under the Allied occupation (1946-52), state support was removed from "State Shinto," and the Emperor disavowed divinity. Shintoism continues to draw participation by many people, particularly in the more rural areas of the country, at times of marriage, death, local festivals, and other observances.

Christianity has about 750,000 adherents, including a relatively high percentage of important persons in educational and public affairs, who have influence far beyond their small number.

Confucianism is no longer an important religion in Japan, although the Confucian philosophic tradition remains an important strand in Japanese thought.

### Education

Japan provides free public schooling for all children through 6 years of elementary school and 3 years of junior high school. Most students go on to 3-year senior high schools, and those able to pass the difficult entrance examinations enter the 4-year universities or 2-year junior colleges. There are public and private high schools, colleges, and universities, but public institutions, as well as private, require tuition. Japan's literacy rate approaches 100 percent.

The rapidly rising standard of living and growing job opportunities for well-educated youth have placed a severe burden on overcrowded institutions of higher learning. Competition for entry into the handful of particularly prestigious universities—such as Tokyo University, Kyoto University, Waseda, and Keio—is very intense. However, a continuing record of full employment for high school and college graduates is reversing the traditional attitudes toward jobs, with prospective employers competing for the better graduates rather than graduates competing for employment.

Since 1965 there has been an increase in student protests. A number of universities, including Tokyo University, have at various times been paralyzed or closed down entirely for as long as a year. The student movement is divided into a number of mutually antagonistic factions.





English version of Japan map... The student movement is divided into... influence on the arts, social institutions, and number of mutually antagonistic factions.

## Mass Communications

Mass communications in Japan are comparable to those in the advanced industrial nations of the West. The mass media are highly competitive even though dominated to a considerable extent by three national dailies with circulations of 7-9 million copies (combined morning and evening), Asahi, Mainichi, and Yomiuri. These major newspapers and several smaller ones publish weekly magazines and have interests in commercial radio and television. There are many other national and prefectural newspapers of significance and four English-language dailies.

The Japanese publishing industry brings out more new titles each year than its American counterpart.

Radio and television follow the British or Canadian pattern, with a nationwide government-owned network competing with commercial networks. Almost all Japanese homes have radios. As of 1970 about 95 percent of Japanese households had TV, placing Japan second in the world after the United States. The Japanese motion picture industry similarly ranks as one of the largest in the world.

## Social Welfare

In Japan, as in other parts of Asia, the care of the sick, aged, and infirm has been, until recent times, the responsibility of the family, employers, or private organizations. To meet the needs of an urbanized, modern industrial society, this system has changed greatly, and the Government is conducting a very broad range of modest but successful social welfare programs. These include health insurance, old-age pensions, a minimum wage law, and the operation of a variety of hospitals and social welfare institutions for orphans, the physically handicapped, older people, etc.

All major political parties are firmly committed to providing increased and more effective social welfare services.

## HISTORY

Traditional Japanese records embody the legend that the empire was founded in 660 B. C. by the Emperor Jimmu, a direct descendant of the Sun Goddess and ancestor of the present ruling dynasty. About 405 A. D. the Japanese court officially adopted the Chinese script. During the sixth century Buddhism was introduced into Japan from China. These two events revolutionized Japanese culture and were the beginning of a long series of cultural borrowings from China that have resulted in a strong feeling of affinity for China by the Japanese people.

From the establishment of the first fixed capital at Nara in 710 until 1867, the Emperors of the Yamato dynasty were the nominal rulers, but actual power was usually held by powerful court nobles, regents, or shoguns.

## Contact with the West

The first contact with the West occurred about 1542 when a Portuguese ship was blown off course and landed in Japan. It was followed by Portuguese traders; Jesuit, Dominican, and Franciscan missionaries; and Dutch, English, and Spanish traders. During the early part of the 17th century growing suspicion that the traders and missionaries were forerunners of a military conquest caused the Shogunate to place successively greater restrictions of foreigners, culminating in 1638 with the expulsion of all foreigners and the severing of all relations with the outside world, except severely limited commercial contacts with Dutch and Chinese merchants at Nagasaki. This isolation persisted until 1854 when Commodore Matthew Perry of the U. S. Navy "opened" Japan by negotiating the convention of Kanagawa.

Renewed contact with the West contributed to a breakdown of feudalism and led to industrialization and the rapid achievement of the status of a modern power. In 1868 the Shogun was forced to resign and Emperor Meiji was restored to temporal power. The feudal system was subsequently abolished, and in 1889 a constitutional government, parliamentary in form, was established. During this period Japan sought to utilize Western technology to strengthen and modernize the state and the economy. The "Meiji constitution," promulgated during this time, instituted many needed reforms. The success of the carefully controlled revolution of the Meiji leaders was tremendous. In a few decades these leaders achieved their goal of a strong Japan.

Japan proceeded to establish itself on an equal basis with the leading nations of the West. Along with the introduction of modern transportation, steps were taken to build an up-to-date army and navy, modernize education, adopt some Western customs, and create a modern industry. Of prime psychological importance was the introduction of a Western system of justice, thus enabling Japan to remove in 1898 the last of the "unequal treaties" which were particularly galling to the Japanese.

## Wars with China and Russia

The Japanese leaders of the late 19th century, alert to internal and Western "power politics," regarded the Korean peninsula as "a dagger pointed at the heart of Japan." It was over Korea that Japan became involved in war with the Chinese Empire in 1894-95 and with Russia in 1904-05. As a result of the war with China, Japan acquired a part of southern Manchuria, the Pescadores Islands, and Formosa. Japan defeated Russia in the war of 1904-05, and the resulting Treaty of Portsmouth awarded Japan certain rights in Manchuria and southern Sakhalin (Russia had received southern Sakhalin in 1875 in exchange for the Kurile Islands). These two wars gave Japan a free hand in Korea, which it formally annexed in 1910.

## World War I to Present

World War I permitted Japan, the only Asian member of the Allies, to expand its influence in Asia and its territorial holdings in the Pacific and brought unprecedented prosperity to the country. It went to the peace conference at Versailles in 1919 as one of the great military and industrial powers of the world and received official recognition as one of the "Big Five" of the new international order. It joined the League of Nations and received a mandate over the Pacific islands north of the Equator that were formerly held by Germany.

During the 1920's Japan made progress toward establishing a democratic system of government. However, parliamentary government was not deeply enough rooted to weather the pressures in the 1930's from economic and political forces. Military leadership played an increasingly influential role in the ruling of Japan during this time.

Japan invaded Manchuria in 1931 and established the puppet state of Manchukuo. In 1933 Japan resigned from the League of Nations. The Japanese invasion of China in 1937 followed Japan's signature of the so-called "anti-Comintern pact" the previous year and was one of a chain of developments which culminated in the Japanese attack on Pearl Harbor on December 7, 1941. After 3 years and 9 months of warfare, which resulted in the loss of hundreds of thousands of lives on both sides and included the atomic bombing of Hiroshima and Nagasaki, Japan signed an instrument of surrender on the U.S.S. Missouri on September 2, 1945.

As a result of World War II, Japan lost all of its recently acquired possessions and retained only the home islands. Manchukuo was dissolved, and Manchuria was returned to China; Japan renounced all claims to Formosa; Korea was granted independence; southern Sakhalin and the Kuriles were occupied by the U.S.S.R.; and the United States became the sole administering authority of the Ryukyu, Bonin, and Volcano Islands. The United States returned control of the Bonin and Volcano Islands to Japan in 1968.

Japan was placed under the international control of the Allied Powers through the Supreme Commander for the Allied Powers (SCAP), Gen. Douglas MacArthur. The objectives of the United States were to insure that Japan would become a peaceful nation and to establish democratic self-government supported by the freely expressed will of the people. Reforms were introduced in the political, economic, and social spheres. The method of ruling through Japanese officials and a freely elected Japanese Diet (legislature) afforded a progressive and orderly transition from the stringent controls immediately following the surrender to the restoration of full sovereignty when the treaty of peace with Japan went into effect on April 28, 1952.

Since the peace treaty Japan has been ruled by conservative Governments whose policy has been to maintain a close orientation to the West. The institutions of parliamentary democracy have be-

come progressively stronger. The post-treaty period has also been marked by tremendous economic growth.

## GOVERNMENT

Japan's parliamentary Government—a constitutional monarchy—operates within the framework of a Constitution which became effective on May 3, 1947. Sovereignty, previously embodied in the Emperor, is now vested in the Japanese people, and the Emperor (Head of State) is defined as the symbol of the state. Japan has universal adult suffrage with a secret ballot for all elective offices. The Government has an executive responsible to the legislature, and an independent judiciary.

### Legislature

The bicameral Diet is constitutionally designated as the highest organ of state power and is the sole lawmaking body of the Government. It consists of the House of Representatives (lower house)—with 491 members elected for a maximum term of 4 years—and the House of Councillors, (upper house)—with 252 members elected for a 6-year term, (one-half elected every 3 years). One hundred members of the House of Councillors are elected from the nation at large, and the remaining by prefecture.

The Emperor, with the advice and approval of the Cabinet, may dissolve the House of Representatives in which case a general election must be held within 40 days. The House of Representatives may force the resignation of the Cabinet by passing a motion of no-confidence, unless the House of Representatives is dissolved within 10 days of the motion.

Bills, which may be submitted by the Government or by individual members of the Diet, become law on passage by a simple majority of both Houses. Should the House of Councillors exercise a legislative veto on bills passed by the House of Representatives, such a veto may be overridden by a two-thirds vote of the House of Representatives. When the House of Councillors disagrees with the House of Representatives on budgetary matters or on Diet approval of treaties, the decision of the House of Representatives prevails if the disagreement cannot be resolved within 30 days.

### Executive

Executive power is vested in a Cabinet composed of the Prime Minister (Head of Government) and the Ministers of State, all of whom must be civilians. The Prime Minister, who must be a member of the Diet, is appointed by the Emperor on designation by the Diet. He has the power to appoint and remove his Ministers, the majority of whom must be from the Diet.

In addition to its general executive functions, the Cabinet is responsible for the conduct of foreign affairs, the conclusion of treaties (with the approval of the Diet), the submission of a budget, and the enactment of cabinet orders to execute the provisions of the Constitution and the law.

The Cabinet must resign en masse: (1) when it no longer enjoys the confidence of the House of Representatives, unless the House is dissolved within 10 days after the no-confidence vote; (2) when the prime ministership is vacant; and (3) upon the first convocation of the Diet after a general election for the House of Representatives.

## Judiciary

Judicial power is vested in the Supreme Court and in such courts as are established by law. These include district courts and high courts (courts of appeal). The Chief Justice is appointed by the Emperor upon designation by the Cabinet. All other members of the Supreme Court are appointed directly by the Cabinet. Appointments are reviewed by the people at the next general election and again after 10 years.

## Local Government

The Constitution requires that regulations for the organization and administration of local governments be "in accordance with the principle of local autonomy." Japan, however, does not have a federal system, and the 46 Japanese Prefectures are not sovereign entities in the sense that American States are. Most of them are not financially self-sufficient but depend on the Central Government for subsidies. Governors of prefectures, mayors of municipalities, and prefectural and municipal assemblymen are elected by the people for 4-year terms.

## POLITICAL CONDITIONS

### Conservative Rule

Conservative Governments have ruled Japan since the end of World War II, except for a brief period of Socialist-conservative coalition rule in 1947. Changes in Government have generally occurred when a Prime Minister has lost the support of the majority of his own party rather than through action by the opposition. The conservatives have maintained a broad base of popular support and are particularly strong among businessmen and in the rural areas.

### Political Parties & Elections

The postwar political pattern has been that of a dominant conservative party or a coalition of parties commanding the support of a substantial majority of the electorate, and an opposition party or coalition subscribing to Socialist ideas. In 1955 rival factions within the conservative and Socialist camps united to form the Liberal Democratic Party (LDP) and the Japan Socialist Party (JSP) respectively. These parties have dominated the political scene since that time.

The LDP, led by Prime Minister Eisaku Sato since 1964, is pledged to continue Japan's alliance

with the United States. While the party is generally conservative in its political outlook, its ability to preempt proposals of the various progressive opposition elements in the field of social welfare has, in the past, effectively detracted from the opposition's appeal. The LDP's performance in the economic sector has undeniably improved the lot of the people in general.

The principal opposition stems traditionally from the Japan Socialist Party (JSP). That party is torn by an ideological conflict between the Marxist class struggle approach of its predominant faction and the approach of the minority faction, which seeks a much broader base of popular support than the laboring class. Its main support element—the 4.5-million member General Federation of Trade Unions (Sohyo)—has internal difficulties of its own and appears to be becoming less and less politically oriented.

The Komeito (Clean Government Party) is the political arm of the Buddhist sect Soka Gakkai (Value Creation Society), a lay organization of the Nichiren Buddhist sect. The Soka Gakkai entered the political arena in the 1956 upper house elections and the Komeito in the January 1967 lower house elections. The Komeito grew rapidly in its early years but representation in the Diet now appears to just about reflect its parent organizations membership. The Komeito follows a "middle of the road" line, but its advocacy of close relations with the People's Republic of China and its criticism of the Viet-Nam war have prompted it increasingly to ally with other opposition parties. It has, however, avoided association with the Communist Party, its domestic rival.

The Democratic Socialist Party (DSP) is a moderate Socialist party patterned after the West European social democrats. Its membership broke with the JSP in 1958. It has the strong backing from Japan's moderate second largest labor federation, Domei (Japan Confederation of Labor), but its strength in recent years has been more or less stationary.

The Japan Communist Party (JCP), legalized in 1945 under the Allied occupation, is no longer stridently revolutionary. It eschews close ties with Moscow or Peking and follows an independent line. In elections it has concentrated on the LDP's weak points (e.g. pollution and local issues). It is apparently evolving a strategy of seeking power by ballot, especially at the local government level.

In national elections for the lower house, popular support for LDP-endorsed candidates has declined an average of about 2 percent per election, from a high of 76 percent in 1952 to less than 50 percent in 1969. However, subsequent affiliation of independents after the December 1969 elections, as well as byelections, now gives the LDP more than 50 percent representation in the lower house.

The present Diet representation and the dates of the most recent elections are as follows:

	Lower House (December 1969)	Upper House (June 1971)
LDP	301	135
JSP	90	66
Komeito	47	23
DSP	31	13
JCP	14	10
Independents	8	5
Total	491	252

## DEFENSE

After World War II Japan was completely disarmed by the Allies. Article 9 of the Japanese Constitution provides that "land, sea, and air forces as well as other war potential, will never be maintained." In 1950 during the Korean hostilities this position was modified by the establishment of the National Police Reserve. Before the end of the Allied occupation in April 1952 the first steps had been taken to expand and transform it into a self-defense force. At the same time, the Japanese Government derived from Article 51 of the United Nations Charter the doctrine that each nation has the right of self-defense against armed attack and that this right is consistent with Article 9 of the Japanese Constitution.

In 1954 the National Defense Agency was created with the specific mission of defending Japan against external aggression. Ground, maritime, and air self-defense forces were established, with a Joint Chiefs of Staff organization patterned after that of the United States.

## U. S. Military Assistance

The United States has made a \$1 billion contribution to Japan's defense capabilities, through the mutual security program pursuant to a Mutual Defense Assistance Agreement signed March 8, 1954, the 1952 security treaty, and its successor, the 1960 Treaty of Mutual Cooperation and Security.

The 1960 treaty became subject to abrogation by either party on one year's notice in June 1970. Both Governments at that time declared their intention to extend the treaty for an indefinite future. The treaty has served its purposes well; for the United States the bases and facilities provided by Japan are especially important to the U.S. ability to maintain its commitments to its other allies in the Far East, as well as for the security of Japan. U.S. military assistance to Japan was terminated at the end of the 1967 fiscal year. Since 1952 U.S. military forces in Japan have steadily

decreased from more than 260,000 to the present level of about 38,000.

After the reversion of Okinawa (see "U. S. Policy"), the United States will continue to maintain its essential military facilities on Okinawa under the terms of the treaty and its related arrangements, which will apply without change to Okinawa.

## Japanese Self-Defense Forces

The Japanese Armed Forces have an authorized strength of 240,000 men. Their ground forces are organized in 13 divisions, their naval forces have destroyers and submarines, and their air force has F-104's coproduced in Japan.

As U. S. forces were withdrawn Japanese self-defense forces assumed their responsibilities. In 1958 the ground defense of Japan was assumed by the Japanese Ground Self-Defense Force. Air defense responsibilities, formerly undertaken by some U. S. Air Force units, have been assumed by the Japanese Air Self-Defense Force. The Japanese are continuing to make modest technical and qualitative improvements in their defense capabilities, without acquiring any capability for projecting their military power beyond Japan's immediate vicinity. While the absolute cost for self-defense has increased rapidly, it still remains less than one percent of Japan's gross national product. Japan is party to no military alliances save that with the United States.

Although political, economic, and psychological factors have constrained the rate of development of the self-defense forces, the proportion of the public at large that acknowledges the need for these forces has grown. Still, an important minority in Japan continues to advocate strict interpretation of Article 9 of the Constitution, and the Government's freedom of action is seriously restricted. Competing demands of popular social welfare programs also serve to limit the percentage of the overall budget devoted to the defense establishment. Above all, there remains in the minds of the Japanese people a strong antipathy toward all things military and particularly toward military uses of nuclear energy, stemming from their prewar and wartime experience with Japanese militarism and their unique position as the only people in the world who have suffered from nuclear warfare.

## ECONOMY

On a total land area less than that of California, Japan supports a growing population of more than 100 million.

Except for its surrounding waters, which are rich in aquatic life, Japan is poor in land and other natural resources. Only 19 percent of the total land is presently suitable for cultivation. With great ingenuity and technical skill, which result in per-acre crop yields among the highest in the world, Japanese farmers produce on less than 13 million acres under cultivation about 80 percent

of the food needed by the present population, including all rice requirements. The remainder must be imported.

Natural resources to meet the needs of modern industry are few. Hydroelectric power, although highly developed, generates less than half of the total supply of electricity, and Japan relies increasingly on thermal power to satisfy its rapidly growing energy requirements. Coal, found principally on Hokkaido and Kyushu, is plentiful, but only 25 percent of the amount mined is coking coal suitable for industrial purposes. Chromite, copper, gold, magnesium, silver, and zinc meet current minimum requirements, but Japan is dependent on foreign sources for many of the minerals essential to modern industry. Iron, petroleum, and coking coal head the list of Japan's mineral needs.

Although some two-thirds of the total land area is forested, Japan cannot meet its rapidly growing requirements for lumber and wood pulp.

Japan's exports earn only about 10 percent of its gross national product (GNP), much less than the percentages of other "traditional" trading nations. But while Japan is not, therefore, vitally dependent on foreign trade in GNP terms, this trade is essential for earning the foreign exchange it needs to purchase the raw materials essential to its advanced economy.

Japan's reservoir of industrial leadership and technicians, its intelligent and industrious working force, its high investment rate, and its intensive promotion of industrial development and foreign trade have resulted in the development of a mature industrial economy. Japan now constitutes, along with North America and Western Europe, one of the three major industrial complexes of the free world.

## Economic Situation & Trends

Japan's rate of economic growth has averaged in excess of 10 percent annually in real terms since 1960. In 1970 the GNP grew by an estimated 17.3 percent in nominal terms and 10.8 percent in real terms. However, Japan's balance-of-payments surplus declined to U. S. \$1.4 billion for the calendar year 1970 (\$2.3 billion in 1969), partly due to a 25.2 percent increase in imports while exports increased only 21.3 percent.

By April 1969 Japan had replaced the Federal Republic of Germany as the country with the world's third largest GNP (after the United States and the U.S.S.R.). For 1970 the GNP was \$197 billion. Per capita income in 1970 was \$1,515, several times greater than that of any other Asian country and now approaching that of the United Kingdom. Japan's wages are reaching the level of those of Western Europe. Gold and foreign exchange reserves reached \$8 billion in mid-1971. Full employment prevails, and real wages have kept pace with increases in GNP, thereby increasing disposable income. Until recently, wage increases did not exceed increases in worker productivity. More recently, labor shortages,

inflation, increasing wage demands, and the need for increased investment in social welfare and less productive aspects of the economic infrastructure have begun to cloud the prospects for continued uninhibited growth. However, even the most pessimistic forecasts predict that Japan's real rate of economic growth will remain considerably higher than that of any other industrial country.

Japan ranks third in the world in production of crude steel and electric energy, first in shipbuilding, and second in fishing and in the production of radios and television receivers. It continues to lead the world as an exporter of textile products. The rate of savings in Japan, about 30 percent of the GNP, is perhaps the highest in the world, and the rate of investment is also extremely high, accounting in large measure for Japan's rapid economic growth.

## Foreign Trade

With total foreign trade surpassing \$34 billion, Japan ranks among the top trading nations in the world. In the past, imports have generally exceeded exports, but since 1965 this tendency has been reversed. The trade account surplus in 1970 is estimated to have been about \$2.7 billion as Japan's exports rose 21.3 percent to \$19 billion and imports 25 percent to \$15 billion.

The United States has long been Japan's leading trading partner, supplying in 1970 about 29 percent of Japan's imports and buying 30 percent of its exports. Total two-way trade in 1970 was about \$10.6 billion. Until 1965 the United States usually had sold more to Japan than it had purchased. However, since then this trend has been reversed. Japanese imports from the United States increased in 1970 to \$4.7 billion, but its exports to the United States totaled \$5.9 billion. The U.S. deficit was thus \$1.2 billion, \$200 million less than in 1969. Japan is second only to Canada as a market for U.S. exports. Products sold to Japan range from raw materials to the most advanced products of U.S. technology. Japan is America's best market for farm products, and 1970 sales were more than \$1 billion. Principal U.S. agricultural exports to Japan include wheat, feed grains, raw cotton, and soybeans. The United States also sells Japan large quantities of machinery and vehicles, metals and manufactures, chemicals, coal, and petroleum products.

In recent years the range of U.S. imports from Japan has widened, and the quality of Japanese merchandise has improved markedly. Iron and steel, metal products, television sets, automobiles, motorcycles, tape recorders, and chemicals have become of major importance in addition to the more traditional Japanese products such as toys, textiles, clothing, footwear, and frozen fish.

The Japanese believe that they must continue to rely upon the U.S. market for a substantial share of their exports in order to sustain their economic growth. Consequently, they are concerned over

restrictive pressures in the United States and are alert to any sign of possible departure by the United States from its declared liberal trade policy. In addition, they fear that any policy retreat by the United States would inevitably lead to increased import restrictions on the part of other countries.

In an effort to minimize the possibility of restrictive U.S. measures against imports from Japan, the Japanese have put 73 categories of goods, or about 25 percent of what it ships to the United States, under a voluntary restraint program. These controls on quantity, quality, and price are intended to promote an orderly development of a share of the U.S. market. Some major commodities over which the Japanese exercise voluntary controls on exports to the United States are steel, transistor radios, chinaware, sewing machines, wood screws, tuna fish, and ball bearings. Cotton textile exports have been controlled in accordance with an international arrangement as implemented by a U.S.-Japan bilateral agreement of 1968.

In October 1971 the Governments of Japan and the United States reached an understanding under which the Japanese would voluntarily limit the exportation of man-made and woolen textiles into the United States. In return the United States would exempt these textiles from the 10 percent import surcharge imposed on August 15 as part of President Nixon's new economic plan. This bilateral understanding was one of a series negotiated between the United States and the major textile-producing nations—Hong Kong, the Republic of China, the Republic of Korea, and Japan. The conclusion of this understanding removed a point of contention in U.S.-Japan relations.

## Economic Assistance to Asian Nations

As the most economically advanced nation in Asia, Japan has a vital role in the peaceful development of the area. Its national interests, like those of the United States, are best served by an Asia of independent, economically viable nations offering their peoples a better life under free institutions. One third of Japan's total trade goes to Asian countries. Thus, Japanese interests in the development of Asia have economic, political, and commercial roots.

In 1970 Japan's total official and private overseas aid rose 44 percent to \$1.8 billion, .93 percent of its GNP and second only to the United States in absolute terms. In allocating its foreign assistance Japan places an overwhelming high priority on Asia. In 1969, for example, the countries of the Far East received more than 70 percent of Japan's total flow of official aid disbursements. Major recipients were the Republic of Korea (\$219 million), Indonesia (\$199 million), the Philippines (\$93 million), and Thailand (\$69 million).

