

Japan and the World Bank, 1951–1966: Japan as a Borrower (2)

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この調査研究は日本が世界銀行の借り手であった時代の経験を分析し記録しておくのを目的としている。ブレトンウッズ条約をもとに設立された IMF/ 世銀へ日本が 1951 年に加盟申請をして以来、1953 年の最初の借款から 1966 年の最後の借款迄の 13 年間に合計 31 件の案件を通して合計 863 億ドルの外貨を借り入れた話である。この小稿は二番目で日本が世銀からの最初の借款（1953 年 10 月）がなされた後、どのようにして小さな額の借款がなされ、又どのような経緯で世銀の貸し出し政策が 1957 年に変わったかの調査報告である。

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1. Introduction

I am publishing in this Journal, a series of papers on Japan's experiences as a borrower from the World Bank (WB) between 1951 and 1966, by reviewing reports published by the WB and the documents available at the IMF and the WB Archives. The purpose of the study is to record Japan's experiences as a borrower from the WB, and to qualitatively evaluate the relationship between Japan and the WB.

The entire series is periodically organized in the following order:

- a. Overview
- b. 1951–1953, From Applying for Membership and Joining the WB to Receiving the First Loan
- c. 1954–1957, Receiving Small Loans for Financing Foreign Exchange Expenditures
- d. 1958–1961, From Receiving Loans for Financing Foreign Exchange and Local Cost Expenditures to Becoming Ineligible for Bank Financing
- e. 1963–1965, Restarting the Receipt of Loans
- f. 1966, Graduating from Bank Borrowing
- g. Concluding Remarks

The first paper was published in October 2011 in this Journal.¹ It addressed the initial two themes mentioned above: an overview of Japan's borrowing from the WB and Japan's initial association with

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¹ *Journal of Asia-Pacific Studies*, No. 17, Institute of Asia-Pacific Studies, Waseda University, October 31, 2011 pp. 217–244. http://dspace.wul.waseda.ac.jp/dspace/bitstream/2065/35041/1/AjiaTaiheiyoTokyu_17_Abe.pdf.

the WB between 1951 and 1953. This paper, the second installment in the series deals with the third theme mentioned above, analyzing how Japan received small loans for financing foreign exchange expenditures during the period 1954–1957. The paper also covers the juncture when the WB dramatically changed its lending policy to Japan in 1957. That was when the WB not only decided to finance the foreign exchange expenditure component of its loans to Japan, but also local cost expenditures. This it did, after observing the rapid economic growth that Japan achieved especially between 1955 and 1957.

This article consists of three parts: (1) the reshaping of the WB's view on the Japanese economy, based on the impressive growth achieved during 1952 to 1957; (2) Japan's borrowing from the WB; and, (3) changes in WB's lending policy to Japan. Naturally these three subjects are not independent of themselves, and in fact they are closely interlinked. But for the purpose of ease of presentation, this work is divided into three parts. Annex 1 provides a summary of the all WB loans during the period under consideration, and Annex 2 is the summary of the WB's first supervision mission on the power companies, the beneficiaries of the first loans approved in October 1953.

2. The WB's View on the Japanese Economy

The WB closely reviewed Japan's reconstruction and development efforts through periodically visiting Japan and discussing economic issues with the Government officials and prominent business leaders. The WB's review of a country's economy is one of the most important tasks it carries out, in order to assess the country's economic and financial policy to further develop, and the amount of external debt a country can afford. The views on the economy are the basis for determining the WB's lending strategy and the amount that can be loaned to the country. Table 1 and Table 2 provide data on the Japanese economy for the years 1952–1956.

The first table below shows the rate at which the economy was adjusting/expanding year by year since 1952 and the second, the balance-of-payments. They clearly show the extraordinary turn of economic events: industrial production increased by 73% during the period, 1952–1956; national income, 34%; gross domestic capital formation, 62%; exports' value and volume, 97% and 125%, respectively; and, imports' value and volume, 57% and 88%, respectively. The price indices, wholesale and consumer prices, in Table 1 show rather stable yearly movements, though no doubt there were much more cyclical oscillations if one observes monthly or quarterly data.

The balance-of-payments statistics, in Table 2, for the same period shows the declining trend of deficits in merchandise balance, the increasing trend of deficits in other services mainly consisting of freight cost and insurance, and the declining trend in US military special procurements. The speed with which Japan achieved economic improvements was faster than the WB had expected, and this was reflected in the dramatic change in the tone of performance reviews. It is interesting to see these changes in a step-by-step manner, by reviewing each of the WB's Economic Reports and to observe the rapid increase in exports that was largely underestimated. Surprisingly, on the other hand there was neither a complementary increase in imports nor a large decrease in US military special procure-

Table 1. Economic Indicators for Japan 1953–1956

	Percentage Changes over Preceding Year				Percentage Change
	1953	1954	1955	1956	1952–56
Production					
Industrial Production	22.7	7.6	8.3	21.2	73.3
Real National Income	4.6	3.3	10.7	12.0	33.9
Per capita	3.0	2.4	9.1	10.9	27.5
Investment					
Gross Domestic Capital Formation	18.5	−11.9	24.7	25.8	62.2
Building Construction Starts (value)	28.2	9.2	−7.6	30.8	81.6
Funds Raised for Industrial Equipment—	57.8	−16.8	−30.5	125.2	105.7
Trade					
Exports - Values	0.1	27.8	23.4	24.4	96.5
- Volume	8.2	33.3	30.6	19.0	125.1
Imports - Values	18.3	−0.4	3.4	30.7	57.2
- Volume	35.9	3.6	5.1	26.8	88.3
Foreign Exchange					
- Reserves (Net)	−20.0	0.9	36.3	4.6	14.6
Money Supply & Prices					
Cash & Deposit Currency	13.9	3.5	2.6	14.7	38.7
Wholesale Prices	0.4	−0.7	−1.8	4.6	2.4
Consumer Prices	7.5	5.4	−1.4	1.0	12.8

Source: The Development and Prospects of Japan's Economy, July 25, 1957, the World Bank, Page 1.