In addition to bilateral programs, Japan is a major participant in multilateral aid efforts. Japan and the United States are the largest contributors to the capitalization of the Asian Develop-

ment Bank—ADB—(\$200 million each), and Japan has paid the second \$20 million installment of a \$100 million commitment to ADB special funds. Japan participates in the international consortia for India, Pakistan, and Korea; the stabilization fund for Laos; the Mekong construction projects; the Organization for Economic Cooperation and Development (OECD); and important Asian regional organizations such as the U.N. Economic Commission for Asia and the Far East (ECAFE), the Asian and Pacific Council (ASPAC), and the Ministerial Conference on Southeast Asian Economic Development (SEADMIC).

During a visit to the United States in November 1969, Prime Minister Sato stated his belief that Japan should undertake the leading role in providing economic and technical assistance to Asia. The Japanese Government subsequently announced that it would attempt to reach the DAC-sanctioned goal of devoting 1 percent of its GNP to economic assistance by 1975. (Based on GNP projections, Japan's assistance programs by that date would be \$3-4 billion.) The Japanese also have indicated that they are considering a major contribution, in cooperation with other donors, to the countries of Indochina at some future date.

Japanese business leaders have also shown growing interest in the concept of an Asian-Pacific economic community to further the area's development. Leading Japanese and Australian business officials have formulated plans for a "Pacific Basin Organization for Economic Cooperation and Development," which they envisage as initially including the area's five developed countries—Australia, Canada, Japan, New Zealand, and the United States—and later, developing nations of the region. Japanese bankers, in concert with their American and European colleagues, are also organizing a private lending institution for Asian development. On the official level, the Japanese Government has stressed the importance of Asian-Pacific cooperation as a major emphasis on Japan's foreign policy.

## Economic Relations with Communist Countries

Japan's trade with the Communist countries, including Cuba, amounts to about 5 percent of its total trade. The People's Republic of China (P.R.C.) is Japan's leading trading partner among the Communist countries. Japan participates with other free-world nations in a system of voluntary export controls designed to deny strategic commodities to Communist countries.

Trade with the P.R.C. has grown steadily from the abnormally low levels of 1960-61 to a two-way total of \$621 million in 1966. It declined to a two-way total of \$549 million in 1968 but increased to \$826 million in 1970. Japan is the P.R.C.'s biggest trading partner, but this trade accounts for only 2.1 percent of Japan's total. The Japanese Government has followed a policy vis-a-vis the P. R. C. of separating politics and economics, under which it allows private trade on substantially the same

terms as West European countries do, so long as it is separate from the question of diplomatic recognition.

## Trade & Foreign Exchange Controls

Japan has been removing trade controls since 1960, but in 1969 it still had quantitative restrictions on 122 items which ran counter to the General Agreement on Tariffs and Trade (GATT) regulations. This number was reduced by September 1971 to 40, which is about the level characteristic of West European countries. Also by September, import quotas were increased for all items still on the restricted list, there were further reductions of import duties, and nontariff barriers were removed as far as possible.

In 1967 Japan began a four-stage investment liberalization program. The fourth stage was reached in September 1971 when the Japanese moved to a "negative" list covering industries barred to outside investment, while all others were being opened to foreign investment of 50-100 percent.

Japan accepted full membership in the Organization for Economic Cooperation and Development (OECD) in early 1964. Japan has participated in GATT since 1955 and participated actively in the 1964-67 Kennedy Round of tariff negotiations.

## Atomic Energy

Their experience with atomic weapons made the Japanese slow to accept the peaceful potentials of atomic energy. Although the deep-seated Japanese dislike and fear of nuclear weapons persists, by 1955 Japan had begun a coordinated program of atomic energy development for peaceful and commercial purposes. This development has proceeded rapidly with substantial assistance from the United States and, to a lesser extent, the United Kingdom and Canada. Laboratories have been built and equipped and scientists and technicians trained in large numbers. Eighteen research reactors are in operation, including four designed in Japan.

Because of their limited hydroelectric resources and necessity to import most of their fossil fuel, the Japanese intend to be second to none in the application of nuclear power. They bid fair to achieve that goal. As of March 1971 the capacity of the four reactors in operation was at 1,300 megawatts electric (MWE). About 11 additional reactors are under construction. Japan's long-range program for power reactor development calls for an installed nuclear generating capacity of about 7,500 MWE by 1975 and 30,000-40,000 MWE by 1985.

Japan's first nuclear power surface vessel, a 10,000-ton freighter, was launched in 1969 and will be powered with a 36-megawatt marine reactor. The vessel is scheduled for operation in 1972.

## Transportation

Japan has a well-developed international and domestic transportation system, although highway development still lags. The ports of Yokohama,

Kobe-Osaka, and Nagoya and the Tokyo International Airport are important terminals for sea and air traffic in the western Pacific, with modern facilities for passengers and freight. Japan Air Lines began round-the-world flights through New York in 1967.

The domestic transportation system is heavily dependent on the government-owned rail network. This is supplemented by private railways in and near the large cities, a developing highway system, coastwise shipping, and several airlines. The rail system is well distributed throughout the country, well maintained, and offers efficient service, moving more passengers more miles than any other rail system in the world. The new super expresses, the fastest trains in the world, now take as little as 3 hours between Tokyo and Osaka, a distance of 325 miles.

In recent years there have been increasing appropriations for highway building and maintenance in an effort to bring the inadequate road system abreast of the rapidly increasing numbers of cars and trucks. A modern 325-mile expressway between Tokyo and Kobe was opened in 1969.

## Labor

Japan has a labor force estimated at more than 52 million. The number of employed has risen by almost 17 million since 1960, and agriculture takes only 18 percent of the total. Less than 1.2 percent of the labor force is unemployed, and the shortage of labor is keenly felt in certain sectors of the economy.

Japanese trade unionism in its present form is largely a post-World War II phenomenon. The peak prewar union membership (1936) was 420,000, or 7 percent of Japan's nonagricultural labor force. At present an estimated 11.6 million workers, or 35 percent of the nonagricultural labor force, belong to about 48,000 unions. More than 7 million union members are organized in three major union federations. Consequently, labor is the largest organized group in Japan.

Sohyo (General Federation of Trade Unions), the largest (4.5 million members) and most powerful organization in the Japanese labor movement, was established in 1950 in protest against the Japan Communist Party's domination of the then-leading union federation. No sooner had the new organization been founded, however, than the Communist element left the old federation (which quickly went out of existence) and joined Sohyo en masse. Non-Communist elements have been in control of Sohyo since 1957.

The Communist and pro-Communist minority is currently at its lowest point in Sohyo's history. Even the non-Communist wing of Sohyo is Marxist in orientation, however, and endorses concepts such as class warfare and tactics such as the political general strike. Since 1960 Sohyo has appeared to move in the direction of moderation, placing greater emphasis on economic "struggles" and objectives and somewhat less on political agitation.



Sohyo is the major organizational and financial prop of the Japan Socialist Party, and its position on international questions parallels that of the party.

Two-thirds of Sohyo's membership are national and local public service workers, including railwaymen, postal workers, teachers, and municipal and prefectural government employees.

Domei (Japan Confederation of Labor) consists almost entirely of unions in the private enterprise sector. It was formed in 1964 by the union of Zenro and Sodomei labor federations and at present claims a membership of 1.9 million. Domei, moderate and non-Marxist, is the principal source of support for the Democratic Socialist Party. It has been growing while Sohyo's membership has stagnated.

Churitsu Roren, a loose amalgam of industrial workers who decline affiliation with either Sohyo or Domei, came into existence in January 1961. It has a total membership of approximately 1.5 million drawn mostly from the Electrical Manufacturing Workers and workers in the various construction trades.

## FOREIGN RELATIONS

Japan stands today as a fully independent and influential member of international society and the free world. It has made a spectacular recovery from defeat in 1945 and is the only highly industrialized country in Asia. Given Japanese economic power and increasing political influence, Japan can be expected to play a key role, not only in Asia, but in the world.

Since 1952 Japanese foreign policy has sought to promote peace and the prosperity of its people through support of the United Nations, alignment with the free world, and a special recognition of its status as an Asian nation. A member of the United Nations since December 1956, Japan also is an active member of all the U. N. specialized agencies.

Japan has diplomatic relations with almost all independent countries, including the Soviet Union and the East European bloc countries, with the exception of Albania and East Germany. Japan recognized the Republic of China and maintains an Embassy at Taipei. It does not have diplomatic relations with the People's Republic of China, North Korea, or North Viet-Nam.

Although the Constitution and government policy deny Japan a military role, Japanese support, through the 1960 U.S.-Japan Mutual Cooperation and Security Treaty and American security arrangements with other countries in the area, has been very important to the United States. The Government continues to support U. S. policy toward Viet-Nam, despite considerable public and press opposition, and has provided economic aid and investment to South Viet-Nam, Cambodia, and Laos.

On June 22, 1965, Japan and the Republic of Korea signed a treaty on basic relations and associated agreements resolving the outstanding

differences between the two countries which had existed since the end of World War II. In associated agreements the Japanese agreed to \$300 million in grants to Korea over a 10-year period and \$200 million in commercial credits. Subsequent Japanese commitments have raised the total to \$1 billion. They also established an area of jointly-regulated fisheries, defined the rights of Korean citizens resident in Japan, and provided for the return of Korean art treasures. Since the establishment of diplomatic relations, Korean-Japanese economic relations have grown rapidly and the two Governments are associated in several regional enterprises.

Japan has strongly supported the Government of the Republic of China on Taiwan in the United Nations while trying to improve relations with the People's Republic of China, the latter a task which has proven very difficult. In concert with other Asian nations Japan has taken the initiative to seek peaceful solutions to the Laos problem and Prime Minister Sato has stated his Government's willingness to assist in a peaceful settlement and reconstruction in South Viet-Nam.

## U. S. POLICY

In a world of greater interdependence, especially among developed nations, U.S. foreign policy toward Japan is based on the fact that Japan is the most important economic power in the Western Pacific and one of the most important in the world. As Secretary of State William P. Rogers said on June 30, 1971, "...Americans recognize that a close and friendly relationship between Japan and the United States is vital to the kind of world both of us want. In the Pacific in particular we recognize that the relationship between our countries will be the most important single factor bearing on future events in the area."

The United States and Japan have common political and security intentions. Both agree on the importance and mutual benefits of the 1960 Mutual Cooperation and Security Treaty, which provided the United States with military bases in Japan to enable it to fulfill commitments to the security of the Far East in exchange for a U. S. pledge to use its defense capabilities to shield Japan.

Economic relations are of growing importance. After Canada, Japan is the largest foreign customer of the United States and its fastest growing market. Japan, on the other hand, depends on the U.S. market for 30 percent of its exports. Inevitably the importance and the closeness of U.S.-Japan trade relations have led to serious problems in balance of payments, restrictions and restraints, and intensified competition in the world market. However, both Governments are acutely aware of the these problems and are working together to find equitable solutions. The United States and Japan must place economic problems in the perspective of a common need for each other and the mutual benefit which accrues from cooperation.

## Okinawa Reversion Treaty

On June 17, 1971, the U. S. Secretary of State and the Japanese Minister of Foreign Affairs signed the Okinawa reversion treaty simultaneously at Washington, D.C., and at Tokyo in ceremonies televised to both countries via satellite.

The agreement provides for the United States to relinquish, in favor of Japan, all rights and interests in the Ryukyu Islands and the Daito Islands acquired under the 1951 treaty of peace with Japan. Although no specific date has been set for the actual reversion, it is contemplated to take place in 1972, subject to final approval of the agreement by the U.S. Senate and the Diet of Japan.

The return of Okinawa to Japanese administration will fulfill a longstanding U. S. pledge. From the time of the 1951 peace treaty the United States has recognized Japan's residual sovereignty over Okinawa.

Although the United States will relinquish its administrative rights over Okinawa, it will retain essential military bases there under the provisions of the 1960 Treaty of Mutual Cooperation and Security and its related arrangements, which will be fully applied to Okinawa without change after reversion. The U.S. will, however, release some of its facilities and areas which are no longer required, and Japan will acquire a number of civil assets.

## New Economic Policy

The President's 1971 new economic policy has had a major effect on Japan, whose largest trading partner is the United States. Ninety-four percent of Japan's exports to the United States are affected by the 10 percent surcharge. The end of the dollar's convertibility into gold forced the Japanese to allow the yen to float within fixed limits. As of October 8, 1971, the value of the yen had risen more than 8 percent against the dollar.

During the joint cabinet meeting in September the United States and Japan held frank and friendly discussions on the whole range of U.S.-Japan economic problems. Both sides agreed that the solutions to many of the economic problems will have to be solved in a multilateral context.

## Meeting of President and Emperor

President Nixon, in an unprecedented action, journeyed to Anchorage, Alaska, on September 26, 1971, to welcome the Emperor and Empress of Japan to American soil during their stopover enroute to Europe. In all of Japan's recorded history, no reigning Emperor had ever left Japanese territory. The meeting was also the first between a reigning Emperor of Japan and an American President in office.

## PRINCIPAL GOVERNMENT OFFICIALS

Head of State—Emperor Hirohito  
Prime Minister—Eisaku Sato  
Minister of Foreign Affairs—Takeo Fukuda

Minister of Finance—Mikio Mizuta  
Minister of Justice—Shigesaburo Maeo  
Minister of Education—Saburo Takami  
Minister of Health and Welfare—Noboru Saito  
Minister of Agriculture and Forestry—Munenori Akagi  
Minister of International Trade and Industry—Kakuei Tanaka  
Minister of Transport—Kyoshiro Niwa  
Minister of Post and Telecommunications—Masao Hirose  
Minister of Labor—Kenzaburo Hara  
Minister of Construction—Eiichi Nishimura  
Minister of Home Affairs—Motosaburo Tokai  
State Minister (Chief Cabinet Secretary)—Noboro Takeshita  
State Minister (Director-General, Prime Minister's Office)—Sadanori Yamanaka  
State Minister (Director-General, Defense Agency)—Naomi Nishimura  
State Minister (Director-General, Economic Planning Agency)—Toshio Kimura  
State Minister (Director-General, Environmental Agency)—Buichi Oishi  
State Minister (Director-General, Public Safety Commission and Administrative Management Agency)—Torata Nakamura  
State Minister (Director-General, Science and Technology Agency; Chairman, Atomic Energy Agency)—Wataru Hiraizumi  
Ambassador to the U.S.—Nobuhiko Ushiba  
Ambassador to the U.N.—Toru Nakagawa

Japan maintains an Embassy in the United States at 2520 Massachusetts Avenue, N. W., Washington, D.C. 20008. There are Consulates General at Chicago, Honolulu, Houston, Los Angeles, New Orleans, New York City, San Francisco, and Seattle; Consulates at Portland and Anchorage; and an honorary Consulate General at Boston.

## PRINCIPAL U. S. OFFICIALS

Ambassador—Armin H. Meyer  
Minister-Counselor; Deputy Chief Of Mission—Richard L. Sneider  
Minister-Counselor for Public Affairs (USIS)—Alan Carter  
Minister-Counselor for Economic and Commercial Affairs—Lester E. Edmond  
Counselor for Political Affairs—William C. Sherman  
Counselor for Politico/Military Affairs—Howard Meyers  
Counselor for Economic Affairs—Peter W. Lande  
Counselor for Commercial Affairs—Oliver B. Bongard  
Counselor for Administration—Daniel L. Williamson, Jr.  
Consul General, Tokyo-Yokohama—Ronald A. Gaiduk  
Consul General, Osaka-Kobe—Jerome C. Holloway, Jr.  
Consul, Naha, Okinawa (administered by Embassy Tokyo)—Clyde W. Snider

Consul, Fukuoka—James Ashida  
Consul, Sapporo—Sunao Sakamoto  
High Commissioner, Ryukyu Islands—Lt. Gen.  
James Lampert, USA  
Commander, U.S. Forces in Japan—Lt. Gen.  
Gordon M. Graham, USAF  
Chief, Mutual Defense Assistant Office—Col. Wil-  
liam M. Reynolds, Jr., USAF  
Defense Attaché—Capt. Wilton L. Atkinson, USN

The addresses of U. S. diplomatic and consular  
offices are as follows:

Embassy, Tokyo—10-5, Akasaka 1-chome, Mi-  
nato-ku.  
Consulate General, Osaka-Kobe—10, 6-chome,  
Kano-cho, Ikuta-ku, Kobe.  
Consular Unit, Naha—Bldg. 405, Hawaii Circle,  
Army Wheel Base, Naha Area.  
Consulate, Fukuoka—No. 26, 5-ban, Ohori, 2-  
chome.  
Consulate, Sapporo—No. 1, Nishi 13-chome, Kita  
1-jo.

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As of April, 1973

New Tanaka Cabinet

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

Kakuei Tanaka

Prime Minister of Japan

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

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

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

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

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

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

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

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

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

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

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

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

In 1948, he was named Parliamentary Justice Vice Minister.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

Kiichi Aichi

Finance Minister

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

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

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

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


Masayoshi Ohira

Minister for Foreign Affairs

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

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

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

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

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

Tadashi Sasaki  
Governor  
The Bank of Japan

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

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

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

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

Dr. Saburo Okita  
President  
Overseas Economic Cooperation Fund

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

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

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

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

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

E

TOPICS FOR DISCUSSION

Section

S G

1. The Japanese Economy

2. Japanese aid philosophy, policy and performance

F

Speeches by Prime Minister, Foreign Minister, Finance Minister and Director General of Planning Agency in section G contains statements on aid. The Foreign Minister made a speech on new aid policy on April 12 which will reach you before your departure.

3. IDA Japan's attitude is summarized in section F. The Ministry of

F. G.

Finance will decide on the final Japanese position at a senior staff meeting on Saturday, April 14. Soejima will cable immediately. A note on the most recent developments will be ready on your arrival in Tokyo.

4. Indo-China Reconstruction Mr. Soejima's memorandum of March 1

F, G.

supplemented by Mr. Goodman's cable of April 12 describe the Japanese position.

5. Japanese Capital Market

G

6. Japanese Staff in the Bank

G

7. Japanese Support for International Agricultural Research

G

Topic for Discussion in Japan

I Prime Minister, Foreign Minister, Finance Minister

4<sup>th</sup> Reffen

Organization of (+ Bk participation in) aid for Indo-China - less Japan wants us to go ahead

✓ Japanese or J. Money in the Bk - Kashiwagi

His plan for reconstruction of the Japanese archipelago

His plan for assistance to LDC's: in Joint Diet "special dev asset must be funded"

His emphasis on need to improve social welfare

II 4<sup>th</sup> Refreshment

A. LDC's are facing serious financial problems

1. The debt problem

a number of LDC's are being forced to rely too much on short term credit on relatively hard terms in order to achieve a reasonable rate of growth. publicly guaranteed debt of LDC's now approximates \$80b and debt service (7 1/2 % p/a) is rising twice as fast as export earnings; obviously can't continue.

v. concessory aid (ODA) is inadequate to support a reasonable level of growth -

it was generally agreed that ODA approximating .7% of GNP was needed & that this should be achieved by '75 - now running at 1/2 of that & will continue at that level in '75.

the deficit affects the poorest countries the most & stimulates further borrowing which aggravates the debt problem.

B. the need for an increase in funds available to IDA in 4<sup>th</sup> R is great with the exception of two, all major donor countries, including Britain, Germany, Japan, Canada, Norway, Sweden, Denmark, Italy, & the Netherlands, support a 4<sup>th</sup> R level of 1500 Southern \$ bilions



\* I think the Red Cross up in Hanoi reported that in their view Hanoi wanted direct assistance followed by WHO but would not accept assistance from any other UN agency. (2)

(reg for US SR and +: 4K red and)

C. The inability of the US govt to play a constructive role in formulating a plan for the Replenishment increases the risk of final action contrary to the interests of the DC's + LDC's - if Japan can both continue to support a high level of ref. + increase substantially its share in that ref. to a point more compatible with its own strength, the opportunity for negotiating US support of such a level of ref. increases. Due in J. share crucial for reaching an agreement

#### III Economic Assistance for Indo-China

A. President of SVA has asked W. Bok to organize an international committee group to coordinate bi-lateral + multi-lateral aid for his country.

I have said we would wish to consult with our members as to their views + that whatever we did we would wish to act in association with ADB.

What is Japan's view \* has headed proposals to the 3 Vietnamese bodies attending the Paris conf - he will not make aid to 1 conditional on acceptance of 2nd aspect by all 3

Re DRV: Gov's exploratory contacts re multi-l aid to DRV rebuffed - Canada's " " " " bi-l aid to DRV rebuffed

Very slow progress on US discussion with DRV re aid

Problem of PRG: not recognized as a govt by most of our members  
Financing of Mekong pntd projects: part of Mekong Plan + part of aid to SW-

#### IV Japanese Sr. Official in Bk - offer to Kashegagi; will continue to search - would be interested in coming to Wash; Petri's names: Navi

The Economy

Rate of savings: 30% - among highest in the world; will it continue; if not how will that affect on growth of GDP -

\$21,000 billions are invested in <sup>1985</sup> defense factories + towns what will be the effect on rate of invest. in production facilities + rate of growth -

What is estimated rate of growth 73-75, 76-80, decade 78's - BOP position

Is it true that only 15% of Japanese homes are connected to sewer; how long will people tolerate sacrifice of consumption at home + subsidizing efforts abroad + consumption tomorrow

Is the talk of politicians leading to action; what kind; what % of GDP for protection: now, future

What % of world's raw mats imported today; 1980

What will be impact of energy crisis: oil imports (cost + cost) today + '80 - impact on BOP; foreign policy; effect of return invest flow; plans, if any, for conservation

Is Okita's statement that percentage GDP may exceed 15's 2% '80 supportable

Will taxes (apparently low as 20% of GDP) be increased to finance "welfare" program -

How will the pattern of Japanese industry shape in the future: labor intensive + knowledge intensive

Send: "Tokuka" the greatest problem facing the country - how do they propose to deal with it  
agric - what extent was rice prod. subsidized; <sup>+ protected</sup> what would be govt policy, require imports

Only 20% of pop are > 42 in FRG + 452 in UK

Capital Markets

What is the outlook for interest rates

Will not a continuing trade surplus have to be met by long-term capital outflow

What is the present status (outlook) for a secondary market in Japan -

What are interest rates in primary + secondary mkt - how can they be raised -

Why are interest rates so low when price infl is 6% + 5% what has happened -

What role govt can play in mkt absorb of 24 FRG bonds

What will FRG Japan with the take of 4 FRG bonds in future year, net of repayments

Ohira said: must move to '72 as soon as possible

Foreign Policy + aid <sup>now being by Ohira</sup>

What is outlook for Sino-Japanese relations; trade; competitors for influence?

impact on Japanese policy Ohira "ODA must move to '72 as soon as possible"

What is outlook for ODA: est. v 32% GNP below all Pacific countries except Australia

2 '71 992 of J's bil aid went to Asian countries with this shift

Ohira: very small of contri. to Sinter. Agri Res Committee of YSOA (IRRI) in '73

Outlook for defence: reliance on US; budget as 2% GNP; strategic 2% of mil force; nuclear <sup>ref. from</sup>

Energy reg's & impact on foreign policy (mention to Ohira - he referred to <sup>strongly to be</sup> <sup>made</sup>)

Ohira: what was Japan's policy, if any, re limitation of 5% - 2 credits

Ohira: Division of responsibility & coordination between 4-2 agencies & OECF-

misc.

Sharp contrasts <sup>in attitudes</sup> between industrial workers in their 50's oriented toward work security, & the employers welfare & those in their 20's with heavy emphasis on consumption leisure & job mobility

A vertical <sup>(companies, agencies)</sup> & <sup>(unions)</sup> opposed to a horizontally organized society which provides the bases for strong authoritarian rule from the top

Ohira believes radical changes in attitudes are req'd in Japan: to emphasize imports rather than exports; to support capital; to shift production toward consumer goods & public goods; to enjoy life now & be less work oriented. He believes the shift will be to change the content rather than the rate of growth which will continue at 8-9%.

Japan will & should lose labor-intensive indust to SE Asia & will put emphasis on knowledge-intensive production

there will be (as the young believe) a shift in power from businessmen & governments to politicians & intellectuals.

Miss notes

Tanaka is very proud of his plan to "remodel the Japanese archipelago" including the establishment of 100 new cities, the relocation of 40 million of Japanese pop. of 110 million, the addition of 9000 km of new rail lines & the double-tracking of 15,000 km of the existing lines at an expenditure of a reported \$1 trillion by 1985. But so far it is nothing more than talk & there appears to be great skepticism that any substantial part of the objective will be realized by the planned date.

The talk of massive relocation has led to <sup>widely spread</sup> speculation & <sup>say, rocketing prices with</sup> increases said to have averaged 30% in the last 12 months.

This has drawn criticism & added to the troubles (an elderly cabinet, criticism of personal extravagance, scandalous conduct) which have brought a sharp drop in his popularity & talk of defeat at the polls in the next election (July '74).

Many houses in Japan are extra-ordinarily high leading one to wonder if you should ever buy a house in Japan & where to spend it in the US. There is at least the space for the R.R. Tokyo's office at 15 per sq ft per sq ft, twice the cost of space in the new architect's R.R. in Wash. D.C. So you could buy a 1/4 acre of residential land (the biggest built houses on the 1300 sq ft) last year for 110,000 (2,000,000 per acre); he then purchased a modest 3 bedroom apt for 710,000 which is now valued at 170,000. we lease for the dep-his of the office a modest 3 bedroom apt at 2,000 per month; stock calls at 40 per lb. The dinner hosted by the bin <sup>tailor-made</sup> cost 70 per plate; <sup>under suits</sup> cost 400 or 700 for equivalent quality in Balt.

THE FORD FOUNDATION  
Inter-Office Memorandum

TO: Mr. McGeorge Bundy

DATE: January 12, 1973

COPY TO:

FROM: David E. Bell *DB*

SUBJECT: Highlight impressions, trip to Asia, October-November 1972

This memorandum records a few impressions from this trip to Asia, which included ten days in Japan and Korea and three weeks in Bangladesh, India, and Pakistan, and ended with a three-day conference Rocky Staples had organized for the A&P Representatives in Bangkok. Mary and I were accompanied by Rocky except for the week in India and by Dave Finkelstein in East Asia.

Japan, October 1-8

A week in Kyoto and Tokyo was enough to impress us again with the irresistible economic thrust that Japan continues to exhibit. The papers were full of argument about the best way to reduce the excessive surplus in the Japanese balance of payments which continues in spite of the large revaluation of the Japanese yen at the end of 1971. Prime Minister Tanaka was vowing not to have another upward revaluation, and was offering instead various combinations of export duties, encouragements to Japanese investment abroad, increases in Japanese economic aid and so on.

Nevertheless, major changes are underway in Japanese attitudes toward economic growth. People are deeply concerned about the environment. The Prime Minister's recent book proposing "the reconstruction of the Japanese archipelago" was timed exactly right to express the growing concern with life's quality. We saw a striking set of survey data showing the sharp contrast in attitudes between industrial workers in their fifties - heavily oriented toward work, security, and the employer's welfare - and those in their twenties - who responded much as their American or European counterparts would have, with heavy emphasis on consumption, leisure, and even job mobility.

Saburo Okita, in his typically wise and balanced style, summed this all up for us. He thinks radical changes in attitude are required in Japan - to emphasize imports not exports, to export capital, to shift production toward consumer goods and services, to enjoy life more and be less "work oriented." Okita thinks these changes are in fact underway. But he thinks the annual economic growth rate in Japan in

*4-16*  
*1/31*  
*Reg, returned to me from trip in Japan*  
*R. New*

consequence will decline only to perhaps 8 or 9 percent, and that the main effect of changed domestic priorities will be to shift the content of the GNP and not to slow down the rate of growth. Okita also believes Japan will have to continue its vigorous involvement in the international economy. With respect to aid, he told us he had recommended to the Prime Minister that Japan should embark on a "Asian Marshall Plan" for the countries east of Burma, on the scale of \$20 billion over the next ten years, with one-half of the funds coming from government and one-half from private investment.

Much of what Okita said was echoed at an extremely interesting meeting arranged for us with four young members of the Diet - all in their 30's and living proof that no longer is it only men over 50 who reach leadership positions in Japan. The most articulate of the group (at least in English), Yohei Kohno, emphasized the need for rapid changes in the Japanese economy as it becomes a "post-industrial society" - it will and should lose labor-intensive industries to the lower-wage countries of Southeast Asia, and put more emphasis on "clean, brain-centered industries" in Japan itself. These young Diet members also see a steady though not sudden shift from the past dominance of Japanese life by businessmen and bureaucrats toward much greater influence by politicians and intellectuals.

These rapid changes underway within Japan are more than paralleled by changes in the international outlook. At the time we were there the country was still showing the euphoria of the successful rapprochement with China, and all those with whom we talked were full of ideas and expectations about the opening of relations with Russia, the revision of relations with the United States, and the need to develop stronger contacts with Europe and many other parts of the world. It seemed to us that the Japanese have by now surmounted well the "Nixon shocks" and are entering with considerable confidence and even zest into a series of initiatives of their own around the world.

We were deeply impressed by the extent to which both the internal and external changes are placing enormous demands on relatively thin intellectual resources. Japan has had a relatively poor and limited tradition of research and analysis concerned with public policy issues. The Kyoto Center for Southeast Asian Research and the Japan Economic Research Center (the Okita center), both of which the Foundation has assisted in considerable measure, stand out as strong and exceptionally valuable resources for the country, but there are very few others like them. Moreover, the traditions of Japanese universities and the domination of the educational system by the Ministry of Education, work against any rapid enlargement of policy-oriented research centers. There are several (mostly new) research groups in the private sector, most of which emphasize marketing and computer services for business although a few aspire to broader social science-based policy efforts, but it is too soon to tell how much these groups will add to the needed intellectual base.

It was particularly apparent to us, against the background of the Foundation's work in international studies in the United States, how limited are the Japanese resources on international affairs. There are no significant centers of study in Japan concerned with contemporary China, with Russia, with Europe, with the Middle East, or with South Asia. Nor is there any center of leadership to assess Japan's needs with respect to international research and teaching - and to propose action - no Social Science Research Council, no Ford Foundation, no governmental planning group. Moreover, it seems apparent that the new Japan Foundation will not take a leadership role in this field at least for the time being.

Japan is in a stronger position with respect to economics, with a substantial number of well trained economists at various universities, and at least two significant research centers of which the Okita center is one. At the same time, Okita himself described the situation as quite bleak. He says it is extremely difficult to obtain Japanese funds to support economic research. Business support is small and support by individuals is not encouraged by the Japanese tax laws. Again, he does not anticipate much help at least in the short run from the Japan Foundation, which is governmentally dominated and oriented toward cultural relations, not toward research.

All this points toward a natural line of interest and action for the Foundation: to help encourage Japanese attention to the base of research and analysis for their changing role in the world, and the linkages between Japanese intellectual resources and those elsewhere. Japan has much to offer seen in this way. For example, Okita's vision of the future bases for effective international economic relations in a dynamic and changing world was as impressive as any I have ever heard. But there is only one Okita and Japan needs many.

The more typical Japanese situation - still stiff-jointed and awkward when confronted by international problems - is exemplified by the new Japan Foundation. So far, this is turning out to be a bureaucratically-dominated, narrowly-focussed effort to project Japanese culture overseas. This can have some valuable effects - for example, in supporting Japanese studies in the United States - but it is most inadequate considering that the Japan Foundation is the only major potential source of support for international studies now on the scene, and that its establishment may well inhibit at least for the time being the growth of other sources, particularly private ones.

We called on the new head of the Japan Foundation, a long-time Ministry of Education official named Kon, and murmured the usual courtesies to each other. Both to Mr. Kon and to the people in the Foreign Ministry who are concerned with the Japan Foundation we offered any cooperation we could give in their exploration of how foundations work. Specifically, we suggested that they consider sending one or more staff members to spend some weeks with us in New York observing our standards and procedures and letting us introduce them to other American foundations. Whether they will pursue this idea remains to be seen.

Powerful, fascinating, and immature are perhaps the three adjectives that stick in one's mind after this visit. And the operational conclusion we came to is not only that the Foundation should continue to be concerned in a modest way with the kinds of objectives referred to above, but that we should contribute wherever we can to more people becoming acquainted with Japan, starting with more members of the Foundation's staff and Trustees. One does not need to accept Herman Kahn's vision of Japan becoming the most economically powerful nation in the world by the year 2000 to sense how significant it is in the world's future, and to urge that many more people need to learn more about it.

South Korea, October 8-11

Visiting Seoul after a ten-year absence was in many respects satisfying. As AID predicted in 1963 - to widespread skepticism in Washington - the Korean economy has shot forward. GNP grew 10 percent per year in the period 1964-71. Exports rose 40 percent per year (!) over the same period. Per capita income doubled in a decade. The rural/urban population ratio changed in ten years from 80/20 to 50/50. And all this is vividly evident in Seoul, which is sprouting skyscrapers and suburbs like an Asian Houston or Sao Paulo.

Beneath these glossy achievements are of course many difficulties. South Korea is still a very low-income country. The agricultural sector especially has been neglected, although at long last the Government has raised the price farmers receive for their rice - an action spurred, it is said, by North Korean charges that the economic growth in South Korea has not benefitted the countryside but only the fat cats in Seoul. Although there are many attractive and intelligent civilians in it, the political system is essentially authoritarian and army-dominated, as was emphasized shortly after our visit by President Park's declaration of martial law.

At least two elements we heard about while there may have contributed to Park's action: his own wish to continue as President even though the existing constitution would bar him from another term (his present one ends in 1973), and the inevitable uneasiness over the rapid changes in South Korea's international setting - the preliminary negotiations for unification with North Korea and the reversal of Japan's relations with China. With respect to unification, informed opinion in Seoul was that both sides would want a slow and cautious approach, (how could it be otherwise, considering the relatively open and boisterous economy in the South and the hermetic, rigid pattern in the North), and the move toward discussions is certainly widely popular. Nevertheless it is unsettling after twenty years of relentless hostility.

Even more upsetting of the established framework has been the sudden Japanese rapprochement with Peking. The Koreans fear and mistrust the Japanese, who occupied Korea for most of this century, and only slowly opened diplomatic relations



## OFFICE MEMORANDUM

TO: Mr. William Clark

DATE: February 27, 1973

FROM: Frederick Nossal

SUBJECT: Visit to Tokyo, January 20 to 25General comments

Japan's recent denunciation of the world's major powers is an excellent reflection of the mood I found during the five days I spent in Tokyo. Before, during and after the economic development seminar I attended, I had extensive conversations, mostly with Japanese, but also with Canadian and Australian diplomats, and with correspondents stationed in Tokyo. The message was clear: Japan wants to be included in the world's major councils, but as yet may not be quite ready to pay the cost. Japan is a nation whose people still cannot forget that for most of the past 2,500 years, they have been poor. The Japanese economic miracle is a phenomenon that goes back only a little more than a decade. And this is why Japan is still being tight-fisted with cash.

Mr. Hirokazu Arai, a China-watcher in Hong Kong who became a personal friend, told me that the Japanese would have to be taught how to spend their money. Mr. Arai is now the chief of the First East Europe Division of the Foreign Ministry in Tokyo, with responsibility for Soviet affairs. He said the Foreign Ministry certainly felt it knew how Japan should spend some of its vast surplus, including greatly increased flows of official development assistance. The problem was getting the agreement of the Japanese people, most of whom are still used to living a very frugal existence. Their own needs are small. There is a tendency among Japanese to think that their present affluence may not last. They will therefore try to fend off future calamities in their economy by either hoarding or poor-mouthing, according to Mr. Arai. Like most Japanese, Mr. Arai seemed to be apologizing much of the time for his nation's economic behavior. And this theme also was touched upon during the seminar on economic development.

Press seminar

The press seminar on the problems of economic development, was held at the Japan Press Club at Tokyo's Imperial Hotel Annex on January 23. It was organized by the Japan Newspaper Publishers and Editors Association, and was addressed by Mr. Andrew Kamarck of the World Bank, Mr. Perry Chang, Chief Economist of the Asian Development Bank, Mr. Kiyohisa Mikanagi, Director-General of the Economic Cooperation Bureau of the Ministry of Foreign Affairs and Mr. Takeshi Watanabe, formerly President of the Asian Development Bank and now adviser to the Bank of Tokyo.

About 30 editors, editorial writers, and journalists specializing in economics, politics and international affairs attended the day-long seminar. All the major national newspapers, the Kyodo newsagency and the national NHK TV network were represented. Two interpreters translated the proceedings into English and Japanese.

Mr. Kamarck spoke first, describing the general process of economic development, and outlining the theory that climate seems to have a dramatic impact upon economic development. He pointed out that all the very poor countries are in the tropics. The average man in the tropics harbors parasites that have such a debilitating effect, he is simply not able to do a full day's work.

Mr. Perry Chang spoke on the problems of Indo-China reconstruction. He divided his presentation into three parts -- major post-war economic problems, particularly in Vietnam, prospects of economic development, including the Mekong, and general problems of assistance. He said that because an estimated 60 per cent of the total labor force in Vietnam was either directly or indirectly involved in the war (the seminar was held before the ceasefire announcement), the question of how to reduce manpower engaged in war activities, and how to shift resources from military to other uses were the two most important problems.

Mr. Chang outlined the problems, but did not attempt to give any definite solutions. He merely said that prospects of solving the difficulties did exist. He himself was hopeful. The nations of Indo-China are, on the whole, rich agriculturally. And despite the war some of them have built up their infrastructure. What is more, the war has forced people to acquire certain technical skills.

Mr. Chang said all the Indo-China countries would require a great deal of capital and technical assistance. And there would be a great need for humanitarian aid. At least 3,000,000 homeless would have to be repatriated. The need for coordination was obvious, he added. His view was that some kind of consortium would have to be established.

Mr. Kiyohisa Mikanagi gave the official Japanese view on economic cooperation, and also spoke about Vietnam and Indo-China. Outlining the Japanese Government position, Mr. Mikanagi said that Japan's overseas aid must change direction. One reason for this is the fear of Japan's economic expansion in Asia, Europe and the United States. Japan today was where the United States was 10 to 15 years ago, he added.

*Foreign Ministry*  
Mr. Mikanagi said Japan believed in several basic principles in regard to aid. One of these was that Japan had become an important member of international society, and therefore must assume new responsibilities. Another principle was that in its assistance to developing nations, Japan must not seek either profit or expansion of trade.

Mr. Watanabe said that Japan had been pressured from the outside into giving more aid to the developing world. "All we did in Japan was to have a look at how much the rest of the world was giving to see what we would chip in," he said. The time had come when Japan should lead the parade. Mr. Watanabe cautioned, however, that Japan should not use aid as a kind of bait. If this happened, the effectiveness of Japanese aid would dwindle.

Mr. Watanabe was highly critical of Japanese behavior abroad. He called the Japanese clannish, and said that although Japan was a part of Asia, the Japanese themselves had little understanding of Asia. Resistance to Japanese business tactics was growing, and anti-Japanese sentiments in Thailand were a typical example.

The presentations were followed by a two-hour discussion period, some of which dealt with purely Japanese topics. Several of the newsmen present were extremely eager that Japan should do all it could to change the concept that their country is "purely an economic animal."

Answering questions about Indo-China reconstruction, Mr. Watanabe said that if a peace agreement were concluded, this did not necessarily mean that peace would come. In giving aid to Vietnam during the post-war period, Japan should think of the humanitarian aspect first. Mr. Chang, replying to a question, said there was no grand design for Indo-China reconstruction. "It may take quite some time to get any grand design."

#### Foreign Ministry

Mr. Mikanagi, who had heard that I was seeing Mr. Arai at the Foreign Ministry, asked me to call into his office the following day. He had said during the seminar that the Foreign Ministry was keen to give more official development assistance, but had to take into account views held by other ministries such as the Ministry of Finance and the Ministry of International Trade and Industry.

He told me in his office that Japan was eager to help in the rehabilitation and resettlement of refugees in Indo-China. He saw Japan's role in the immediate future as a kind of fire-brigade function -- helping in the areas where the need is greatest. Japanese aid would go to both North and South Vietnam, as well as to Cambodia and Laos.

He said one difficulty Japan faced as regards helping Indo-China was public opinion. "The Japanese people consider that they are in no way responsible for what has occurred in Indo-China, and it will not be easy to persuade them that they should share the major burdens of reconstruction. They feel this should be the task of those involved in the conflict." Mr. Mikanagi did not mention any specific sum in discussing Japanese assistance to Indo-China, and stressed several times that the Japanese Government did not share the public's view that Japan should not give generously toward the reconstruction of Indo-China.

Mr. Mikanagi also spoke very briefly about the development of the Mekong. Japan wanted to become involved more deeply in the Mekong scheme which was a sure way of furthering the economic progress of the Indo-China region, he said.

One has the impression that the Foreign Ministry officials see themselves as guides trying to lead the Japanese public and to some extent also the business community along more enlightened paths. And indeed throughout my years of contact with Japanese diplomats and correspondents, I have found invariably that at some stage during the conversation they will apologize for the insular nature of the Japanese character.

Several points Mr. Arai made are of interest. He said at last Japanese businessmen are realizing that China will not become a major market for Japanese exports for a number of years. However, Japan is taking the long-term view in regard to China. Mr. Arai claimed there were serious differences between Tokyo and Moscow. The Soviet Union was jealous of the Sino-Japanese rapprochement, and a peace treaty between the Soviet Union and China remained as distant as ever. While I was in Tokyo, the local press carried stories about Soviet spy planes operating near Japan. Mr. Arai pointed to this as the clearest possible proof of Soviet-Japanese political tension and mistrust.

#### Foreign views

The most outspoken critic of Japan I met during this visit was the new Canadian ambassador, Mr. Ross Campbell, who had arrived in Tokyo only late last year. During an hour-long talk at the embassy, he said that the Japanese were treating Canada as a developing country, stripping it of its natural resources without giving very much in return. "Perhaps we tend to forget that the Japanese are a cruel and ruthless people who in the future once again could very well take what they want if they don't get their own way," he told me. He criticized Japanese business methods, and said Japan was under fire around the world, but particularly in Asia.

Mr. K.M. Chrysler, Tokyo bureau chief of U.S. News and World Report, also did not have much praise for the Japanese. He, like several other foreign correspondents, complained bitterly of living costs in Tokyo. He claimed these were weighted against the foreigner. Monthly apartment rents ranging from U.S.\$1,500 to \$3,000 were not uncommon, he said.

"If you read the papers here, you'll find the Japanese are winning the peace in Indo-China," he said. Discussing reconstruction problems, Mr. Chrysler predicted that it would be difficult to beat Japan in international competitive bidding because of various advantages it had. These included cheaper shipping costs because of Japan's relative proximity over other suppliers in Europe and North America. Another factor he cited was Japan's "rubbery" price structure. Occasionally, he said, large Japanese companies would supply plant either at cost price or sometimes even at below cost price "simply to keep the wheels turning." Japan will always do what it thinks is best for the enviable economic position it has built up.

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BRIEFING PAPER

JAPAN

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**WBG ARCHIVES**

1. Japan's GNP

According to the Economic Planning Agency of the Japanese Government, Japan's GNP at market prices at the end of 1972 was estimated to be ¥90,496 billion, and to have increased by 14.5% in money terms and 9.2% in real terms over its 1971 level. At December 1971 exchange rates, Japan's 1972 GNP therefore represented 11.6% of the combined GNP of Part I countries in that year.

In fiscal year terms,<sup>/a</sup> the outlook approved by the Government for Japanese FY73 (Bank FY74) assumes GNP growth rates of 10.7% in real terms and 16.4% in money terms; this compares with GNP growth rates in Japanese FY72 (Bank FY73) of 10.3% in real terms and 15.7% in money terms. It is worth noting that the Japanese FY73 projections were prepared in December 1972, and incorporated the probable effects of the Tanaka Government's proposed program for the "build-up of welfare." Mr. Soejima advises us that because of the recent effective revaluation of the yen, the Japanese Government now estimates that the real GNP growth rate in Japanese FY73 will amount to about 10%, rather than the original 10.7%. Nevertheless, Japanese GNP will exceed

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/a Note that the Japanese authorities refer to a fiscal year, in their case starting April 1, by the month in which it begins rather than as in Bank practice by the month in which it ends.

the level of ¥100,000 billion for the first time in FY73.

The Japanese Economic Planning Agency's longer-term forecast calls for a 7% - 8% increase in GNP in real terms between FY73-85; but for GNP in real terms to increase by about 9% in the period FY73-77. Prices are expected to increase by about 5.3% per annum. On this basis, Japan will account in 1975 for over 14% of the combined GNP of Part I countries.

According to the 1972 World Bank Atlas, Japan's 1970 GNP per capita was \$1,920, as compared with \$4,760 for the United States. Dr. Saburo Okita, the new head of the Overseas Economic Cooperation Fund (OECF), in an interview published in The Christian Science Monitor of March 12, 1973, noted that the expanding GNP and successive yen revaluations are boosting Japan's per capita income to a point where it may even surpass the United States in another seven years.

The importance of Japan as a major economic power has received explicit international recognition both in the election of Mr. H. Suzuki as one of the Vice-Chairmen of the Committee of Twenty, and by the fact that Japan is one of only five IDA members that have the right to appoint an Executive Director to IDA's Board.

## 2. Aid Performance

Total flows from Japan increased from \$246 million in 1960, to \$1,822 million in 1970, and to \$2,137 million in 1971.<sup>a</sup> Total flows as a percentage of GNP were .57% in 1960, .93% in 1970, and .96% in 1971 (Table 1).

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<sup>a</sup> These figures exclude grants from private voluntary agencies which amounted to \$3 million in both 1970 and 1971.

As in the past, official and private export credits were about 40% of total flows. In 1971, private direct investment flows at \$356 million were about 35% higher than their level in 1970. It is the Japanese Government's intention to reach the 1% of GNP target for total flows by 1975. This target will probably be attained this year.

ODA flows from Japan increased from \$105 million in 1960, to \$458 million in 1970, and to \$510 million in 1971. In spite of this large increase in absolute amounts, ODA flows as a percentage of GNP increased from .24% in 1960 to a peak of .32% in 1967 and declined to .23% in both 1970 and 1971, reflecting rapid GNP growth (Table 1). By the ODA criterion, Japan ranked below all Part I countries except Austria, Italy and Switzerland. There has been criticism by both developed and developing countries of Japan's ODA performance.

Japanese ODA net disbursements in the period 1969-71 were, on average, equal to 1.2% of central government expenditure.

In 1971, bilateral ODA from Japan to the least developed countries amounted to \$8.0 million, or 1.9% of this total. On the other hand, Asian countries received 99% of total Japanese bilateral ODA (Table 2). The two largest recipients, Indonesia and Korea, between them accounted for about 55% of bilateral ODA.

The multilateral component of ODA increased from \$48 million in 1968 to \$96 million in 1969; it declined to \$86 million in 1970 and \$78 million in 1971. It was equal to 13.5% of ODA flows in 1968, 22.0% in 1969, 19.0% in 1970, and 15.3% in 1971 (compared with the Pearson Commission recommendation that 20% of ODA should be channelled through multilateral organizations).



Japan is a strong supporter of the Asian Development Bank. As of December 31, 1971, it has provided \$200 million (19.9%) of the AsDB subscribed capital, the same amount as the United States. Japan is contributing \$300 million to the \$1,650 million increase in AsDB capital which became effective in November 1972. Japan's share remains at about 20% of total capital subscribed by existing members since about \$140 million is allocated to new members. It has also contributed \$142.3 million (of which \$39 million in 1972) to AsDB Special Fund resources, while the U.S. contributed only \$1.25 million. The AsDB made two 7-year bond issues in Japan, one for \$16.7 million equivalent in 1970 and one for \$27.8 million equivalent in 1971, and one ten-year bond issue for ¥10 billion (about \$38.5 million equivalent) in April 1972.

In 1971 -- the most recent year for which information on terms of flows is available -- Japan did not meet any of the DAC minimum terms conditions, and Japanese commitments were on harder terms than those of all but two other DAC Countries -- Italy and Portugal.

In 1971, about 90% of Japanese bilateral flows were tied to procurement in Japan.

### 3. Japan's Aid Philosophy

Dr. Saburo Okita in the interview with the Christian Science Monitor cited above traces four stages in Japan's aid policy. The first, following Japan's defeat in World War II consisted of reparations; in the second stage, Japan used economic cooperation as an instrument to promote exports, especially of equipment and machinery. In the third stage, Japan viewed economic aid as

part of its Asian policy -- in establishing the Asian Development Bank, for example and initiating the Southeast Asian Ministerial Conference for Development. But even in this stage, foreign aid has been carried out only on an ad hoc basis, with Japan responding to individual requests without any systematic plan. The fourth stage, Dr. Okita now envisions as Japan's acceptance, as the world's third richest nation, of a global responsibility to eliminate poverty. To fulfil this responsibility, Dr. Okita would like to see Japan give more emphasis to the non-commercial aspects of foreign aid.

Dr. Okita acknowledged in that interview that in the past the Finance and International Trade Ministries had been opposed to ambitious foreign aid plans drawn up by the Foreign Ministry. He thought, however, that Japan's rapid GNP growth combined with large balance of payments surpluses, improved the prospects for Japan's entering the fourth stage discussed above.

#### 4. Japan's Aid Policy

Mr. Soejima informs us that he has been told in confidence that the Japanese authorities are currently reviewing Japan's 5 - year program for ODA, but the target apparently differs by different Ministries. The Economic Planning Agency has formulated a plan to increase ODA to 0.5% of GNP by FY77; on the other hand the Ministry of Finance proposes to increase it to only the DAC average of 0.35% of GNP.

At the 71st Special Diet which was reconvened on January 26, 1973, the Prime Minister, the Foreign Minister, the Finance Minister, and the Director General of the Economic Planning Agency all touched on the subject of the

assistance to developing nations.<sup>/a</sup>

The Prime Minister stated that:

".....The North-South problem has loomed large after relaxation of the East-West tension. Real peace will not be attained unless the North-South problem is settled in a rational way by correcting the maldistribution of wealth ... Japan should use its economic and technological power to help developing countries in the South attain economic independence and social stability. This is required of Japan by the entire world and it is Japan's responsibility to the international community. In terms of volume, Japan's economic aid has almost arrived at the international target level of 1% of its GNP, However, its quality is below the average of that of OECD nations. The official ODA must be expanded, the loan terms must be eased and untied aid must be increased. The Government will exert utmost efforts in improving the quality of economic aid along the lines of the basic target disclosed at a meeting of UNCTAD and I hope the Japanese economic aid will be really helpful to receiving countries.

The urgent problem that confronts Japan today is how to contribute to the attainment of stable peace in Vietnam. Japan will make all possible efforts for the restoration and reconstruction of wartorn Indochina. I would like to consider the possibility of holding an International conference of Asian and Pacific basin nations with the aim of consolidating the peace....."

The Foreign Minister added that:

"The Government must strive to boost the ratio of official development assistance to GNP up to the target of 0.7% as soon as possible. It must also endeavor for the untying of aid as well as the earliest possible implementation of improvement of aid terms while taking into due consideration international requests such as those expressed at the DAC of the OECD. At the same time, Japan should also take measures to diversify aid and expand assistance for the social advancement of developing nations."

The Finance Minister and the Director General of the Economic Planning Agency expressed similar views regarding the desirability of Japan playing "a role befitting its national power in helping the growth of developing countries."

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<sup>/a</sup> Information provided by the Tokyo Office.

The guiding principles for Japanese aid policy are contained in the recommendations made by the External Economic Co-operation Council to the Prime Minister in October 1971. The major recommendations were:

- (a) To make greater efforts to increase the ODA to GNP ratio in a planned manner;
- (b) To regard technical assistance as an important form of aid;
- (c) To expand the geographical distribution of assistance;
- (d) To give special consideration to measures designed to more effectively utilize the services of the international organizations.

Japan's FY73 ODA budget shows an increase of 13.1% in yen terms (Table 3) over the FY72 level and this compares with an increase in FY72 of 18.9% in comparison with the FY71 budget. On this basis there cannot be expected to be an improvement --- and if anything, there will probably be a decline in Japan's ODA performance.

Japan has recently adopted three new principles designed to untie its aid. These are:

- (a) Termination of tied aid, untying of the recipients of aid or carrying out the ASEAN concept of untying which envisages regional division of labor and cooperation
- (b) Extension of local cost financing to such aspects as farm development, land reform and construction concerned with social overhead capital.
- (c) Setting up criteria of uniform conditions for all projects so as to ease aid terms.

On January 11, the Foreign Ministry decided to allow immediately a recipient nation to purchase goods and services from any country using yen loans from Japan. All future yen loans will be offered on this basis, and as the first

application of the new policy, the Government will untie the major part of the ¥64,000 million yen credit it extended to Thailand in April 1972.

4. International Reserves Position

Japan's international reserves increased from a level of \$2.0 billion in 1967 to \$4.8 billion in 1970 to \$15.4 billion in 1971, and at the end of February 1973 stood at \$19.1 billion.

In December 1971 Japan's exchange rate was revalued 16.88% in terms of the dollar (from ¥360 = \$1 to ¥308 = \$1) and is currently estimated to have undergone a further revaluation of another 16%.

5. Attitude to IDA

Japan's share of initial subscriptions was 4.47%; of the First Replenishment it was 5.54% of the Second Replenishment it was 5.6%; and of the Third Replenishment it was 6.00%.

At the Paris meeting of IDA Deputies the Japanese representative (Mr. Tarao Maeda, Deputy Director General, International Finance Bureau, Ministry of Finance) stated that Japan highly valued the role of IDA as a major source of concessionary aid funds for developing countries. He added that agreement should be reached at a reasonable high level, and that the amount be set at a level that was acceptable to all contributing countries. Mr. Maeda stated that Japan attached great importance to the role of IDA as a source of development financing particularly in Asia, and expected the Association to play an important role in the post-war reconstruction of Indochina. Furthermore, he highly commended the efforts of the Association in recent years to extend its activities in the social sectors, with particular emphasis on improving the conditions of life of the poorest sectors of the population.

At the London meeting -- speaking after the representatives of the Netherlands, Germany and the United Kingdom -- Mr. Maeda indicated his support for a Replenishment level of 1500 million Smithsonian dollars, and added that this was on the assumption that the question of shares would be satisfactorily resolved in due course.

Regarding the maintenance of value question raised by the Canadian and U.S. representatives, Mr. Maeda said that it "should be deliberated carefully by all governments before there were any serious discussions."

Japan has a pivotal role to play in determining whether the level of the Fourth Replenishment will be significantly higher than that of the Third. Japan's role will increase in importance in direct proportion to the size of the reduction that the United States requests in its share of the Replenishment. Also, the extent of the increase in Germany's share, and possibly of the decrease in the United Kingdom's share, will be in great part determined by the position taken by Japan.

There are persuasive reasons for a very significant increase -- even a doubling -- of Japan's share of the Fourth Replenishment as compared with the Third.

(A) Japan's 6% share in IDA III was lower than its 10% share in the combined GNP of Part I countries in 1970. Furthermore, Japan's GNP, by most estimates, is projected to increase at an annual average rate of over 9% in real terms, and 15% in money terms, in the next five years -- rates that are significantly higher than those for any other Part I country. By 1975 Japan's share of the GNP in money terms of Part I countries will be over 14%. An increased contribution to IDA would be a reflection of Japan's

increased importance as an international economic power.

(B) If ODA from Japan equals 0.4% of GNP by 1975 this would imply net ODA disbursements of about \$2,000 million in that year. If 20% of that amount, in line with Pearson Commission recommendations, were to be provided through multilateral organizations, this would mean multilateral net ODA disbursements of \$400 million in 1975. Given the lags in cash calls by multilateral organizations, this level of disbursements would support a significantly higher level of commitments to multilateral organizations. Thus, for example, an annual IDA IV commitment of \$180 million (12% of \$1,500 million) by Japan would assist that country in achieving ODA targets, and not unduly constrain it in making enlarged contributions to other IFI's such as the Asian Development Bank. (Table 4 which has already been given to the Japanese authorities).

(C) Contributions to IDA count as ODA. (IBRD bond purchases by the Bank of Japan form part of Other Official Flows, and not ODA; and public IBRD bond issues are private flows and do not form part of ODA).

(D) IDA now has 112 members and is recognized as being a truly international and co-operative institution for channelling assistance to developing countries. IDA provides a mechanism for the geographic distribution of Japan's ODA and also for untying a greater proportion of its total flows.

(E) The imbalance between Japan's share in IDA Replenishment and procurement of goods and services in Japan financed with IDA credits has contributed to Japan's balance of payments surplus. Japan's share in IDA III was 6% while its share in IDA identified procurement through FY1972 was 12%. (Please note that these figures are not strictly comparable for balance of payments purposes since the former deal with commitments not disbursements, and the

latter with actual exports). A comparison of cash calls by IDA on Japan, and procurement in Japan using IDA funds, shows an even larger gap. An increase in Japan's share in IDA IV would reduce this gap, and perhaps even close it, thereby assisting Japan in its achievement of its balance of payments objectives.

(F) Several years ago IDA was considered as an organization principally providing assistance to the Indian Subcontinent which received about 69% of IDA commitments in FY1964-68; in the Third Replenishment period, however, India will receive less than 40%, and Pakistan about 5%, of total IDA commitments. On the other hand, Indonesia is now a major claimant on IDA resources and will receive about 10% of IDA commitments in FY1972-74; and in addition, the share of Bangladesh, Burma, Korea, Philippines, and Thailand together will be another 10% of IDA commitments in the Third Replenishment period. The Bank Group is aware that the countries of Indo-China may become important claimants on IDA resources and is prepared to play an important role in the financing of reconstruction, if its member governments so wish.

#### 6. Capital Market Prospects

A separate brief on this subject has been prepared by Mr. Adlewereld, see Section G.

#### 7. IBRD Capital Subscription Increase

On January 28, 1971, Japan's share (\$250.4 million) in the IBRD capital increase became effective and 10% was released in convertible form.



8. Balance of Payment Effects of IBRD and IDA Operations

Through FY1969, IBRD and IDA operations had a \$932 million positive effect on Japan's balance of payments. In the period FY1970-72, Bank Group operations had a negative effect of \$531 million, and thus contributed to the measures taken to reduce the Japanese balance of payments surplus (Table 5).

9. Special Issues

(a) Bank Group Lending to South East Asia

Actual and planned Bank Group Lending to South and East Asia is shown in Table 6. While it is true that the proportion of total IDA credits going to major recipients of Japanese development assistance will have declined from 70% in FY1964-68 to about 67% in FY1969-73 and FY1974-78, there was a 170% increase in FY1969-73 as compared with FY1964-68 in the volume of IDA credits for these countries, and a further increase of about 90% is planned in FY1974-78 if IDA resources continue to be replenished at increasing levels.

Total Bank Group lending to these countries will increase by 140% between FY1964-68 and FY1969-73, and a further increase of 75% is planned for FY1974-78.

Four of these countries -- Burma, Indonesia, Philippines, and Thailand -- which did not receive IDA credits in FY1964-68, will have received about \$544 million of IDA credits in FY1969-73, and larger allocations are planned for them in FY1974-78.

(b) Co-Financing with IBRD<sup>/a</sup>

(i) Indonesia: OECF has so far not participated in genuine joint

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/a Information provided by Division Chiefs of the Asia Regional Office.

financing with the Bank Group in Indonesia. In the case of the PUSRI fertilizer project (193-IND) for which IDA, AID and ADB also provided funds, a package (engineering and supply of the urea unit) was segregated from the project and reserved for bidding in Japan. More recently Japan has agreed under pressure from the Bank to provide an additional Yen 1.2 billion to help finance the cost overrun on the project. This amount will also be for purchases in Japan.

Japanese untying of concessional aid would be of great benefit to our borrowers and would enable us to enter into joint financing arrangements with OECF. If a general untying should not be possible, other arrangements, such as those used for the PUSRI project would be possible although they are very complicated and time-consuming both to work out and to administer. The total financial requirements in each case should therefore be large.

There are two possible candidates for such arrangements, the Second Fertilizer Project (FY75) and the Asahan Power and Aluminum Project (not actually in our operations program). In addition, there are other projects for which part of the financing may come from Japan although there will be no formal arrangements with IDA (e.g. railways and tele-communications).

(ii) Korea : We have been asked to provide about \$60 million for the Pohang Iron and Steel Company expansion project. The Japanese are expected to provide \$135 million and an additional \$25 million may be sought from other sources. Mr. Goodman intends to discuss this with the Japanese in Tokyo on April 12-15. We hope to persuade the Japanese to untie at least a portion of their aid as we feel that a financing package in which we provide the only untied money might not be acceptable to the Executive Directors.

(iii) Thailand : At the present time co-financing with OECF is being considered for the Quai Yai hydro-electric project and the Pitsanuloke Irrigation

project, both included in our FY74 program. Discussions with OECF have been concluded, Japanese financing has been promised, and OECF will join as observer in our Pitsanuloke appraisal mission which is now in Thailand.

Our regional mission, Bangkok, is working closely with the Government of Thailand and OECF representatives in Bangkok on these and other possible projects which may be suitable candidates for co-financing after FY74.

(c) Indochina Reconstruction<sup>/a</sup>

The initial speeches, at the opening of the current Diet session, by the Prime Minister and by the Finance and Foreign Ministers, outlined a positive approach to Japanese participation in postwar aid to Indochina. It was suggested that Japan should take the initiative by leading other nations in the reconstruction of both North and South Vietnam.

Over the past weeks the positions of the two Ministers mainly concerned with implementing the political promises have to some extent firmed up.

The Finance Ministry is maintaining its hard line approach, feeling that it is not Japan's place to be a leader in cleaning up a mess that she did not make. The Ministry would support a multinational, consortium type approach, with Japan providing its fair share. The Ministry was, however, firm in its belief that any aid effort must be apportioned between North and South Vietnam and saw the fact that Japan had not yet recognized North Vietnam as a problem which would need to be resolved at an early date in the aid effort.

The Foreign Ministry, on the other hand, following the meeting in Bangkok of Japanese ambassadors in the Asian region last week, do not view recognition as a major obstacle. The Ministry, while supporting a multinational approach, sees the aid effort as a three phase exercise: (a) Emergency

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/a Information provided by Tokyo Office

relief, (b) Balance of payments support, and (c) Project aid. The Ministry supports Japanese participation in both (a) and (c), but sees (b) as the responsibility of the United States.

The authorities are still saying they are prepared to host, in Tokyo, any meeting of interested nations to discuss this problem, despite the exclusion of Japan from the Paris Conference on Vietnam. It may be that this request is being publicized only for domestic consumption as the international ground work has apparently not been too vigorous. In view of the reportedly hardening attitude in the U.S. Congress towards aid to the North and the feeling here that any reluctance on the part of the U.S. will have a definite impact on the Japanese approach, it may be some time before a final Japanese position emerges.

It is worth noting in this connection that Mr. Inoue, President of the Asian Development Bank, and members of his staff have on various occasions in Tokyo and Saigon publicly affirmed ADB's interest in leading any Vietnam Aid Consortium, noting that ADB has been operating in Vietnam in recent years. ADB has made three loans to Vietnam since 1970 and recently sent a mission to lay the groundwork for ADB's participation in postwar reconstruction and development.<sup>/a</sup> During your talk with Mr. Inoue in March, it was agreed that the two banks would work in partnership. However, President Thieu of South Vietnam has made it clear that the World Bank should be in the lead. This and related points will be conveyed to the Japanese authorities by Mr. Goodman on his forthcoming visit.

(d) Japanese Staff for World Bank Group

See attached note prepared by the Personnel Department, section G.

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<sup>/a</sup> Based on Mr. Goodman's memo to Mr. McNamara dated March 21, 1973.

(e) Cooperation in Economic Research

The Bank is commissioning a study on the future influence of the Japanese economy on the economies of East and South East Asian countries, by the International Development Center of Japan, a relatively new research institute whose founder is Mr. Okita. The study, based on projections of Japanese growth over the next 10 years, will examine the effects of changes in comparative advantage on trade patterns in the region, capital flows, and investment in manufacturing industries in the region's less developed countries. Individual Japanese industries will be examined in detail as to the possibilities of, and constraints on, new locations in other countries. This study should be useful for medium and long term development planning in the region. Mr. Goodman will be talking to Mr. Okita about the study, which has just been approved by the Research Committee.

(f) Consultative Group on International Agricultural Research

A separate note on this subject has been prepared by Mr. Graves, see Section G.

TABLE 1: JAPAN: FLOW OF DEVELOPMENT FINANCE BY CALENDAR YEAR  
(US \$ million)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Official Development Assistance												
- Bilateral	79	96	77	128	106	226	235	341	308	340	372	432
- Multilateral	26	12	9	9	10	17	48	38	48	96	86	79
- TOTAL	105	108	85	137	116	244	283	379	356	436	458	511
- Multilateral As % ODA	24.8%	11.1%	10.6%	6.6%	8.6%	7.0%	17.0%	9.9%	13.5%	22.0%	19.0%	15.3%
- As % GNP	.24%	.20%	.15%	.20%	.15%	.28%	.28%	.32%	.25%	.26%	.23%	.23%
Other Official												
- Bilateral	34	115	84	33	95	110	181	198	302	366	493	408
- Multilateral	4	-1	-2	3			2	6	1	10	201	243
- TOTAL	38	114	83	36	95	110	183	204	303	376	694	651
Total Official	143	222	168	173	211	354	466	583	659	812	1152	1162
Private												
- Bilateral	103	165	118	94	80	132	159	214	390	444	651	851
- Multilateral		-5	1		-1					8	18	125
TOTAL NET DISBURSEMENTS	246	381	286	267	290	486	625	798	1049	1263	1821	2137
- As % GNP	.57%	.71%	.49%	.40%	.36%	.55%	.62%	.67%	.74%	.76%	.93%	.96%
- Multilateral As % Total	12.2%	1.6%	2.4%	4.5%	3.1%	3.5%	8.0%	5.5%	4.7%	9.0%	16.7%	20.9%
- IBRD/IDA % Multilateral	96.7%	83.3%	71.4%	83.3%	55.6%	82.4%	50.0%	31.8%		47.4%	72.8%	74.7%

Source: DAC

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TABLE 2: MAJOR RECIPIENTS OF JAPAN'S BILATERAL ODA DISBURSEMENTS IN 1971  
(US \$ millions; Percentage)

	1970 GNP Per Capita (\$)	Amount (\$m)	% Total	Amount Per Capita (\$)
Burma	80	26.7	6.2%	1.0
Cambodia	130	4.7	1.1%	0.7
Ceylon	110	7.4	1.7%	0.6
China	390	2.2	0.5%	0.2
India	110	33.5	7.8%	0.1
Indonesia	80	111.9	25.9%	1.0
Iran	380	3.4	0.8%	0.1
Korea	250	124.2	28.8%	9.3
Laos	120	4.7	1.1%	1.6
Malaysia	380	12.3	2.8%	1.2
Pakistan	100	35.0	8.1%	0.3
Philippines	210	29.6	6.9%	0.8
Thailand	200	15.5	3.6%	0.4
<u>TOTAL ASIA</u>		<u>428.8</u>	<u>99.3%</u>	
TOTAL BILATERAL ODA		<u>432.0</u>	100.0%	

Source : DAC

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TABLE 3 : JAPAN'S AID BUDGET FOR FY72 AND FY73  
 (¥ billions; fiscal years beginning April 1).

	FY72 Original Budget	FY73	% Change
<b>Official Development Assistance</b>			
Bilateral Grants Reparations	9.2	9.2	-
: Quasi-reparations	12.0	11.4	-5.0%
: Food Grants	4.4	4.7	5.6%
: Technical Assistance	15.0	18.7	24.7%
: Other & General	6.8	11.9	75.3%
TOTAL	<u>47.5</u>	<u>55.9</u>	17.8%
<b>Multilateral Grants</b>			
: UN Agencies	4.1	5.8	41.9%
: Other Agencies	0.3	0.4	19.6%
: Subs. to IFIs	35.4	40.3	14.0%
TOTAL	<u>87.2</u>	<u>102.4</u>	17.4%
<b>Bilateral Loans</b>			
: OECF	42.0	56.0	33.3%
: EX - IM	63.0	63.0	-
: Loans to EX - IM	3.5	-	-
<b>TOTAL OFFICIAL DEVELOPMENT ASSISTANCE</b>	<u><u>195.7</u></u>	<u><u>221.4</u></u>	<u>13.1%</u>

Source: Tokyo Office

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TABLE 4: ESTIMATED CASH CALLS ON JAPAN'S CONTRIBUTIONS TO  
 PAST IDA REPLENISHMENTS AND A 12% SHARE OF IDA IV OF \$4500 MILLION, FY72-84 <sup>a/</sup>  
 (Fiscal Years; 1972 US \$ millions)

		<u>FY72</u>	<u>FY73</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>
Total Past Replen.	- Cash Paid	28	35	35	32	23	22	17	16	10	4			
	- Notes Held End Yr.	90	107	124	92	69	47	30	14	4				
4th Replen.: Notes	- Received				180	180	180							
	- Cashed				8	44	80	90	78	72	60	55	35	18
	- Held End Yr.				172	308	408	318	240	168	108	53	18	.
Total Replen. thru IDA IV	- Cash Paid	28	35	35	40	67	102	107	94	82	64	55	35	18
	- Notes Held End Yr.	90	107	124	264	377	455	348	254	172	108	53	18	

<sup>a/</sup> Call figures are estimates based on past experience, and the actual figures may be somewhat different.

P & B  
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TABLE 5: ESTIMATED EFFECT OF IBRD AND IDA OPERATIONS ON  
JAPAN'S BALANCE OF PAYMENTS THROUGH FY72  
(US \$ millions; Fiscal Years)

	Through 1964	1965	1966	1967	1968	1969	1970	1971	1972
<b>IBRD EFFECT</b>									
<b>Current Account</b>									
Procurement of Goods <sup>a/</sup>	195	58	52	64	65	88	80	122	160
Interest to Bondholders in Japan <sup>b/</sup>	1				1	1	1	16	35
Interest to Loanholders in Japan <sup>b/</sup>	4								
Less: IBRD Investment Income in Japan	3	2	1	1				1	1
Interest Charges on Loans made to Japan	92	24	25	28	33	37	36	27	28
Equals: Balance on Current Account	105	32	26	35	33	52	45	110	166
<b>Capital Account</b>									
Loans to Japan, Outstanding <sup>c/</sup>	422	2	31	90	80	28	-182	-11	30
Less: Japan's 1% Subscription <sup>d/</sup>	7		1					2	1
Japan's 9% Subscription <sup>d/</sup>	60			9				23	8
Net IBRD Bond Sales <sup>b/e/</sup>	16	-1				5	205	219	241
Net IBRD Loan Sales <sup>b/</sup>	8	-7	-1						24
Equals: Balance on Capital Account	331	10	31	81	80	23	-387	-255	-244
Balance on Current + Long-term Capital Account	436	42	57	116	113	75	-342	-145	-78
<b>IDA EFFECT</b>									
<b>Current Account</b>									
Procurement of Goods <sup>a/</sup>	40	28	22	21	27	16	9	28	45
Balance on Current Account	40	28	22	21	27	16	9	28	45
<b>Capital Account</b>									
Japan's Contribution to IDA	12	5	11	12	17	3	8	11	28
Balance on Capital Account	-12	-5	-11	-12	-17	-3	-8	-11	-28
Balance on Current + Long-term Capital Account	28	23	11	8	10	13	1	17	17
<b>COMBINED IBRD/IDA EFFECT</b>									
Current Account	145	60	48	56	60	68	54	138	211
Capital Account	319	5	20	69	63	20	-395	-266	-272
Balance on Current + Long-term Capital Account	464	65	68	124	123	88	-342	-128	-61

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

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

<sup>c/</sup> Includes disbursements on loans in which the funds are used for local expenditures or for broad development programs where the source of the items imported with Bank funds is not specified. The increase in 1972 reflects translation adjustments of amounts disbursed and outstanding.

<sup>d/</sup> The increase in 1972 reflects the translation adjustment of Japan's payments for the 1% and 9% portions of its subscription to IBRD to reflect the US dollar devaluation.

<sup>e/</sup> The increase in 1972 includes \$96 million equivalent representing translation adjustments of outstanding Yen issues.

TABLE 6 : BANK GROUP LENDING TO MAJOR RECIPIENTS OF JAPANESE DEVELOPMENT ASSISTANCE<sup>a</sup>

		Through 1972	1973	1974	1975	1976	1977	1978	Total 1964-68	Total 1969-73	Total 1974-78
Bangladesh	IBRD	90.4	-	-	-	-	-	-	43.7	18.4	-
	IDA	225.4	72.0	80.0	100	100	100	100	148.5	140.9	480
Burma	IBRD	33.4	-	-	-	-	-	-	-	-	-
	IDA	-	32.0	20.0	20	20	20	20	-	32.0	100
Ceylon	IBRD	93.9	-	-	-	-	-	-	4.0	48.4	-
	IDA	23.9	5.0	5.0	5	5	5	5	2.0	26.9	25
China	IBRD	329.4	-	-	-	-	-	-	106.7	222.7	-
	IDA	15.3	-	-	-	-	-	-	-	-	-
India	IBRD	1205.7	60.0	60.0	60	60	60	60	189.0	200.5	300
	IDA	1926.6	468.0	488.0	540	540	540	726	591.0	1503.6	2834
Indonesia	IBRD	332.9	132.0	134.0	150	150	150	200	-	464.9	784
	IDA	743.7	160.0	200.0	221	239	279	317	141.0	568.5	1256
Korea	IBRD	227.5	168.0	115.0	120	125	125	130	5.0	390.5	615
	IDA	90.8	20.0	-	-	-	-	-	11.0	85.8	-
Malaysia	IBRD	337.6	57.0	55.0	55	66	70	82	165.9	193.1	328
	IDA	544.7	-	-	-	-	-	-	118.3	155.3	-
Pakistan	IBRD	362.6	60.0	61.0	70	70	70	90	183.8	214.3	361
	IDA	273.5	10.0	100.0	100	100	110	120	68.2	133.3	530
Philippines	IBRD	273.5	10.0	100.0	100	100	110	120	68.2	133.3	530
	IDA	10.0	12.7	20.0	20	20	20	20	-	22.7	100
Singapore	IBRD	124.8	-	20.0	25	-	20	25	57.8	52.0	90
	IDA	436.3	80.0	49.0	35	54	84	73	132.5	204.4	295
Thailand	IBRD	436.3	80.0	49.0	35	54	84	73	132.5	204.4	295
	IDA	-	24.5	15.0	20	25	30	30	-	24.5	120
Total	IBRD	4440.9	535.0	599.0	616	644	748	807	1032.1	2187.1	3414
	IDA	2987.5	826.2	823.0	925	930	935	1191	936.3	2515.6	4804
TOTAL		7428.4	1361.2	1422.0	1541	1574	1683	1998	1968.4	4702.7	8218

## MEMO ITEMS:

- IBRD as % Total											
IBRD Lending	24.3%	28.2%	27.9%	25.1%	23.4%	24.1%	23.1%	24.0%	24.9%	24.5%	
- IDA as % Total											
IDA Lending	67.8%	68.9%	67.5%	68.5%	68.9%	69.3%	65.6%	70.1%	66.6%	67.8%	
- IBRD/IDA as % Total											
Bank Group Lending	32.7%	43.9%	42.2%	40.6%	38.4%	37.8%	37.6%	34.9%	37.5%	39.1%	

<sup>a</sup> Source : Standard Table IV dated 2/20/73, adjusted for subsequent IDA allocation decisions and the most recent round of CPP Reviews.

G

1. Economy -- FY 1972

The Japanese economy underwent a difficult period under the dual impacts of recession and yen-revaluation at the end of 1971. It was generally predicted that the yen-revaluation of 16.88% in December 1971 would have a serious effect on the economy, particularly on her exports. A few months later, however, economic indicators showed that the economy had hit the bottom and started recovering from the recession which started in the fall of 1970. Since then the economy has been steadily on an expansionary course throughout FY 1972 (April 1, 1972 - March 31, 1973) with an accelerated growth rate in the latter half of FY 1972. At the end of 1972, it was observed that the speed of expansion of the economy has nearly recovered to the level during the high growth period in the 1960's. According to the latest government's forecast, Japan's GNP growth rate will amount to 15.7% in money terms and 10.3% in real terms. (See Attachment 1)

The leading factors which have supported the economic recovery are: government's expenditures and investment, personal consumption expenditures and private housing investment. Among these factors, the fiscal spending, coupled with lowering of the discount rate, stimulated the economy in FY 1972. According to the latest government's forecast, the government's current purchases of goods and services in FY 1972 are estimated to increase by 23.8%, well exceeding the estimated GNP growth of 15.7%.

The capital investment of private industries, which, together with exports, had played a vitally important role for the high economic growth throughout the 1960's, has been sluggish in FY 1972, though it showed a gradual upcurve in the latter half of FY 1972.

The fiscal spending together with a series of measures were designed to promote national welfare as well as to correct Japan's trade imbalance by stimulating the economy. However, the trade surplus of FY 1972 is estimated to stand at about US\$9.0 billion, keeping an almost equal level as FY 1971 surplus of US\$8.4 billion.

Moreover the tremendous dollar inflow in the wake of the yen revaluation in 1971 resulted in an encrmously softened money market. The net payments of the Treasury Accounts with the money market in FY 1971 amounting to ¥3,028 billion was the direct result of a net increase of foreign exchange reserves of US\$11 billion during the same period. As a result, the excessively softened money market brought about serious inflation problems: the wholesale price index in FY 1972 is estimated to increase by about 3% as compared with -0.8% in FY 1971 according to the <sup>Japan</sup> Economic Research Center's estimate; the March 1973 consumer price index shows about 9% increase above the level of March 1972 according to the Prime Minister's Office; land prices increased by about 30% in calender year 1972.

Thus, the economy in FY 1972 faced various problems:

- (1) "the gap between demand and supply"
- (2) "the gap in the balance of international payments"
- (3) "the gap between economic growth and public welfare"  
("Economic Survey of Japan 1971 - 1972" by Economic Planning Agency, Japanese Government)
- (4) inflation

2. Government's Forecast -- FY 1973

On January 26, 1973, the Tanaka government approved the government's economic forecast and basic policy entitled "Economic Forecast of FY 1973 and the Basic Attitude towards Economic Management". (See Attachment I) This was drafted by the government in December, 1972 and presented to the Cabinet meeting held on January 6, 1973. The forecast further incorporated the probable effects of the FY 1973 budget and was approved by the Cabinet.

The following is a summary of the government's basic policy stated in the forecast:

- (1) In order to improve people's welfare, investment in social over-head capital, housing and other infrastructural facilities related to living conditions should be greatly expanded with major emphasis placed on the improvement of social security and other welfare policies.
- (2) In order to stabilize prices and to maintain fair competition, import promotion measures should be effectively used, the

supply of perishable foods at stable prices shall be secured, law productivity sector and distribution system should be modernized.

- (3) With regard to external economic policy, the equilibrium in the balance of payments should be resorted by reducing the surplus in the balance on trade through higher imports and increasing foreign aid as well as liberalizing capital transactions.
- (4) In order to achieve the above policies and to promote formation of the new economic structure, appropriate measures to shift industrial structure to knowledge - intensive industries, to change the structure of agricultural industry and small- and medium-sized industry, to develop social over-head capital and anti-pollution industries, and to adopt the five-day week should be incorporated.

In August, 1972 the Economic Planning Agency stated in its "Economic Survey of Japan (1971 - 1972)" (See Attachment II):

"Steady recovery of business, balancing Japan's international payments and improvement of welfare of the people are the urgent problems for the Japanese economy to solve. Solving these problems means the elimination of the gap between demand and supply, the gap in the balance of international payments, and the gap between economic growth and public welfare, all of which have widened in recent years. The questions are how to



fill these three gaps at a time when the situations at home and abroad are changing greatly, and how to attain the internal and external equilibrium by transforming the pattern of growth."

The government's basic policy is based on the recognition of the situation described in the EPA's Survey. Among various measures, the improvement of national welfare constitute the basic principle of the Tanaka government's economic management. The extensive improvements in the living standard is now regarded as the national consensus.

According to the government's forecast, GNP growth rate in FY 1973 is estimated to 16.4% in money terms and 10.7% in real terms: This compares with GNP growth rates in FY 1972 of 15.7% in money terms and 10.3% in real terms.

The higher economic growth rate is supported by a massive increase in FY 1973 national budget which will become effective on April 12. The initial General Account Budget is expected to reach ¥14,284 billion, marking a 24.6% increase over the FY 1972 initial budget. In addition the initial Treasury Loans and Investments are also expected to increase by 28.3% over FY 1972 amounting to ¥6,925 billion. Thus, both the General Account and the Treasury Loans and Investments are expected to increase substantially exceeding the estimated GNP growth rate of 16.4%. It is worth noting that

the private capital and inventory investments, and personal expenditures are also expected to increase, reflecting the business recovery which has taken place since the time mid 1972.

3. Yen Revaluation and Economy - Fiscal 1973

The government decided to float the Japanese yen from February 14, 1973. The current exchange rate of Japanese yen represents an increase of about 16% in terms of US Dollars which is substantially larger than what was generally expected. Unlike the previous yen revaluation, however, Japanese industry prepared for a possible yen-revaluation. Revaluation of yen of about 10% was already built-in to the Japanese economy. Large manufacturers reportedly adopted a 10% revalued exchange rate to their exports. Big trading companies in one way or another hedged against a currency risk. In view of these factors the impact upon the economy of the yen revaluation is likely to be moderate.

The following is a summary of the forecast on the Japanese economy in FY 1973 prepared by the Japan Economic Research Center in its 18-month forecast released at the end of March. (See Attachment III):

- (1) Japan's GNP growth rate in FY 1973 will be 18% (16.4% - government's forecast) in money terms. In view of accelerated pace of inflation, however, the real growth rate will be 10.5% (10.7%).
- (2) Private capital investment will increase by 19.2% (14.0) in

FY 1973 mainly as a consequence of the growing need for replenishing welfare facilities.

- (3) The surplus in the nation's balance of payments is estimated to shrink sharply. The trade balance will stand at US\$7.3 billion (US\$8.1 billion) and the basic balance in the red to the extent of nearly US\$1.6 billion (surplus of nearly US\$1 billion).

The forecast is based upon the assumption that the yen-floating will continue for several months at the average rate of about ¥260 to the US Dollar. It also takes into account the prospective raise of the official discount rate by 0.25% per annum during the April - June period (The Bank of Japan raised its discount rate by 0.75% effective April 2, 1973).

4. Financial Market Prospects

This substantial increase in government spending, together with the likely trade surplus will basically support the current relaxed monetary conditions to continue in fiscal 1973. The trade surplus will lead the Bank of Japan to maintain a moderate financial policy from the long-range viewpoints.

In view of the recent sharp increase in wholesale prices, however, the monetary authorities moved to adopt a tight-money policy. Bank reserve rates were raised twice this year on January 16 and March

16 by 0.25% to 0.5% each. This was the first tight-money measure after more than 2 years easy money period since October 1970. Furthermore, the Bank of Japan has increased the official discount rate by 0.75% from 4.25% to 5.00%, equal level as that of Germany effective April 2, 1973. Because wholesale prices are expected to keep on going up for fiscal 1973, the authorities will try to strengthen the tight-money policy.

However, the degree and extent of this policy will be limited. The supporting factors for this view are that the yen revaluation will inevitably bring about a slight slowdown in the economic growth, and that trade imbalance will necessitate the authorities to keep the basic easy money policy. The authorities will try to squeeze the excessive liquidity in the market to the extent where the relaxed money conditions will not have harmful effects on the economy. The monetary conditions in fiscal 1973 would indicate a general tendency toward tightening. However, this tightening is expected to be short in duration and easier than the tight-money situation during the period of high economic growth in the 1960s.

Furthermore, a large trade surplus will have to be met by long-term capital outflow in order to attain the equilibrium of the basic balance of payments. According to the Japan Economic Research Center's forecast, Long-Term Capital Account Balance is expected to reach about US\$5.4 billion deficit in FY73, representing about 74% of the trade surplus. Since the Government will continue to encourage in various ways the

*desires  
with bonders*

export of capital funds in addition to its official economic assistance to developing countries, this pattern - trade surplus to be met by long-term capital outflow - will be built-in in the Japanese economy. The syndicate loans extended by Japanese banks to multinational and other overseas enterprises, on a contract base, in 1970 amounted to roughly \$180 million. This has expanded dramatically in 1972 to about \$1.3 billion. The capital export through private placements is estimated at about \$500 million in 1972. These capital exports will increase at an even more accelerated rate in 1973, unless international monetary situation does not permit Japan to do so. The Tokyo capital market will thus play a more important role as a capital exporter in fiscal 1973 linking with other international capital markets.

Economic Outlook

(Japanese Government)

(in billion yen)

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

Note: Industrial Production figures do not include OKINAWA

Forecast of Balance of International Payments

(Japanese Government)

(in millions of dollars)

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

Note: IMF basis.

( ) deficits.

**ECONOMIC SURVEY  
OF  
JAPAN**

**(1971-1972)**

英文經濟白書

**ECONOMIC PLANNING AGENCY  
JAPANESE GOVERNMENT**

**PUBLISHED  
by  
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## FOREWORD

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

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

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

### *1. The economy's trend*

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

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

### *2. Shift in the pattern of growth*

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

### *3. Harmonious development*

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

### *4. Attainment of a new welfare society*

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

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

5. *Future management*

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

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

August 1, 1972

Kiichi Arita  
Minister of State  
Economic Planning Agency

# Summary of Annual Economic Survey For 1971-1972

## I. The Aim and Organization of This Report

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

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

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

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

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

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

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

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

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

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

## II. The Gist of This Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



into a well-balanced country.

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

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

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

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

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

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

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

become sophisticated and diversified.

(4) Start for new development

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### III. Conclusion

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

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

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

Forecast of GNP, Industrial Production  
and Commodity Prices

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(Japan Economic Research Center)

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

Note: Figures in parentheses show decrease.

Tokyo Office  
4/6/1973

Forecast of Balance of International Payments

(Japan Economic Research Center)

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

Note: IMF basis.

( ) deficits.

\* Include SDR allocation worth \$160 million.

## OFFICE MEMORANDUM

TO: File  
DATE: March 1, 1973

FROM: A. Soejima *3*

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

Re: Japanese Aid to Indochina Reconstruction

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APR 08 2013

WBG ARCHIVES

STRICTLY CONFIDENTIAL

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

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

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



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

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

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

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

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

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

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

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

April 12, 1973

JAPANESE PROFESSIONAL STAFF IN THE WORLD BANK GROUP

1. The number of Japanese nationals on the professional staff of the Bank Group (IBRD/IDA and IFC) increased from 15 in October 1969 to 28 in March 1973; their proportion of the total professional staff increased from 1.4% to 1.6% in the same period.

2. Analysis of Bank Group professional staff by level of responsibility shows that 2 Japanese nationals (for names and titles see Attachment I) now hold positions at levels of Department Head and above (X level) and 3 Japanese nationals hold lower managerial or other senior staff positions (A and B levels). Among X level staff, Japanese represent 1.6% of the total, compared with 4.9% for French, 7.3% for German, 13.8% for U.K., and 42.3% for U.S. nationals. As a percentage of total A and B level staff, Japanese nationals are 0.7%, French nationals were 5.0%, German nationals 5.7%, U.K. nationals 19.2% and U.S. nationals 28.5%.

3. Since November 1969, the Bank Group has recruited 27 Japanese nationals, 14 have left the organization; 5 so far in FY73, compared with 4 in FY72, 3 in FY71 and 2 in FY70 (Attachment II).

The reasons for the resignations of the 14 Japanese nationals are:

return to private or public organizations in home country,	5
inadequate performance and encouraged to leave the Bank Group,	5
expiry of fixed-term appointment,	2
further study,	1
death,	1

4. Although some progress has been made in bringing Japanese nationals into the Bank staff, Japan essentially remains a difficult country from which to recruit:

--Despite a number of recruitment missions and other efforts, there remains a substantial lack of information on the Bank's activities. A

solution for this suggested by the Japanese is for regular, periodic missions by the same senior officers to Japan for intensive recruitment activities, i.e., interviewing, seminars, etc. It is also felt that our newly revised job descriptions are more explicit in outlining the jobs and their requirements and will thus be helpful in making known the exact nature of the work to be done at the Bank and the qualifications we seek.

--The deeply rooted career system whereby individuals serve only one employer throughout their working life makes qualified Japanese, particularly the more senior individuals, extremely reluctant to leave the security of their work for an alien environment. This is best overcome when the employer is convinced enough of the mutual benefits to be derived from a Bank assignment to give explicit consent and even persuasion to the individual. This shortcoming is recognized by the Japanese Government and, in acknowledgment of it, the DIET has recently enacted legislation to permit civil servants to join the Bank on leave without pay status for three to five years without loss of seniority or service credits. This is a major step forward and should aid our recruitment efforts in Japan in the future...providing the all-important personnel authorities cooperate with the idea.

--Reasonable fluency in English is a continuing problem, particularly among older and more experienced potential candidates. The Bank works closely with newly recruited Japanese to assist them in obtaining fluency in English through language classes, but the results have been mixed.

--Experience has shown that Japanese do not adapt easily to thinking in international terms even when placed in the Bank environment. This is a generalization, but it nevertheless is a factor considered by supervisors in reviewing the applications of individual Japanese candidates.

--The traditional Japanese approach to work involving team effort and close supervision is at odds with the Bank's work methods. Some Japanese have found the transition to be very difficult and their effectiveness has been limited accordingly.

--In Japan the career development of technical individuals tends to remain within the specialization, often very narrow, rather than leading to managerial type posts. This is a severe restriction as far as the Bank is concerned as many potentially good sectoral engineers (for example) are never exposed to policy matters and considerations.

--Status consciousness has proven to be a negative factor in recruitment where a Japanese has rejected a post offered by the Bank due to the designation and hierarchical location of the post itself.

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During recent mission (January) of R.A. Clarke and S. Han, full understanding was reached with Ministry of Finance and Mr. Soejima on procedures to be followed in improving recruitment. Extensive promotional activities were undertaken in both public and private sectors.

## ATTACHMENT I

WORLD BANK GROUP  
PROFESSIONAL JAPANESE NATIONALS

	<u>October 31, 1969</u>			<u>March 31, 1973</u>		
	<u>Total WBG</u>	<u>Total Japanese</u>	<u>%</u>	<u>Total WBG</u>	<u>Total Japanese</u>	<u>%</u>
X	95	-	-	121	2	1.7
A & B	249	1	0.4	444	3	0.7
C, D & E	745	14	1.9	1146	23	2.0
Ungraded	-	-	-	33	-	-
Totals	1089	15	1.4	1741	28	1.6

JAPANESE NATIONALS IN "X" LEVEL POSITIONS

HATTORI	Senior Advisor	Office of the Regional Vice President, West Africa
SOEJIMA	Director	Tokyo Office

## BANK GROUP RECRUITMENT AND DEPARTURES OF JAPANESE NATIONALS

	<u>Econo-</u> <u>mists</u>	<u>Loan/Opns</u> <u>&amp; Invest.</u> <u>Officers</u>	<u>Finan-</u> <u>cial</u> <u>Analysts</u>	<u>Tech-</u> <u>nical</u> <u>Splts</u>	<u>Others</u>	<u>TOTAL</u>
On duty 10/30/69	7	7	-	1	-	15
Recruited rest FY70	2	1	1	2	2	8
Left rest FY70	-	2	-	-	-	2
On duty 6/30/70	9	6	1	3	2	21
Recruited FY71	1	1	-	1	4	7
Left FY71	3	-	-	-	-	3
On duty 6/30/71	7	7	1	4	6	25
Recruited FY72	-	2	-	3	3	8
Left FY72	2	-	-	-	2	4
On duty 6/30/72	5	9	1	7	7	29
Recruited thru 3/73	-	2	-	-	2	4
Left through 3/73	1	3	-	-	1	5
On duty 3/31/73	4	8	1	7	8	28

PRIME MINISTER TANAKA'S

POLICY SPEECH

I will deliver my policy speech at the outset of the resumed 71st Diet Session. (reconvened January 26, 1973)

1. Diplomacy and Defense

The long-awaited peace has come to Vietnam with hope for tomorrow. This occasion is not only the settlement to the long-standing Vietnam dispute but the opening of a new chapter of peace.

The first day of a new age is opening and humanity is now beginning to move toward prosperity that will be attained on the basis of eternal peace and social justice.

A quarter of century has passed since World War II. During that period international politics witnessed the age of power confrontation and is now on the threshold of the age of dialogue and cooperation. This is a victory won by the wisdom of human beings who learned many lessons from experience in the tension and confusion.

After the war Japan took a policy of not settling international disputes by force under the unique pacifist Constitution. It maintained the three-point principle of non-nuclear armament--not to possess, not to produce and not to bring nuclear weapons into Japan--to become a peace-loving nation. This road that Japan has taken is right, I think.

Today, Japan has grown big economically. Japan should not remain a receiver of the favor of peace but it should positively participate in peace-creating efforts to fulfill its responsibility at this turning point in international politics and international economy.

To make the peace more positive I am planning to contribute to the international disarmament in nuclear and conventional weapons.

The North-South problem has loomed large after relaxation of the East-West tension. Real peace will not be attained unless the North-South problem is settled in a rational way by correcting the maldistribution of wealth.

A quarter of century ago, when Japan lost everything in the war, our country started from zero in restoring its economy. Since that time, the Japanese people have worked hard and Japan has grown so big as to be very influential in the international community after passing through the change of its national status from an Article 14 country into an Article 8 country of the IMF (International Monetary Fund).

Japan should use its economic and technological power to help developing countries in the South attain economic independence and social stability. This is required of Japan by the entire world and it is Japan's responsibility to the international community.

In terms of volume, Japan's economic aid has almost arrived at the international target level of 1 percent of its gross national product. However, the quality is below the average of that of OECD (Organization for Economic Cooperation and Development) nations.

The Government will exert utmost efforts in improving the quality of economic aid along the lines of the basic target disclosed at a meeting of Unctad (U. N. Conference on Trade and Development) and I hope the Japanese economic aid will be really helpful to receiving countries.

The urgent problem that confronts Japan today is how to contribute to the attainment of stable peace in Vietnam. Japan will make all possible efforts for the restoration and reconstruction of war-torn Indochina. I would like to consider the possibility of holding an international conference of Asian and Pacific basin nations with the aim of consolidating the peace.

The political situation in Asia is far more complicated than that in Europe and it is not easy to lay the groundwork for the new stability for the whole of Asia.

The Government has settled the long-pending issue of normalizing diplomatic relations with the People's Republic of China. The Government took the step because it thought that it would contribute to peace and stability in Asia.

The foundation of the Japan-China friendly relationship must be further consolidated in the spirit of mutual benefit and equality. The Government will soon send an ambassador to smooth the way for practical arrangements.

Another neighboring nation is the Soviet Union, with which the problem of concluding a peace treaty remains unsettled. Relations in the economic and cultural fields, however, have been steadily developing year after year.

Particularly, the Government will exert efforts to make significant for a long time for both Japan and the Soviet Union the economic cooperation extended in the development projects in Siberia.

Needless to say, the basic and practical ways to which the Government should pay attention in promoting dialogue with countries of different political principles and social systems and in participating in construction of a peaceful international society are, I think, to maintain friendly relations with free and democratic countries. Among



them the maintenance of the Japan-U. S. good relationship is of particular importance. This is what I have been insisting on since I took office.

In this connection I would like to touch upon the defense of Japan.

To maintain the necessary minimum defense power is the responsibility and obligation of an independent country in safeguarding peace and security. While maintaining defense power and the Japan-U. S. Security Treaty system the Government must combine solidly the following policies:

Deployment of active diplomacy for international cooperation, implementation of domestic policies for stability and enhancement of the people's livelihood both physically and mentally.

I would like to emphasize that Japan's peace and security would be guaranteed by the solid combination of the abovementioned policies.

U. S. Forces bases have been realigned and consolidated from 2,824 places of 20 years ago into the present 90 places. In addition, the realignment and consolidation of 10 bases, both in Japan's major islands and on Okinawa, was agreed on at the recent Japan-U. S. Security Consultative Committee meeting.

The base realignment and consolidation has covered the most important areas, socially and economically, for the people's life that is in the Kanto plain around the capital city of Tokyo and Naha City on Okinawa. This was very significant, I think.

The Government will continue to offer areas and facilities to the U. S. Forces if they are necessary for maintenance of Japan's independence and security.

At the same time, the Government will earnestly tackle base problems stemming from rapid urbanization. The Government will consider the realignment and consolidation of bases in such areas and take every possible step to avoid useless friction between the bases and the local people.

## 2. Rectification of the Imbalance in International Payments

Japan is now under heavy pressure to improve its balance of international payments. Japan is short of natural resources and a population of more than 100 million lives in a small territory. Japan's policy is to import raw materials from abroad and export manufactured goods with added value.

Promotion of external trade has been Japan's national policy which enabled this country to become the second economic power of the world

and accumulate nearly \$20 billion in foreign reserves and gold.

Japan, however, will not be able to obtain the understanding of the international community if it continues to increase its big surplus in international payments, and it may lose trust, the most important thing in the international community.

Because of this, Japan revalued the yen in December 1971 as part of the international currency realignment. In addition, the Government has made all-out efforts to readjust exports, expand imports, increase economic cooperation and convert the export-oriented economy to domestic economy.

At the last extraordinary Diet session a supplementary budget of ¥650 billion was compiled to carry out these policies although the budget met criticism for being "too big".

Despite these efforts the target was not attained. During the time, imports showed an increase but exports kept at their high level with the trade surplus now expected to reach \$8,900 million at the end of fiscal 1972, in March this year.

Under these circumstances there is a demand in some quarters that the yen should be revalued again. But another yen revaluation must be avoided by all means as the last currency realignment has not yet taken effect completely and another revaluation may have adverse effects on the Japanese economy.

Japan must make all-out efforts to avoid a situation that may hamper free trade because Japan's national policy depends on external trade.

Actually, the idea of protectionism is raising its head in international society. If such a situation develops it will become a big obstacle to the settlement to the North-South problem in a wide sense, and it will hamper the development of Japan's economy.

That is why Japan took a positive step to promote the Kennedy Round at the GATT (General Agreement on Tariffs and Trade) meeting and is now proposing a New International Round.

To rectify the balance in international payments is an urgent problem faced by Japan. Tariffs must be reduced and liberalization of imports and capital transaction must be further promoted to attain the target.

In Japan, some part of the industry may not be able to endure the liberalization. Still Government has to promote the liberalization policy by taking every possible step for protection of weak industries to attain the goal of rectification of the balance of international payments.

### 3. Enhancement of the People's Welfare

Japan has achieved amazing economic growth in the postwar days and its gross national product is arriving at the level of ¥100 trillion, 12 times as much as in 1955. The per capita national income has increased, reaching the neighborhood of the British standard.

The social welfare system is no worse than in developed nations in Western Europe. But its contents are still far from satisfactory. More steps must be taken to enrich the social welfare of the nation.

It is very difficult to settle all problems simultaneously. Under the new long-term economic plan the Government is studying the position that social welfare will occupy and will step up its content with a definite plan.

In the national budget draft for fiscal 1973 a total amount of ¥2,100 billion was earmarked for social welfare. This may still be far from ideal, but the Government has done its utmost.

The pension for married couples was raised to ¥10,000 a month. As to welfare and national pensions the so-called ¥50,000 pension system will start with an annual price increased rate being added.

The free medical treatment system for the aged will be expanded to cover people of 65 years of age or over confined to bed, and facilities for handicapped people will be consolidated.

The Government will also lay plans to raise public funds for research work and medical treatment of incurable diseases and strange maladies.

Priority will be given to what is most desired by the nation in spending public funds, shared by the whole nation, on the welfare policy. The Government is attempting to increase the area of public funds. Please understand this attitude of the Government.

Social welfare must be based on a united support by the nation and the prevailing distribution of the fruit of economic growth. I pledge myself to continue my efforts to broaden the social welfare system.

The Government will try to improve working conditions so that the working people might be able to do their jobs more easily. The Government will construct recreation villages in which the working people can spend their leisure time and provide them with leisure information.

### 4. Commodity Prices

With regard to the short-range policy to counter rising commodity

prices, the Government will try to expand imports. It will further reduce that tariff rate on goods which are closely related the daily life of the public.

The Government will promote import liberalization and expand import quotas.

To stabilize prices of fresh foods and other daily necessities, the Government has set aside a large portion of the budget for improving production and distribution.

It is also necessary to adjust the competitive conditions in order to establish fair prices by strict implementation of the Anti-Monopoly Law.

The Government will encourage a smooth flow of labor to industry by activating vocational training and helping the aged and female workers obtain better jobs.

As to long-range structural reform, the Government will try to raise efficiency of the low-production segments such as agriculture, small and medium enterprises and service industry. The Government has decided to establish a price stabilization bureau within the Economic Planning Agency for comprehensive promotion of the price stabilization policy.

#### 5. Land Issue

The land issue is the greatest single problem facing the Government. I will seek to have the land used by the public in a just and fair manner by establishing a "public welfare-first" principle within the Constitutional framework. This is the basic principle of the land policy.

Under this principle, the Government will:

- (a) Increase land supply by using the land in various ways
- (b) Work out a basic, nation wide program for the use of land
- (c) Create a regulation to compel a person who buys and sells land to report to Government offices
- (d) Advise the land dealers to suspend dealings if necessary
- (e) And restrict new land development.

As to the land the prefectural governors will designate, the Government will expand the regulation to compel the land dealers to report to Government offices when they buy and sell land, create a system to provide the local governments with the right to purchase land as well as the right to purchase of land from the land owners.

The Government will impose a heavy tax on the profit private corporations gain through land transactions and also create a special tax on land possession.

## 6. Environmental Protection

The prime target of politics of today is to ensure a healthy social environment and a beautiful natural environment.

It is necessary to remodel economic growth based on equipment investment by private corporations. Instead, the priority should be placed on equipment investment aimed at preventing environmental pollution as well as on investment in relocation of factories in densely populated cities to local districts.

For realization of the goal, the Government will carry out appropriate administrative guidance with the cooperation of financial authorities.

In order to reduce pollution in accordance with the principle to make those responsible for pollution pay the necessary expenditures, the Government will make further efforts to raise the environmental standard and improve the anti-pollution regulations. The Government will also exert efforts to develop technology to combat pollution as well as the technology for preventing pollution.

In development and introduction of new technology, the Government will re-check the technology lest it should damage man and nature.

The Government will submit a bill for creation of a system to guarantee compensation for injury suffered by victims of pollution.

The Government will establish a special "think tank" organization, jointly with private corporations, to help and cultivate effective research and development of the wide-range problems in modern society, including the environmental problem.

## 7. Comprehensive Development of Land

Thirty-three million people, 32 percent of the nation's total population, now live in an area as narrow as only one percent of the total land area.

It is quite natural that environmental pollution, high commodity prices and land shortages arise and become worse in this densely populated area.

To improve this situation and ensure that the public can lead a healthy and abundant life, it is necessary to build a comfortable society full of clean water, air and green leaves.

This is the real reason why I have proposed the Plan to Remodel the Japanese Archipelago.

The Government will carry out comprehensive policies including expansion of social capital centering on facilities to improve living conditions, and improvement of the educational and cultural environments.

The Government will consolidate the nation's traffic and communication networks, enforce nationwide relocation of industries and improve the local cities and the agricultural environment.

To accelerate the nationwide industrial relocation, the Government will provide the factories which plan to move to local districts with subsidies for improving facilities aimed at protecting the environment, low interest loans for the relocation fund and accelerated depreciation of tax.

The Government will provide those cities, towns and villages which will receive factories moving from the densely populated cities with subsidies for consolidation of parks and wooded areas. The sites of the relocated factories will be used for public purposes.

To enforce these policies, the Government has decided to establish a National Land Development Agency and a public corporation for national land development.

I want to stress that the Government will implement policies which will reflect the view of the local autonomy in the course of promoting comprehensive development of national land.

#### 8. National Railways, Medicare

The national railways are the nation's vital arteries for transportation of people and commodities. For topographical and geographical reasons, roads, railways and coastal shipping ought to be functionally integrated to ensure maximum efficiency of the whole transportation system.

The Japanese National Railways, despite their great managerial efforts, have incurred a whopping accumulated deficit of ¥1,200,000 million. Failure in keeping the JNR on a sound management basis will gravely affect the national life. Under the present circumstances, reconstruction of the JNR with its own rationalization efforts is impossible. The Government has launched a drastic financial assistance program for the national railways. Under this 10-year reconstruction program, a total of more than ¥1,500,000 million is scheduled to be disbursed, and subsidies will be extended to bear part of project costs and loan interests. All the money, of course, will come from the general accounts of the state budget. In other words, it is tax money. There is a limit to this financial resource, however,

As social welfare schemes and other urgent and indispensable projects

call for expanded expenditures, the Japanese National Railways cannot help but seek the cooperation of users in bearing the minimum portion of their financial burden. It is for this reason that the Japanese National Railways has proposed revised railway fares.

A drastic improvement is also needed in the health insurance scheme. In fiscal 1973, the Government intends to raise the ratio of insurance benefits to family members from the current 50 percent to 60 percent, and also to have the medicare system cover higher medical fees for family members. At the same time, the Government will disburse ¥80,000 million to help reduce the ¥280,000 million deficit accumulated by the medicare scheme. Such Government efforts for qualitative improvement will have to be accompanied by increased burdens on the part of beneficiaries.

#### 9. Education Problems

The importance of promoting education needs no explanation. A quarter century has already passed since the postwar reform of the educational system, but there is still much room for improvement. Constant efforts are required to have Japanese people respected and relied upon both at home and abroad. In view of the fact that human character tends to be molded at primary and secondary school ages, it is important and urgently necessary to improve the substance of compulsory education. Extension of the retirement age for principals of primary and secondary schools is one of the measures under study. To enable teachers to devote themselves to education, the Government has earmarked a bigger budget for their salaries. It is hoped that such efforts will produce welcome results in the future.

Universities are places of learning. Parents hope that their children will absorb advanced knowledge at universities. The reality, however, is that these universities are being disturbed by campus disputes. For this regrettable situation, the disruption of educational environment in big cities is one of the responsible factors. Excessive concentration of population in cities also tends to hamper the management of universities. That is why the Government has earmarked a budget in preparation for the dispersal of schools into localities with ideal surroundings.

#### 10. Conclusion

As mentioned before, the main political targets for this year are peace diplomacy, correction of disequilibrium in the international balance of payments, improvements of social security and living environment, stabilization of commodity prices and comprehensive development of national land. The Government is determined to do the utmost to carry out these tasks.

New policies must be implemented systematically and comprehensively

from a long-range standpoint and with popular understanding and support. The Government will show the direction of Japan's social and economic development and also the policies for the development in its new long-range economic plan.

Present-day society is now experiencing big and profound changes. A mountain of tasks are before us in this transitory period. I keenly felt both public expectations of and discontent with politics through the latest general election.

To build up a peaceful and humanitarian New Japan, we must reform the nation's industrial and economic structures boldly yet prudently without being fettered by old institutions and practices.

Creation of a new era is accompanied by great difficulties and travails. But I dare challenge these difficulties in earnest and determine and execute politics for the people, standing on the firm foundation of parliamentary democracy. And I am ready to take full responsibilities for whatever results may ensue. I ask all the Japanese people to speak up and participate in this historical challenge to carve a new future for our country

We have overcome a multitude of obstacles. The wisdom of the Japanese people and the viability of the Japanese economy have not weakened at all. I am fully confident that more than 100 million Japanese people will be able to open up a physically and mentally affluent era by joint efforts for peace and welfare. I solicit the understanding and support of all the people.



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

Question 106

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

Answer

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

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

Question

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

Answer

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

Reference

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

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

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△ decrease from the year before

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



FISCAL POLICY SPEECH BY

FINANCE MINISTER AIICHI

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

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

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

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

Promotion of People's Welfare

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

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

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

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

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

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

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

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

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

#### Stabilization of Commodity Prices

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

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

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

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

#### Promotion of International Cooperation

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

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

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

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

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

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

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

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

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

#### Monetary Policy

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

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

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

### Outlines of Fiscal 1973 Budget

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

Major features of the fiscal 1973 budget are as follow:

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

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

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

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

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

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

### Improvement of Social Welfare

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

Firstly, improvement of social welfare will be promoted.

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

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

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

Second in point is the improvement of social capital.

### Improvement of Social Capital Required

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

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

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

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

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

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

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

Fourthly, it comes to promotion of price control.

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

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

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

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

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

#### Promotion of Education, Science, Technology

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

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

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

Seventhly, overseas economic cooperation is being promoted.

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

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

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

Lastly, policies concerning local finance will be described.

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

#### Conclusion

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

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

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



FOREIGN POLICY SPEECH BY

FOREIGN MINISTER OHIRA

On the occasion of the opening of the 71st session of the National Diet, I wish to review the international situation surrounding our country and to express certain of my thoughts on the basic principles of Japan's foreign policy.

Within the past year or so, a detente between the United States and the People's Republic of China has become a reality. Between the United States and the Soviet Union, meanwhile, various agreements have been concluded in trade and other fields in addition to the accord on strategic arms limitation and concrete plans for cooperation in space and several other spheres are already under way. In Europe, East and West Germany have achieved a reconciliation, while new moves are in evidence toward the maintenance of peace by such means as the Conference on Security and Cooperation in Europe and talks for Mutual and Balanced Force Reduction.

In Vietnam, the persevering efforts of the parties concerned have finally brought about a ceasefire, extinguishing the flames of war in Asia for the first time since the end of World War II. Furthermore, in the Korean Peninsula, thus far marked by a typical state of cold war, a serious dialogue is under way between the north and the south with a view towards self-determined reunification. The recent diplomatic normalization between Japan and the People's Republic of China can also be said to have opened wide the way for further extensive dialogues in Asia.

Moves toward relaxation of tensions are thus observed in various forms transcending differences in political systems. In various parts of Asia, however, there remain deep-rooted sources of conflict deriving from ethnical, religious and political factors. Even after the Vietnam ceasefire, many developments and much time will still be needed before true stability can be established in the Indochina Peninsula. Meanwhile, in various parts of the world, there are peaces where domestic tension is rising on account of economic and various other difficulties. The situation in the Middle East continues unstable, while the dispute between China and the Soviet Union still shows no signs of easing.

Nevertheless, although such factors of uncertainty still exist here and there, it may be said that the trends of the world as a whole are shifting from confrontation to dialogues in quest of peace and also the insecurity of reliance on outside factors to the assurance of self-decision.

Fortunately, meanwhile, Japan has been able to build up its national strength since the end of the war since it has been outside the scope of any international conflict. As a result, it now finds itself in the position of fulfilling an appropriate role and responsibility as one of the principal pillars supporting peace and prosperity in the international community of nations.

In full awareness of such a position, the Japanese Government will conduct a responsible diplomacy with fresh ideas and a strong determination while consolidating the rapidly enlarged foundation of our country's diplomacy.

Toward this end, I should like to pursue the following as the principles of Japanese foreign policy.

Firstly, Japan will maintain its friendly relations with the United States as the keystone of its diplomacy. As for China and the Soviet Union, Japan will continue its efforts to further develop its ties with both countries. At the same time, it will promote moves in Asia toward a relaxation of tension and will unfold a positive diplomacy in the interests of consolidating and strengthening peace.

Secondly, the Government will carry out with great vigor various measures, both external and internal, for the purpose of contributing to the orderly development of international economy and smoothing our country's economic relations with other nations.

Thirdly, Japan will expand its assistance to the developing nations.

And fourthly, Japan will redouble its effort to promote its diplomacy in the cultural field.

I shall now state my views on the specific policies Japan should follow.

First, I should like to mention Japan's relationships with the nations in the Asia-Pacific region.

The relations between Japan and China have been making smooth progress since the establishment of diplomatic relations between the two countries. Private exchanges are being actively carried out, to say nothing of government-to-government contacts, further, deepening mutual understanding of each other's systems, practices and way of thinking. The Government will exchange ambassadors with China before long and conduct negotiations for the conclusion of, in good order, effective agreements governing various practical ties between the two nations and a treaty of peace and friendship.

As regards the Korean Peninsula, it is our hope that the relaxation

of tension in the area will be further expedited by a voluntary dialogue between the north and the south, and that the north-south relations will be improved in the direction of a peaceful unification. Japan will maintain its cooperative relations with the Republic of Korea in the hope that the nation will achieve a self-sustaining economy and stability of the people's livelihood. Meanwhile, Japan will gradually enlarge its contacts with North Korea, while exercising minute care.

Japan welcomes the successful conclusion of the Vietnam peace talks, which has paved the way for a durable peace in Indochina, and it is our fervent hope that true stability will be established in the area. To this end Japan will study various measures including rehabilitation and development programs of the region together with the nations concerned, not to speak of the Asian countries, and will make positive efforts to map out and implement such measures.

The problem of aid to refugees and war victims in Indochina requires urgent attention. Therefore, the Government has already taken budgetary measures to enable it to extend speedy assistance to these people.

In recent years, a desire for self-help and independent action through regional cooperation has been mounting markedly in Asia, as instanced by the moves of the nations belonging to the Association of South East Asian Nations (ASEAN). The Government highly regards the progress of such regional cooperation and intends to provide all possible support and cooperation.

In some Asian nations, meanwhile, apprehension is being voiced in some quarters that Japan's economic influence in these countries may become too great, and actually friction has already arisen in certain sectors. The Japanese Government for its part will, while strengthening the spiritual ties with the Asian peoples, intensify its efforts to promote economic cooperation and rectify the bilateral trade imbalance with the Asian nations, giving due consideration to their positions and interests from a long-range point of view.

In the Indian subcontinent, efforts to restore peace are going forward between the nations concerned, and the situation in the region is settling gradually. Japan also intends to offer appropriate cooperation for the economic independence of these countries.

Both Australia and New Zealand have over the years been seeking to strengthen their solidarity with the Asian nations, and in particular, they are attaching growing importance to their relations with our country. Canada, meanwhile, is also intensifying its relations with Japan and other Asian countries. Japan hopes to expand and strengthen its cooperative relationships with these nations in order to contribute together to peace and prosperity in the Asia-Pacific basin.

Next, I would like to refer to Japan's relationship with the United States.

The close relationship of friendship and cooperation with the United States not merely constitutes the keystone of our country's diplomacy, but should also serve as the foundation for any extensive, multilateral diplomacy which Japan may wish to carry out in a positive manner. Accordingly, in order to ensure unshakable mutual trust and to deepen mutual understanding between the two nations, Japan should promote broad contacts and continue unceasing dialogues not only between the Governments but also between the academic, economic, journalistic and other circles of the two countries, let alone the political and economic.

Needless to say, the biggest problem now pending between Japan and the United States is the rectification of a massive imbalance in the bilateral trade. The Government considers it imperative to take decisive measures in the field of external economy with the object of achieving a well-rounded equilibrium in our ordinary revenues and expenditures as well as a broad improvement in the balance of trade between Japan and the United States, not only for the sake of a sound development of the Japanese economy, but also to maintain and promote the friendly relations between our two countries.

The "Treaty of Mutual Cooperation and Security" between Japan and the United States is indispensable to safeguard the security and prosperity of our country. It also constitutes one of the prerequisites for the preservation of peace in Asia. Moreover, I think, the treaty has already become a strong bond which expresses in concrete terms the relationship of mutual trust and cooperation between Japan and the United States. The Government, therefore, deems it important to maintain the pact solidly without ill-considered revision or abrogation. At the same time, however, the Government is endeavoring positively, as is well known, for the consolidation and retrenchment of the United States military bases in Japan through negotiations with the American side in view of the progress of urbanization and other factors.

Meanwhile, the relations between Japan and the Soviet Union are making steady advance year after year, and the Japanese Government will continue its sincere efforts to develop these relations further. In particular, the Government will continue its study of various projects for the development of Siberian resources in the hope that they will be implemented in forms compatible with the long-range mutual interests of both nations.

To our great regret, however, the northern territorial issue pending between the two countries remains to be resolved. The Japanese Government will continue negotiations with the Soviet Union patiently in order to settle this problem and conclude a peace treaty between the two nations.

In Europe, the enlarged European Community was inaugurated in January this year, causing Europe to assume a still more important position in world politics and economy. Japan's trade with Europe has also markedly gained in intensity. Our country, therefore, will conduct a positive diplomacy in a multilateral way with a view to further cementing our relations with the West European nations centering on the European Community.

Meanwhile, Japan wishes to further develop its ties with the East European nations as well.

Japan's relations with the nations in Latin America, the Middle East and Africa are deemed bound to grow further mainly through trade, development of resources and economic cooperation parallel to the expansion of Japan's economic scale. The Government intends to promote its friendly relations with these countries extensively in the political and cultural as well as economic spheres.

Hopes are high that this year, the world's monetary and trade system will make still greater strides toward a reorganization of its framework. In the past, our country has tended to accept the framework of world economic as something given from outside. However, Japanese economy has already assumed such proportions as to influence the trend of world economy. In these circumstances, I consider it essential for Japan to adhere firmly to a stance of contributing positively to the construction of a better order in world economy and enjoying its own prosperity as part of the new order. Especially, it is a matter of utmost urgency that Japanese economy should achieve an external equilibrium within the next two or three years. It must be said that the excessive accumulation of Japan's trade surplus stems partly from the very structure of our economy itself. In order to rectify such structure, therefore, Japan should resolutely carry out measures to shift prime emphasis in Japanese economy to the promotion of public welfare. At the same time, I consider it important to step up such measures as the lowering of tariffs, a reduction and adjustment of non-tariff barriers, especially import curbs, and capital liberalization. Therefore, Japan wishes to do what it ought to and to right its own posture first of all, and to positively join and contribute to international negotiations such as talks for the reform of the world monetary system and a new round of multilateral talks for tariff cuts and removal of trade barriers.

The supply and demand of energy resources, especially petroleum, is becoming a problem of global significance. And this is all the more pressing an issue for Japan, which is short of natural resources. From a long-range point of view, the Government will continue to study various measures vigorously to cope with this problem, including international cooperation with the producer and consumer nations of resources.

I am convinced that Japan should promote its economic cooperation

← *meeting  
to discuss*

with developing nations for the primary purpose of contributing to their economic independence based on their self-help effort, and to the balanced evolution of their economy and society.

Toward this end, Japan has long been endeavoring to improve and expand development assistance, but the present condition of our aid cannot be termed satisfactory in many respects, such as the ratio of official development assistance to the gross national product (GNP), terms of aid and the ratio of grants.

*reference to Okura*

The Government must strive to boost the ratio of official development assistance to GNP up to the target of 0.7 percent as soon as possible. It must also endeavor for the untying of aid as well as the earliest possible implementation of improvement of aid terms while taking into due consideration international requests such as those expressed at the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). At the same time, Japan should also take such measures as the diversification of aid forms and the expansion of assistance for the social advance of developing nations. Furthermore, Japan will step up economic cooperation with not only the Asian nations but also the Latin American, Middle Eastern and African areas in ways befitting to their respective regional characteristics, while improving our country's foreign aid system itself.

Since the end of the war, Japan has consistently promoted cooperation with the United Nations as one of the main pillars of its diplomacy. In the meantime, the U. N. has grown to be a universal international body encompassing almost all nations in the world, while the scope of problems tackled by it has widened to such spheres as socio-economic development, improvement of the human environment, and development and use of space and the oceans. The Japanese Government intends to support and utilize the U. N. still more positively as one of the important arenas for the multilateral evolution of Japanese diplomacy expected in the years ahead. Partly from this point of view, the Government considers it necessary to have the world body strengthened in such a way as to fully reflect in both its structure and functions those changes which have occurred in the international community of nations over the past quarter of a century. Therefore, the Government will strive toward this goal. Especially, we deem it an urgent task for the present to contribute positively to accelerating disarmament, centering on nuclear weapons, through the Disarmament Commission and other forums.

Next, I should like to say few words on the promotion of our cultural diplomacy.

Thus far, the main emphasis of diplomacy has been laid upon the political and economic fields. But we must, from a broader point of view, step up our cultural exchange further with other nations, especially human interflow in a wide range of domains. Only by so doing

can Japan hope to nurture heart-to-heart ties with other nations, and at the same time, to contribute further to the interchange of man's intellectual and cultural assets.

From this point of view, the Government set up the "Japan Foundation" in October last year. It is a great pleasure that this has been greeted in other countries with much good will and expectations, and is now proving to be a stimulus for the revision of our country's image abroad. The Government will endeavor to enlarge and strengthen the Foundation so that Japan can promote a wide-ranging cultural exchange with other countries, centering on the interflow of persons and foreign studies of Japan.

I have reviewed the current state of international society and expressed my belief in regard to those measures which Japan should carry out in the field of diplomacy.

We must give deep thought to the fact that the preconditions for our country's subsistence lies, above all, in the peace and stability of the world. And we must unfold a responsible diplomacy with quiet courage, promote international cooperation step by step and elevate Japan's international reputation steadfastly, while using care not to err in the assessment and exercise of our own strength. This, I believe, should be the cardinal basis of Japanese diplomacy.

In closing, I should like to seek the understanding and support of the entire nation.

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

Mr. Chairman, distinguished colleagues, ladies and gentlemen:

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

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

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

Mr. Chairman,

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

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



none other than an attempt to promote it further.

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

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

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

Mr. Chairman,

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

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

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

Mr. Chairman,

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

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

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

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

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

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

Mr. Chairman,

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

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

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

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

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

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

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

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

Mr. Chairman,

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

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

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

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

Mr. Chairman,

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

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

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

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

Mr. Chairman,

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

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

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

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

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

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

Thank you, Mr. Chairman.

SPEECH BY ECONOMIC PLANNING AGENCY

DIRECTOR-GENERAL KOSAKA

I want to make clear the problems the Japanese economy faces and policies to cope with them so that the public can understand the situation and cooperate with the Government in tackling them together.

Recent Economic Situation and Tasks

The nation's economy, overcoming the ordeal of the wide margin re-valuation of the yen under a business recession, has been perking up since last year. Under the business pickup, however, our economy still faces another ordeal today, problems on how to curb the inflationary spiral which is reflected in land costs, stock prices and commodity transactions, how to reduce the large international balance of payments reserves which causes an easy flow of money on the domestic market, and more basically how to shift the socio-economic pattern to a welfare centered structure.

The Government is thinking of taking effective fiscal and monetary measures to enable the national economy to achieve an estimated 10 percent or a little higher economic growth rate in real terms for fiscal 1973 and setting the target of 1973's annual gross national product at around ¥110 trillion.

Stabilization of Commodity Prices

Consumer prices last year were comparatively stable. In recent months, however, wholesale prices have been increasing and they are apt to affect consumer prices. Therefore, the price trend should be kept under constant observation. The Government's estimated increase rate of consumer prices for fiscal 1973 is 5.5 percent.

This is not merely a forecast figure, but also the target of the Government's price policy which should be achieved with the nation's support.

The measure to be taken by the Government to stabilize the prices of daily necessities will include rationalization of the wholesale market system, increase of general food retail centers, establishment of large-scale refrigerating facilities and other improvements of the distribution system, and rationalization of production and prices of vegetables.

In addition, more efforts will be made to supply consumers with

cheaper imported goods by reducing tariff rates for livelihood quotas for them as well as by promoting the import liberalization program.

In regards to public utility charges, the Government plans to curb them to a minimum level in view of their effects on general commodity prices.

Taking into consideration the importance of land price problems, the Government will endeavor to stabilize land prices by taking following measures--mapping out a land utilization program, establishing a land transaction reporting system and controlling land development activities.

In general, the Government, is keeping close watch lest the national economy should become involved in spiraling inflation while operating fiscal and monetary measures.

The Government has decided to establish a price stabilization bureau within the Economic Planning Agency. The bureau will tackle price stabilization problems, while maintaining close contacts with ministries and agencies concerned.

#### Promotion of International Cooperation

More than a year has passed since the multilateral currency re-alignment came into force, but the international economic environment surrounding Japan is still severe. Imports have expanded with recovery of the domestic market conditions. Exports, affected by the international inflationary trend, are still bullish. Japan's international payments balance, therefore, remains at a considerably high level. More effort should be made to trim the balance toward equilibrium.

For that purpose, the Government, now concerned with expanding imports and holding exports to an optimum level, liberalize capital investment and promote overseas investment, is urged to make further efforts to implement these policies.

A new round of across-the-board tariff reductions will get under way within this year. Japan is taking a decided attitude toward achieving progress in world trade and closer international interchanges.

It is the duty of Japan to extend economic aid to developing countries, to an extent appropriate to Japan's economic power. The Government will endeavor to improve aid conditions such as untying assistance and other improvements in quality, while making efforts to expand, in quantity, the development aid on a governmental level.

Japan will also do its best to help rehabilitate and rebuild war-ravaged Indochina.

### New Path to Welfare State

The Government will decide, within days, on a new long-term economic program designed for amplification of national welfare and promotion of international cooperation.

This program, containing the future direction of the national socio-economic development scheme covering the period of five years starting in April 1973, is aimed at shifting the national economic policies from the past production and export-oriented pattern to one that is welfare-oriented.

### Conclusion

The history of our national economy over the past quarter century has been one of growth. The nation's high caliber and vigorous energy enabled this achievement.

Our 100 million people worked hard, competed and achieved today's prosperity. While attaining rapid growth on one hand, however, today we have various distortions such as pollution, over-population and excessive population scarcity, and frictions on overseas markets on the other hand.

I think we will have to switch the "philosophy of competition in poverty", to which the generations in the past resorted, to the "philosophy of harmony and affluence in common."

We will have to keep our exports in order, to expand imports and to extend expanded economic aid and to pay due attention to overseas reactions. At the same time, we will have to shift our economy from the current pattern of equipment investment competition and disposal to a saving-type economy in which there is no easy waste and no pollution.

An idea of more human respect should also be established, I think.

Only through such revolutions of consciousness can we materialize a high-level welfare society and contribute to the peace and prosperity of Asia and the world.

To build a truly rich and beneficial society, the Government will do its best. At the same time, the nation is requested to ponder what it should do in seeking happiness and to tackle its part of the hardships the state confronts today.



H

NHK and "Studio 102"

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

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

"Studio 102", broadcast from 7:35 a.m. to 8:12 a.m. daily, is a live news show. It takes up the day's events or the latest topics and presents them in the form of a commentary, inserting talks by the principals concerned with such events or topics. The program enjoys one of the highest ratings (30% in the cities and 20% nationwide).

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

POSSIBLE POINTS TO BE MADE IN REPLY TO QUESTIONS SUBMITTED BY NHK FOR TV INTERVIEW

1. *Could you briefly explain the purposes of your visit to Japan at this time?*

- a) Japan's increasingly important role in the Bank: in 20 years it has moved from being one of the Bank's largest borrowers to being one of its largest lenders. Between 1953 and 1966 Japan received 31 World Bank loans, totaling ¥ 257 billion. In addition we have made 5 public issues in the Japanese capital market for a total of ¥ 78 billion, and one private placement for ¥ 10 billion. In February of this year we signed what amounts to the largest single borrowing we have ever negotiated with a member country: a line of credit for ¥ 135 billion.
- b) Japan has now its own exclusive Executive Director on the Board (which only 5 other countries out of the 122 country membership have).
- c) Mr. Okita's indication that the Government wishes to make greater efforts to increase its ODA [now only .23% of GNP].
- d) I will be discussing these and related matters [the 4th Replenishment] with Japanese officials.

2. *What are your views and opinions on problems of development, what are the major obstacles and what is your philosophy on assisting the developing countries?*

- a) Development is one of the central historical movements of our time: if we all take the requisite action, the technological and financial means are available to arrest a wholly unacceptable and degrading level of poverty that stunts the lives of hundreds of millions of individual human beings in some 100 nations of the world.

b) The Litany:

Hunger and malnutrition: a third to a half of all human beings.

Infant mortality: 20 to 25% of children in the developing world die before age 5. Millions who survive are physically and mentally damaged.

Life-expectancy: On the average, those in rich countries live 20 years longer than those in poor countries.

Illiteracy: 800 million adult illiterates -- 100 million more than 20 years ago. In a technological era this is an increasingly severe handicap.

Unemployment: 20 to 25% in many developing countries; in urban centers the population is growing twice as fast as the number of jobs.

- c) Development is the *right* thing to do [the moral argument]; it is the *rational* thing to do [the frustrations born of human deprivation decrease the likelihood of political stability]; and it is the *rewarding* thing to do [greater trade, more numerous and more creditworthy customers].
- d) Major obstacles to development: lack of understanding on the part of the public and policy-makers in the wealthy world of three basic points: (1) the extent and severity of human deprivation in the developing world; (2) the miniscule amount of ODA -- relative to the annual incremental wealth of the rich nations -- that is being made available to the poor nations; and (3) the fact that the poor nations are themselves financing 85% of their development out of their own scarce resources, and require only the critical 15% in foreign aid to bring their own sacrifices and efforts to fruition.
3. *We understand that since you assumed the Presidency of the World Bank, aid policy of the Bank has greatly changed. Could you explain to us how it has changed and what you are trying to achieve?*
- a) We were determined to do what we could to reverse the trend toward discouragement in international development that had begun to set in during the late 1960s. Thus we set out on a Five-Year Program in the World Bank.
- b) Details of the Five-Year Program. Doubling overall operations. Emphasis on new sectors, and different geographical areas. Tripling lending in education. Quadrupling in agriculture. Establishment of a Population Projects Department, as well as new departments for Industrial Projects, Urban Projects, Tourism Projects; an Environmental Office; an Operations Evaluation Unit; a new emphasis on comprehensive country economic reporting; more attention to the very poorest member countries (215 separate projects in the five-year period versus 158 in 1964-68 period); expansion of highly qualified international staff; increased borrowing (three and three-quarters times that of the earlier period) and greater liquidity (125% increase), without adversely affecting net income (30% higher).
- 4) *Could you elaborate your views on aid performance or social problems of the recipient countries?*
- a) Current state of development in most developing countries is unacceptable -- not because there has not been progress in overall average GNP growth terms [growth target of DD I achieved] -- but because the results of this growth are uneven and severely skewed, both as between various countries, and as between various groups within countries. There is serious maldistribution of income in most developing countries: the lowest 30 to 40% of the people -- hundreds of millions of them in the aggregate -- are virtually left out of the development process. [In 10 countries, with per capita incomes averaging \$275, the poorest 40% receive a per capita income of only \$80. In another 10 countries, with per capita incomes averaging \$145, the poorest 40% of the population receive a per capita income of only \$50.]

- b) Greatest single social problem in most developing countries is the population explosion. If not checked, this will eventually erode all other development progress. Problem is long-term, but manageable *provided* appropriate action is accelerated now. In this issue, delay and procrastination will be disasterous. [If an average of two children per couple is achieved in the developing countries by 2040, their present population of 2.6 billion will increase more than fivefold to nearly 14 billion. If it could be achieved two decades sooner -- by 2020 -- the ultimate size of the population in the developing countries would be reduced by over 4 billion -- a figure substantially higher than the world's *total* population today.
5. *What role do you expect the Japanese Government to play in the global effort to render assistance to the developing countries?*
- a) Of course it is for the Japanese people and government to decide their own role, but there are indications that Japan is entering into a new phase of its development philosophy.
- b) In the past, the vast bulk of Japan's official and private capital flows to the developing countries has been on hard terms in the form of export credits and direct investments. The component of ODA has been low -- beneath the average of DAC countries. Mr. Okita has indicated that the government would like to reach the ODA target of .7% of GNP by 1980.
- c) This makes good sense given the fact that:
- (1) More than 40% of Japan's trade is with developing countries.
  - (2) Japan is dependent on a number of developing countries for essential raw materials.
  - (3) A reasonable degree of social and political stability in the developing world is unlikely if the frustrations of poverty continue to mount.
  - (4) As developing countries improve their economies, they will become keener and more creditworthy customers of Japanese goods.
  - (5) And perhaps most important of all, no wealthy country -- Japan included -- can prosper in a world of tomorrow which becomes dangerously warped by the extremities of opulence and deprivation on a massive scale. The quality of life will diminish for all in that situation.
6. *In a society like Japan where lifetime employment is the rule, change of careers you made twice in the past -- joining the Defense Department from business circles and then joining the World Bank -- have been very impressive. What are the underlying reasons for the changes and what is your philosophy in respect to shifts in life?*
- a) In point of fact, I am now in my fifth career: accountant, teacher, industrial manager, government official, and now international civil servant. I've found all these positions challenging, but none more so than my present one.
- b) What makes international development particularly satisfying is that whatever progress one can help bring about will improve the quality of life not only for hundreds of millions of individuals in our own era, but will contribute to building a more decent and secure future for generations to come.

NIHON KISHA CLUB  
(Japan Press Club)

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

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

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

Its management are the following people:

Managing Director

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

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

Director

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

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

Director

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

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

Director

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

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

Director

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

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

Deputy Secretary-General

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





## OFFICE MEMORANDUM

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

TO: Mr. Robert S. McNamara

FROM: Aritoshi Soejima

SUBJECT: Japanese Position for IDA IV Replenishment

DATE: April 18, 1973

Letter No. 82

**DECLASSIFIED**

**APR 08 2013**

**WBG ARCHIVES**

You will be seeing the Minister of Finance, the Prime Minister and Foreign Minister in the order mentioned on Thursday, April 19, 1973.

When you meet the Finance Minister, I suggest that you explain to him the difficulty the IDA is facing, particularly with the predicted reduction of the US share and then ask the Finance Minister for his special consideration on a substantial increase in Japan's share by pointing out the tremendous economic growth during the past years which made Japan's share in the third replenishment disproportionately low compared to her share in the total GNP of the Part I countries. You should also mention that a substantial increase in Japan's share is crucial for reaching the agreement on the Fourth replenishment.

After the above, you could expect Finance Minister Aichi to tell you the final Japanese position on IDA, which was telexed to you on April 14. He may raise you a question whether with this final Japanese stand you can persuade the U.S., thus leading to the final agreement among the member countries. The Finance Minister would also want to know the latest development on the US stand on the IDA IV, with a particular reference to your talk with Secretary Schultz.

In your meetings with the Prime Minister and Foreign Minister that will follow, I suggest that you express your appreciation for the final Japanese proposal made by the Finance Minister earlier.

cc: Sir Denis Rickett

*President has seen*

Japanese Final Position of Her Share of IDA IV Replenishment

<u>Total Level</u>	<u>Japanese Contribution</u>	<u>Japanese Share of the Total</u>
1. 1.5 billion Smithsonian dollar (1,667 million current dollar)	162.7 million current dollar (43,197 million yen $\frac{1}{}$ )	9.76%
2. 1.5 billion current dollar	"	10.85%
3. 1,479 million current dollar	"	11.00%
4. 1.4 billion current dollar	154.0 million current dollar (40,887 million yen $\frac{1}{}$ )	11.00%

Note:  $\frac{1}{}$  Calculated at current \$1 = ¥265.5, exchange rate as of April 10, 1973.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
FROM: Aritoshi Soejima  
SUBJECT: Recent Political Situation of Japan

DATE: April 18, 1973  
Letter No. 86

STRICTLY CONFIDENTIAL

**DECLASSIFIED**

**APR 08 2013**

**WBG ARCHIVES**

During the first several months after he was nominated as the Prime Minister last July, Mr. Tanaka enjoyed a tremendously high popularity not only among the Japanese public but also among the usually critical journalists. This was attributed to his unique career with only an elementary education in contrast to all of his predecessors who were the Tokyo University Graduates and of a bureaucratic origin. Also, after the 7 years and 7 months tenure of Mr. Sato, the Japanese public wanted a change and the image of Tanaka, young, vigorous and self-made, was totally new and seemingly promised a change to many Japanese. The opinions of the Japanese press which are normally critical to all conservative politicians showed an unusually favorable attitude to Mr. Tanaka. And his popularity reached its summit when he normalized the Sino-Japanese relationship at an lightening speed.

However, with the formation of the second Tanaka cabinet in December 1972 as a turning point, his popularity started to show a downward trend. One reason for the declining popularity was the appointment of very senior people to his second cabinet. Although he had appointed very senior Diet members in his first cabinet posts, (as you witnessed with the former Finance Minister Ueki), it was more or less excused as a return favoritism for their support of his election as the President of the Liberal Democratic Party. However, unlike the general expectation that Mr. Tanaka would rejuvenate his second cabinet members by appointing much younger generation, the age-level of the second cabinet members did not improve much.

Another factor causing for the dwindling popularity was the result of the general election of last December in which the LDP lost some 20 seats and the leftist opposition parties upsurged at the expense of the moderates. (Within the LDP there was an increase in Tanaka's faction as well as his collaborators' factions at the expense of Mr. Fukuda's faction, though the latter still leads the largest faction in the party.) This has made the political stands of the LDP somewhat unstable, although they still lead a comfortable majority in the House of Representatives. But it is predicted that in the next election of the House of Councilors in July 1974, the LDP may lose the majority seats for the first time since the end of the World War II.

**President has seen**

April 18, 1973

The third factor attributing to the decreasing popularity of Mr. Tanaka is the obvious speculative investments in stocks, land, bulk commodities such as lumber, cement, soy beans, etc. that many of the large corporations and financial institutions are making with their excessive liquidity. The increase in land price, particularly, was accelerated by Mr. Tanaka's own idea to remodel Japan. With the "inexcusable" inflation, the press are now as critical of Mr. Tanaka as they had been of Mr. Sato.

Further, Mr. Tanaka has been personally attacked in the Diet for his personal affairs and for his extravagant affluence, etc. The younger LDP members who had enthusiastically supported Mr. Tanaka are growing very sceptic and some view that his political life may not last too long.

Above all, Mr. Tanaka is having a difficult time with the Diet in pushing through the legislation, because of the stronger opposition parties which formed a united front. The 1973 Budget passed the Diet on April 12 after a 12-days delay. The Government is expected to face even more difficult time in passing other budget-related legislations, such as an increase in national railway fares and social security payments. Mr. Tanaka is also determined to pass a bill which will modify the electoral districts before the House of Councilors election in July 1974 with the aim of preventing the loss of majority seats for the LDP.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
FROM: Aritoshi Soejima  
SUBJECT: Sixth Public Issue

DATE: April 18, 1973  
Letter No. 83

When Mr. Aldewereld visited Japan last November to discuss with the Japanese authorities and underwriters our borrowing program for the calendar 1973, it was agreed that the Bank would come to the market three times this year (6th issue in April, 7th issue sometime in summer and 8th issue late this year) if the market situation permits.

As far as the 6th issue is concerned, therefore, it is already on the schedule of the Bond Issuing Committee but because of the possible upward revision of the issuing conditions of various bonds including government and government guaranteed bonds, we have been waiting for the green light from the Government authorities at this moment. Now, it is likely that the upward revision of various government bonds will take place in May and that the authorities will give us the "go ahead" signal in June or July.

On the other hand, the interest rate in the secondary market has gone up substantially during the past few months from a little below 7.00% to almost 7.60% for 10 to 15 years money. The conditions for our next issue will therefore be at least 30 basis points, if not 50 basis points, higher than those of our 5th issue; 7% coupon rate at par for 15 years.

I would like to point out here the special importance the 6th issue has for the development of the Japanese capital market. As you know, the interest rate in Japan had gone down tremendously from the time we floated our first issue until early this year so that the capital market of Japan was able to develop at a fast pace and our bonds played a leading role for this development. Until our first issue, there had been no public issue in the genuine sense of the word in the Japanese capital market, since 90% of the bonds were de facto placed with commercial banks. This custom was broken when we floated our first issue with the real market rate. This was welcomed by the government authorities, BOJ and financial circle in Japan. With the increasing interest rate, those concerned are afraid that there is a danger that the situation may go back to what they had been pre-IBRD first public issue, and they strongly expect that the World Bank will float the 6th issue based on the market force, even when the interest rate is moving upward, so that other issuers can follow.

President has seen

April 18, 1973

Also, a postponement of the 6th issue because of the relatively high cost of borrowing in Japan compared to other alternative in other market will put the Bank of Japan in a difficult position, since at the time of the BOJ credit line agreement was concluded, they asked for our guarantee that this credit line would not be an obstacle to our public issue. Otherwise, the Bank of Japan would strongly be blamed to be responsible for the prevention of the public issues.

Another problem is that our first private placement was done in February this year on the understanding that it would not be a substitute for the public issue.

In conclusion, I would like to urge strongly that the Bank would consider the issuance of the 6th issue at the earliest chance after the end of the fiscal year 1973, even though the cost may be higher than other alternatives for the above reason. Needless to say, my proposal will only apply to the 6th issue and from 7th issue on, we need not take the above situation into consideration.

AS:mm

cc: Mr. Aldewereld  
Mr. Rotberg

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara ✓  
Mr. S. Aldewereld

FROM: Eugene H. Rotberg *EHR*

SUBJECT: Briefing Paper: Japanese Capital Market

DATE: April 12, 1973

This memorandum summarizes the structure of the Japanese capital market, current capital market conditions, and its potential for future Bank operations. A separate Annex following this memorandum describes IBRD borrowing operations conducted to date in Japan with accompanying tables.

It may be useful to set forth some general observations concerning the Japanese capital market. There does not exist in Japan a broad-based institutional or public secondary market (either on the Stock Exchanges or in the over-the-counter market) for Corporate or Government bonds. This is not to say that there is no absorptive capacity for the distribution and sale of new fixed interest securities. Rather, it is the pricing mechanism for new issues which is relatively unsophisticated, or more accurately inflexible.

Until the World Bank marketed its bonds, virtually all bond issues were placed substantially with commercial banks who held the bonds in portfolio or hypothecated them with The Bank of Japan. New issue terms and conditions for bonds were and are set in much the same way as the discount rate or reserve requirements, i.e. according to government monetary policy and tempered by the need for and availability of resources. Given relatively few buyers of bonds, and minimal trading in the secondary market, there was little alternative. In part, the decision to permit the World Bank to offer its bonds "publicly" was prompted by (a) a desire to develop a secondary market and thereby a pricing mechanism for new fixed interest obligations; and (b) to attract a new source of funds for fixed interest securities - the customers of the Japanese securities firms. Prior to that time securities firms customers almost exclusively invested in the stock market or in investment trusts. A lasting "distribution" system to customers of securities firms (who were accustomed to immediate liquidity on their investments) required an active and free secondary market.

The experiment is still a new one. To date few bonds have been actually sold to the investing public because of the large portion placed with commercial banks. New issue conditions currently bear little relationship to secondary market quotations. Thus, new high grade corporate securities are issued at about 7%, though secondary market quotations reflect yields of 7.40% and actual transactions typically take place at even higher yields. It is therefore becoming increasingly difficult for Japanese underwriters to place successfully new bond issues in the market. As a result, there may be a tendency for corporations to revert to borrowing from banks for their resources if their new issues cannot be absorbed in the market below the secondary market yields. The financial community attempted to raise the new issue rates in March, but were unsuccessful. In April, however, the new issues yields were raised for corporate bonds but they remain below the secondary market yields.

Mr. McNamara  
Mr. Aldewereld

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April 12, 1973

The listing of our bonds, effective April 2, 1973, is part of the emerging picture. The listing and subsequent trading is expected to provide a benchmark for the prevailing level of interest rates for high quality obligations. Because our bonds were distributed across a broad cross-section of individual investors, financial institutions and commercial banks, it is expected that a diverse and broad market will develop. Over 8,000 individuals have bought each of our bond issues; a reasonable amount of trading therefore can be expected when these bonds are listed. The resulting quotations, the Japanese authorities believe, can then be used as a benchmark for the pricing of our bonds, and even for government or other bonds in the public sector. Because of the method of distributing government bonds, they are not appropriate vehicles to use in developing a valid secondary market.

Japanese investors, unlike those in Germany and Switzerland, have substantial holdings in common stocks. (The Tokyo Stock Exchange volume is approximately 50% of the NYSE and five times the volume of the German Stock Exchanges.) In the last year many common stocks have doubled in price in Japan and individuals as well as financial institutions who held the "blue chip" Japanese securities have made profits between 50-75% over the last year. In addition, Japanese financial institutions and individuals can purchase bank debentures with a 5-year maturity at a 6.8% yield. Further, the budget is highly expansionary, monetary policy is increasingly tight; there is considerable loan demand in recent months and reserve requirements for banks have increased twice this year, most recently on March 16, and inflation is currently running at about a 6% annual rate. It is for these reasons that market commentators in Japan, e.g. Industrial Bank of Japan, do not consider unlikely an 8% interest rate on a 10-year bond. As pressures increase in the secondary market, new issue conditions will have to be revised to reflect market realities. Our next bond issue is likely to cost at least 7.60%.

The implicit danger, however, according to Government authorities, is that given that environment our bonds could sell below par (particularly if non-resident demand is inoperative). Japanese investors are not accustomed to seeing bonds trading below par and this may create, particularly in the Fall of 1973, some problems for the bond market. At that time there may be pressure to revert to the old system of having bonds placed directly with banks and to forego, temporarily, the attempt to establish a "Western style" broad-based bond market. Mr. Soejima, however, believes that the Japanese investors will support the new bond market after they become accustomed to an active trading market in which prices in the secondary market fluctuate with interest rates. The dilemma, in my view, is that if the secondary market does become active, it will not be possible to float new issues at 25 basis points below those yields - the current situation.



Mr. McNamara  
Mr. Aldewereld

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April 12, 1973

In view of our almost exclusive visibility and access as a bond offeror, individuals and financial institutions could hold a disproportionate portion of World Bank bonds as compared to their holdings of other fixed term obligations. I recommend, therefore, that we do not plan to do more than two, or at most three, public issues in Japan each fiscal year until the market is opened further to other issuers. We should not market public issues too often and by so doing saturate the market, particularly during periods of rising interest rates where our "exclusivity" and visibility could become a disadvantage.

We should seek out private placements with the Japanese trust companies (and to some extent banks) who manage the corporate pension funds and who also have their own resources to invest, but should be cautious that we do not give the impression that we are "substituting" private placements for public issues since the Japanese authorities wish us to develop the public capital market.

There are two other substantial sources of funds. Although there was an implication in recent months that the most recent line of credit from The Bank of Japan would be the last one (to be drawn down by February 1974), in a recent discussion with officials of BOJ they raised the possibility of still another line of credit after the drawdown of the current one, if their reserve position remained favorable. In this connection, the Japanese press has recently stated that The Bank of Japan may purchase U.S. dollar-denominated long term bonds (I believe that they now purchase intermediate term U.S. corporate bonds). If this is the case, it may be possible for us to borrow substantial amounts from The Bank of Japan in dollar-denominated obligations - similar to our initial loans from the Bundesbank. This of course could provide a partial response to our borrowers who are concerned about yen disbursements.

The Japanese of course have been requested to supply dollars by other institutions, which requests were not acceded to. They might find it difficult to make the IBRD an exception. Mr. Soejima feels that because of this, it is not probable that the BOJ would make a dollar-denominated loan to us. A dollar-denominated borrowing from BOJ would of course require U.S. Government approval but, since the funds remain in the U.S., there would be no unfavorable statistical balance of payments impact. I think, on balance, it is worth exploring the possibility of a dollar-denominated borrowing from BOJ through Mr. Soejima on a very informal basis with BOJ officials.

Finally, there remains the possibility to tap the very large resources of the Japanese Government Trust Fund. These funds are managed in the Ministry of Finance and to date are invested solely in obligations, possibly also stock, issued by Japanese entities. Mr. Soejima may have discussed this matter with you previously.

I have not discussed in this note the development of the "Asian dollar" market in Tokyo and Hong Kong. Suffice to note at this point that an "Asian dollar" market is being developed extensively by Japanese institutions who

Mr. McNamara  
Mr. Aldewereld

- 4 -

April 12, 1973

are offering medium term dollar credit. It is similar to the Eurodollar market - and expensive. For various reasons it is not now an attractive vehicle vis-a-vis our alternative source of funds. We have prepared an analysis of the development and future of that market should you wish to see it.

Mr McNamara

The following is Mr Rotberg's proposal. Mr Aldewereld would prefer that you not raise it since it may evoke the wrong reaction. *4/12*

There is one other Bank matter - dealing with our borrowings - which may come up during your visit. Japanese Government authorities have asked on several occasions whether our borrowers have questioned or objected to the risk involved in their assuming yen obligations. I think they are concerned that they may be the subject of some criticism for making the yen available to us. The question has been raised, not in the context of "discriminatory" treatment among borrowers (which tends to be equalized over time), but rather in the context of the overall risk taken by our borrowers. The Japanese authorities appear satisfied with our rationale for continuing to borrow and disburse yen.

Nevertheless, there is one technique which might be employed to limit the risk on our borrowers - a procedure which would require the goodwill of the Japanese Government - namely, to permit Central Banks of member governments to whom we disburse yen to hold equivalent yen in their foreign exchange reserves. Up to this point, the Japanese Government has been reluctant to encourage yen foreign exchange reserves which could be used for speculative purposes. To avoid this very real concern, I would suggest a relatively simple variation on our disbursement procedure. At the present time when we receive a disbursement request to pay a British or German supplier we buy the sterling or DM from the Bank of England or the Bundesbank, respectively with yen. The yen, therefore, ends up in the hands of the Central Bank whose currency we are buying to pay the supplier. It may be possible, as an alternative, to convert the yen at the Central Bank of the borrower, say, the Bank of Mexico, and buy from them the required sterling or DM. The Bank of Mexico would thereby own yen and could hold it as a hedge against the obligations of the Mexican borrowers denominated in yen.

Under the present system, the Central Banks of the developed supplier countries own the yen - a substantial portion of which I assume is returned to Japan as part of exchange arrangements. If the Japanese Government were prepared to forgo exchange arrangements for yen in the hands of the developing world under the procedures outlined above, (the borrowing countries would agree to hold the yen only to the extent required to offset their obligations to us), we might arrange a simple and workable system to reduce the risk on borrowing countries. As I have indicated, the procedure would involve considerable goodwill on the part of Japan - which certainly has been forthcoming in many Bank/IDA areas. It might be useful to have Mr. Soejima discuss this matter on a very informal basis with The Bank of Japan in order to obtain their informal reaction. Essentially, it involves a shifting of the source of the foreign exchange conversion from the locus of the supplier to the locus of the borrower.

Attachments  
EHRotberg:emk

BANK OF JAPAN BORROWINGS

In recent years Japan has developed into one of the Bank's most important markets for raising funds. Attachment I lists all IBRD borrowing operations in Japan. The initial operations in Japan were done with the Bank of Japan (BOJ) and followed closely the pattern previously established with the Deutsche Bundesbank. In recent operations final maturities were extended from 4-1/2 to 7 years. The interest rate on the loans reflected the cost of government guaranteed bonds of comparable maturities at the time of each placement: the interest rate on our first operation in early 1970 was 7.14%. It rose to 7.43% on the subsequent loan, declined to 7.05% and declined further to 6.74% in July 1972.

The two most recent operations with the BOJ were large lines of credit totalling ¥ 235 billion to be drawn down within a year after commitment. Up to the present the Bank of Japan has made available to us inclusive of the ¥ 135 billion line of credit not yet drawn down, the following:

	¥ 392.0 billion	(US\$1,488 million equivalent at current rates)
of this amount	¥ 7.2 "	have been repaid which leaves
	¥ 384.8 "	(US\$1,460 million equivalent at current rates)

PUBLIC BOND ISSUES

In 1971 the Japanese authorities indicated their willingness to let foreign issuers raise funds in the Japanese bond market. This market had been the domain of the commercial banks who bought for their own account or for a few institutional clients without attracting any interest from the public. In order to overcome this specific problem and to assure a broader market, a few foreign borrowers were encouraged to set up arrangements more in line with other international markets. The World Bank selected the four largest underwriting firms to manage its issues. The role of the lead managers rotates among the four firms. Commencing with the first public issue in June 1971 we have offered to date five issues for a total of ¥ 78 billion and increased the size of the individual issues from ¥ 11 to ¥ 20 billion. The maturities were lengthened from 10 to 15 years and the average life extended from 9 or 11.9 years respectively. All issues were substantially oversubscribed (typically by as much as five times). Approximately one third of each issue was placed with banks, one third with institutional investors and one third with the general public with a slightly increasing trend for the last category. The government authorities showed their interest and support in all phases of these operations and helped considerably, for example, at the outset in response to our request to permit government instrumentalities to buy the bonds. During FY73 we have offered two public issues and one more issue is envisioned before June 30, 1973.

PRIVATE PLACEMENT

In February 1973 the Bank made a private placement of Yen notes for a total of ¥ 10 billion with 13 financial institutions. The placement was arranged by the Industrial Bank of Japan and Sumitomo Trust and Banking Company. The bonds were placed primarily in trust accounts.

LOAN SALES

Prior to the loans to the Bank, the Bank of Japan purchased from the Bank's loan portfolio in 1969 a total of \$162.2 million equivalent in maturities of up to five years from outstanding Japanese loans. In addition Japanese commercial banks, trust companies and other institutional investors purchased \$85.4 million equivalent over the years. All recent sales were participations in new loans. (For details see Attachment II).

March 22, 1973

IBRD BORROWING OPERATIONS IN JAPAN

	Amount (in ¥ Billions)
1. <u>Borrowings from Bank of Japan</u>	
7.14% Serial Obligations of 1970, due 1973-1975	36.0
7.14% Serial Obligations of 1970 (March issue) due 1973-75	36.0
7.43% Serial Obligations of 1971, due 1975-1976	36.0
7.43% Serial Obligations of 1971 (March Issue) due 1975-1976	36.0
7.43% Serial Obligations of 1971 (June Issue) due 1975-1976	7.0
7.24% Serial Obligations of 1971 (September Issue) due 1975-1976	6.0
Serial Obligations of 1972, due 1978-1979	
8 drawdowns: ¥ 10 b. @ 7.05%, ¥ 90 b. @ 6.74%	100.0
Serial Obligations of 1973 (no draw-down yet)	<u>135.0</u>
sub-total	<u>¥ 392.0</u>
2. <u>Public Issues</u>	
7-3/4% Japanese Yen Bonds of 1971, First Series, due 1977-1981	11.0
7-1/2% Japanese Yen Bonds of 1971, Second Series, due 1977-1981	12.0
7.40% Japanese Yen Bonds of 1972, Third Series, due 1978-1982	15.0
7% Japanese Yen Bonds of 1972, Fourth Series, due 1978-1987	20.0
7% Japanese Yen Bonds of 1972, Fifth Series, due 1978-1987	<u>20.0</u>
	<u>¥ 78.0</u>
3. <u>Private Placement</u>	
6.90% Japanese Yen Notes of 1973, Series, A, due 1979-1983	<u>10.0</u>
Total 1 - 3	<div style="text-align: right;"> <u>1850 million</u>  <u>¥ 480.0</u>            760            2250            2080            1270         </div>

March 22, 1973

LOAN SALES TO JAPANESE PURCHASERS

(as of March 16, 1973)

Amount Purchased:           \$247,640,384.75 equivalent  
Amount Repaid:               \$141,550,082.51 equivalent  
Amount Outstanding:        \$106,090,302.24 equivalent  
(Including funds not called)

I. Bank of Japan

Amount Purchased (1969):   \$162,161,000 equivalent  
Amount Repaid:               \$102,508,000 equivalent  
Amount Outstanding:         \$ 59,653,000 equivalent

II. Commercial banks (22)

Amount Purchased:           \$ 47,962,302.24 equivalent  
Amount Repaid:               \$ 1,525,000.00 equivalent  
Amount Outstanding:         \$ 46,437,302.24 equivalent  
(Including funds not called)

III. Others

Amount Purchased:           \$ 37,517,082.51 equivalent  
Amount Repaid:               \$ 37,517,082.51 equivalent

## INCOMING CABLE

DATE AND TIME  
OF CABLE: APRIL 13, 1973

LOG NO.: 1/TELEX/13

TO: INTBAFRAD

FROM: TOKYO

## ROUTING

ACTION COPY:	MR. MCNAMARA ✓
	MR. KNAPP
INFORMATION COPY:	MR. CARGILL
DECODED BY:	

TEXT:

C O N F I D E N T I A L**DECLASSIFIED****APR 08 2013****WBG ARCHIVES**

TWO FOR MCNAMARA.  
COPIES KNAPP/CARGILL.

SOEJIMA AND I DISCUSSED VIETNAM PROPOSAL AT SENIOR OFFICIAL LEVEL OF MOFA AND  
MOF. THEY WILL REPORT TO THEIR RESPECTIVE MINISTERS IN EXPECTATION THAT FOREIGN  
MINISTER WILL GIVE YOU CONSIDERED RESPONSE DURING YOUR MEETING WITH HIM NEXT WEEK.  
JAPANESE POSITION REMAINS BASICALLY AS REPORTED IN SOEJIMA'S CONFIDENTIAL MEMORANDUM  
DATED MARCH 1ST. HOWEVER, GOVERNMENT EVEN MORE CONCERNED NOW WITH REACTION OF  
PUBLIC AND DIET TO ANY SUGGESTION FOR ASSISTANCE THAT DOES NOT INCLUDE THE WHOLE  
OF INDOCHINA OR AT LEAST BOTH PARTS OF VIETNAM INCLUDING PRG AREA. HENCE  
PRELIMINARY REACTION OF OFFICIALS IN MOFA WAS THAT AN OFFICIAL MEETING SHOULD BE  
CALLED TO CONSIDER ASSISTANCE FOR THE COUNTRY AS A WHOLE AND PROPOSAL FOR FORMATION  
OF SEPARATE AID GROUP PUT TO GOVERNMENTS IN BOTH HANOI AND SAIGON. QUESTION OF  
INVITING PRG MUCH LESS CLEAR SINCE JAPAN DOES NOT RECOGNIZE IT AS A GOVERNMENT  
IN NORMAL SENSE AND IS ONLY CONCERNED WITH ASSISTING POPULATIONS THEY CONTROL.  
OFFICIALS CLEAR THAT RESPONSE OF NORTH LIKELY TO BE NEGATIVE WHICH WOULD PERMIT  
GROUP TO GO AHEAD FOR SOUTH ONLY. IT MIGHT BE CONSTITUTED FORMALLY AS A SUB-  
COMMITTEE FOR THAT COUNTRY LEAVING DOOR OPEN FOR EVENTUAL FORMATION OF SIMILAR  
SUBCOMMITTEE FOR NORTH AND ALSO FOR OTHER INDOCHINA COUNTRIES WHEN CONDITIONS RIPE.

FOR INFORMATION REGARDING INCOMING CABLES, PLEASE CALL THE COMMUNICATIONS SECTION, EXT. 2021

ORIGINAL

INCOMING CABLE

DATE AND TIME  
OF CABLE:

LOG NO.:

TO:

FROM:

Page 2

TEXT:

ROUTING

ACTION COPY:

INFORMATION  
COPY:

DECODED BY:

PRINCIPAL PURPOSE OF PRELIMINARY MEETING, WHICH WOULD TAKE PLACE WITHOUT REPRESENTATIVE OF ANY OF THE POTENTIAL BENEFICIARIES, WOULD BE TO EXPLORE ACCEPTABILITY OF SUCH PROPOSAL. IF OUTCOME AS PREDICTED THERE WOULD PROBABLY BE NO ADVERSE REACTION BY PUBLIC OPINION PROVIDED JAPAN MADE APPROPRIATE AMOUNT OF ASSISTANCE AVAILABLE TO NORTH ON BILATERAL BASIS. SOEJIMA AND I SEE NO PARTICULAR DIFFICULTY WITH THIS PROPOSAL WHICH MIGHT BE WELCOMED SOME OTHER BANK MEMBERS.

SECOND RESERVATION MADE BY OFFICIALS OF BOTH MINISTRIES WAS THAT JAPAN WOULD BE UNWILLING TO AGREE TO PARTICIPATE IN ANY COLLECTIVE EFFORT UNTIL US POSITION CLEAR. AS REPORTED IN SOEJIMA'S MEMORANDUM THEY STILL CONSIDER BALANCE OF PAYMENTS OR COMMODITY SUPPORT FOR SOUTH SHOULD BE CONTRIBUTED WHOLLY OR AT LEAST LARGELY BY U.S. QUESTION TO THIS EFFECT WILL BE PUT TO AMERICAN AMBASSADOR WHEN HE MAKES APPROACH INDICATED IN YOUR CONVERSATION WITH SECRETARY ROGERS.

MINISTRY OF FINANCE WARNED THAT ANY SUBSTANTIAL REPEAT SUBSTANTIAL USE OF IDA FUNDS AT LEAST IN IMMEDIATE FUTURE FOR SOUTH WILL HAVE ADVERSE EFFECT ON PASSAGE OF IDA LEGISLATION EARLY NEXT YEAR FOR WHICH OPPOSITION SUPPORT MIGHT OTHERWISE BE EXPECTED. THIS IS CONTRARY TO ADVICE PREVIOUSLY REPORTED TO YOU AND REPRESENTS HARDENING OF OPPOSITION ATTITUDE TO AID FOR SOUTH ALONE.



INCOMING CABLE

DATE AND TIME  
OF CABLE:

ROUTING

LOG NO.:

ACTION COPY:

TO:

INFORMATION  
COPY:

FROM:

DECODED BY:

Page 3

TEXT:

IN RESPONSE MY QUESTION OFFICIALS CONCERNED SAID THAT FINANCING OF MEKONG  
PROJECTS BY IDA WOULD NOT RAISE ANY DIFFICULTY. REGARDS.

GOODMAN

mlh

FOR INFORMATION REGARDING INCOMING CABLES, PLEASE CALL THE COMMUNICATIONS SECTION, EXT. 2021

ORIGINAL

OUTGOING WIRE

TO: PRESIDENT SHIRO INOUE  
ASIANBANK  
MANILA

DATE: APRIL 9, 1973

CLASS OF SERVICE: FULL RATE

COUNTRY: PHILIPPINES

TEXT: FOR PRESIDENT INOUE STOP AT OUR MEETING ON THURSDAY PRESIDENT THIEU  
Cable No.: ASKED THE WORLD BANK TO ORGANIZE A CONSULTATIVE GROUP WHICH WOULD  
COORDINATE BILATERAL AND MULTILATERAL AID FOR HIS COUNTRY STOP EYE  
REPLIED WE WOULD NOT WISH TO ORGANIZE SUCH A GROUP OTHER THAN IN  
PARTNERSHIP WITH THE ASIAN DEVELOPMENT BANK AND THEN ONLY IF A SUFFICIENT  
NUMBER OF OUR MEMBERS SHOWED INTEREST IN PARTICIPATING IN IT STOP  
PRESIDENT THIEU URGED ME TO START CONSULTATIONS IMMEDIATELY WITH OUR  
LEADING MEMBERS WHICH EYE AGREED TO DO STOP AS YOU KNOW GOODMAN IS  
LEAVING SHORTLY FOR ASIA AND WILL TALK WITH JAPANESE AUTHORITIES STOP  
HE ARRIVES MANILA APRIL 23 TO ATTEND YOUR ANNUAL MEETING AND WILL BE  
AT YOUR DISPOSAL FOR DISCUSSION OF OUR COOPERATION ON THIS MATTER STOP  
WARM REGARDS

MCNAMARA  
INTBAFRAD

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME Raymond J. Goodman

DEPT. East Asia and Pacific

SIGNATURE *[Handwritten Signature]*  
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: RSMcNamara/JBKnapp/RJGoodman/rf

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)

CLEARANCES AND COPY DISTRIBUTION:

cc: Messrs. McNamara  
Knapp ✓  
Cargill (o.r.)

For Use By Communications Section

Checked for Dispatch: \_\_\_\_\_

INCOMING CABLE

DATE AND TIME  
OF CABLE:

APRIL 10, 1973

LOG NO.:

18/TELEX/10

TO:

MCNAMARA INTBAFRAD

FROM:

MANILA

ROUTING

ACTION COPY:

MR. GOODMAN

MR. MCNAMARA

INFORMATION  
COPY:

MR. KNAPP ✓

MR. CARBILL

DECODED BY:

TEXT:

THANK YOU FOR YOUR TELEX DATED APRIL NINTH. MAY I TAKE THIS OPPORTUNITY  
TO EXPRESS TO YOU OUR SINCEREST APPRECIATION FOR THE KIND RECEPTION YOU  
HAVE SHOWN US AT YOUR HEADQUARTERS DURING OUR SHORT VISIT TO WASHINGTON.  
I AM HAPPY TO MEET MR. R. J. GOODMAN AT MY OFFICE ON TUESDAY APRIL TWENTYFOURTH  
AT NINETHIRTY A.M. WITH WARMEST PERSONAL REGARDS AND GOOD WISHES.

INOUE

ASIANBANK

nlh

INCOMING CABLE

LOG NO.135

RC41 ZCZC YW364 JRJ107 PTS396 LSA88

USWA HL JPTS 056

TOKYO 56 5 1743 - MARCH 5, 1973

RECEIVED

MAR 6 11 35 AM 1973

COMMUNICATIONS  
SECTION

Distribution

Mr. McNamara

LT

MR ROBERT MCNAMARA INTBAFRAD

WASHINGTONDC

RE YOUR CABLE MARCH ONE STOP I MUCH APPRECIATE YOUR INTEREST  
IN MYSELF BUT I PERSONALLY HOPE TO SEEK FUTURE CAREER IN  
PRIVATE SECTOR STOP IF SUCCESSFUL ANNOUNCEMENT PROBABLY LATE  
APRIL STOP WISHED TO HAVE INFORMED YOU DIRECTLY OF MY PLANS  
WHEN VISITING WASHINGTON EARLY JANUARY STOP KINDEST REGARDS  
KASHIWAGI

CONFIDENTIAL

MR. YUSUKE KASHIWAGI  
11-16 NISHIAZABU 1-CHOME  
MINATO KU  
TOKYO 106

DECLASSIFIED

APR 08 2013  
WBG ARCHIVES

FEBRUARY 29, 1973

LT

JAPAN

I WOULD LIKE VERY MUCH TO DISCUSS WITH YOU THE POSSIBILITY OF YOUR  
JOINING THE WORLD BANK AS A VICE PRESIDENT STOP I EXPECT TO BE IN  
JAPAN IN MID APRIL AND IN THE EVENT YOU ARE INTERESTED IN DISCUSSING  
SUCH A POSITION WE COULD DO SO THEN STOP IF YOUR PERSONAL CIRCUMSTANCES  
REQUIRED AN EARLIER DISCUSSION WE COULD TALK BY TELEPHONE STOP PLEASE  
LET ME KNOW YOUR PREFERENCE STOP BEST WISHES

MCMAMARA  
INTSAFRAD

Robert S. McNamara

RSM:bmm

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 16, 1973

FROM: S. Aldewereld, Vice President, Finance

SUBJECT: Borrowings in Japan

1. You asked me to refresh your memory as to what borrowing amounts you mentioned in your conversations with the Japanese on earlier occasions. As far as I know, no specific figure was mentioned at the last two annual meetings. But in the course of my frequent visits to Tokyo the Japanese and I were talking about market borrowings of approximately \$200 million a year (three times ¥20 billion). In line with this understanding, we originally intended to have three public issues of ¥20 billion in FY73, in addition to the ¥10 billion private placement. However, because of adverse market developments since February, the Japanese authorities suggested that we postpone the third public issue, first to May and more recently to July. As a result our FY73 market borrowings total ¥50 billion (\$162 million equivalent) and our total net borrowings in Japan, including drawdowns on the Bank of Japan lines of credit, amounted to ¥136 billion (\$442 million equivalent).

2. After I talked with you last week, I cabled Soejima indicating, with your concurrence, that we would prefer postponing a commitment on the timing of the next public issue, until the new borrowing program was approved on April 24 and until we had had time to consider the cost of alternative borrowing possibilities. Earlier, Soejima had advised that the cost of an issue in July would have to be of the order of 7.60%, compared to 7.23% for our previous public issue. Soejima replied that the Japanese authorities expected us to make our issue immediately after the upward revision of the interest rate, and that they attached great importance to this matter within the context of the development of their capital market.

3. With respect to how borrowings in Japan in FY74 would fit into our overall borrowing program, I gave you an overview of borrowing possibilities in FY74 in my March 30, 1973, memorandum. I indicated that the possibilities were substantially in excess of the \$1800 million gross program proposed in the financial policy memorandum. If the maturities of the two-year central bank bonds (\$371 million) and of borrowings from the Bundesbank (\$199 million) which we would expect to roll over, and the \$470 million undrawn balance of the line of credit are deducted from the \$1800 million, borrowing authority of \$760 million would be left. If we were to make one \$250 million issue in the U.S. and three ¥20 billion public issues in Japan (\$226 million equivalent), the remaining borrowing authority under the \$1800 million program would be \$284 million. Against this residual we would have to charge the various possibilities mentioned in my March 30 memorandum for borrowings in the Middle East, Germany, Switzerland and elsewhere as well as any increase in the amount of two-year bonds outstanding. Therefore, I suggest that you may not want to commit yourself to any specific amount to be raised through public

April 16, 1973

issues in Japan, especially in view of the possibility of their rising cost. If we were to raise three times ¥20 billion in the market and draw down the entire line of credit from the Bank of Japan, our total net borrowing in Japan in FY74 (allowing for repayments of ¥28 billion) would amount to ¥157 billion, equivalent to \$590 million. This amount appears excessive in view of the opportunities, possibly at lower cost, of which we may want to avail ourselves elsewhere.

4. As to borrowings in subsequent years, the financial policy paper shows net borrowings rising from \$1100 million in FY75 to \$1500 million in FY78. On that basis and with the pattern of borrowings planned in other countries in mind, I suggest that annual net borrowings in Japan from all sources of \$300 million equivalent (¥80 billion) would be a reasonable order of magnitude.

SA:mc