Table 2. Summary of International Transactions, 1952–56 (in millions of US dollars)

	1952	1953	1954	1955	1956
A. Goods and Services					
Exports f.o.b.	1,289	1,258	1,611	2,006	2,458
Imports f.o.b.	1,701	2,050	2,040	2,061	2,602
Merchandise Balance	−413	−792	−429	−54	−144
Other Services	−151	−216	−223	−202	−380
Subtotal	−564	−1,008	−752	−256	−524
US Military Expenditure	788	803	602	505	493
War Reparations	—	—	—	−24	−18
Total Goods and Services	225	−205	−51	226	−48
B. Capital Transactions					
	−10	35	27	128	19
C. Errors and Omissions					
	1	2	13	−15	21
D. Changes in Foreign Reserves					
	+215	−168	+113	+339	+176

Source: The Development and Prospects of Japan's Economy, July 25, 1957, the World Bank. Page 8.

ments in Japan, which was one of the most important foreign exchange earners.

All though all the Economic Reports are available on the external home page of the WB, the Archives does not contain any documents relating to the discussions on the terms of reference of each

economic/sector mission, the basis for selecting economists for economic mission assignments, the process of finalizing the draft of the report within the WB and record of discussions between Japan and the WB. Due to the lack of information pertaining to the WB's policy analysis and its relationship with the borrower, it is impossible to assess the quality of the Reports. It therefore becomes difficult to judge the degree of understanding that the WB had on Japanese economic issues, and to know how influential these reports were on the policy changes that were implemented by the Japanese Government.

However, publically available reports have been adequate in assessing the WB's understanding of the Japanese economy. The relevant reports are the: Economic Chapters of "Japan Report of 1953 Mission" dated May 1954; "Recent Economic and Financial Developments in Japan" dated October 14, 1955; and "The Development and Prospects of Japan's Economy" dated July 25, 1957.² Before these reports can be analyzed, it is appropriate here to restate the conclusions of the first economic report published in June 1953.³ The main conclusions of the first report was that in the ensuing five years, Japan could make significant progress towards balancing her international accounts on a self-sustaining basis. However, it was estimated that a residual deficit of \$300 to \$400 would still likely remain in 1957. This deficit was to be met from the special US dollar disbursements or from some other similar source.

According to Japanese Government projections, this progress was plausible as well, considering its estimate that growth in exports would be 45% higher in 1957 than in 1951. But the Japanese government's estimates also suggested that there would be an increase in necessary imports resulting from population growth, but this would need to be restricted to about 20%. The WB at that juncture thought that these projections were too optimistic, moreover they were considered to be favoring expansion of exports and limiting import increases. In conclusion, the report anticipated that:

If allowance is made for repayment of the US debt, some reparation payments and overestimates of exports, it is likely that the 1957 deficit will be about US\$400 million. It is possible to reduce this amount if favorable development in raw material and foodstuff resources in the South-Asian countries and in world political conditions permitting trade with the mainland China. It also emphasized the importance of the continued availability of some sort of special procurement by US to balance payments deficit. (vide *Ibid.*, pp. i-iv and p. 71)

The next review of the Japanese economy was done in November–December 1953, six months after the publication of the first report. The mission's purposes were to survey economic developments, to update the information obtained during the first economic mission of 1952 and to discuss with the Government its economic problems and policies. In addition, the mission had another purpose, to re-

² Chapters 4 and 5 of Japan: Report of 1953 Mission, May 1954, the World Bank; Recent Economic and Financial Development, October 14, 1955, and The Development and Prospects of Japan's Economy, July 25, 1957, the World Bank.

³ Japan: Economic Report–Economic Situation and Prospects, June 30, 1953, the World Bank.

view certain important industries with a view of appraising their modernization programs and look into their investment needs. The mission's activities to do with the industrial development will be discussed in depth in the next section of this paper, *Japan's Borrowing*.

The economist assigned to review the macroeconomic situation was also a member of the first economic mission to Japan. This report was in due course published in May 1954. It is interesting to note that this report had a chapter on the political situation in Japan. The report described how Prime Minister Yoshida negotiated towards the restoration of political stability through the return of Mr. Hatoyama's Liberals in his party and an informal agreement with Mr. Shigematsu's Progressive Party. The chapter also mentions two sensational political scandals, the bankruptcy of a mutual finance company and the misallocation of government shipbuilding subsidies (vide *Ibid.*, pp. 7–8). This report was the only report that discussed the Japanese political situation so concretely.

On the macroeconomic front, the report concluded that exports had not increased but imports had increased considerably. A large amount of US military procurements had financed most of the current account deficit and the remaining deficit was financed by foreign exchange reserves. The second report clearly suggested that not much had changed to the Japanese economy during 1953, since the first economic report. According to the report, the main features of the economy in 1953 were: a very high level of industrial production, increasing consumption and national income resulting in a higher rate of inflation due to the increases in government expenditures, wage increases and a considerable increase in commercial bank credit. The effect of inflation was a severe deterioration of Japan's balance-of-payments position, and there was also an increase in imports. Food imports had risen due to poor weather and this was coupled with declines in exports to the sterling area, in spite of increases in dollar exports. According to the report, "[...] A measure of disinflation is urgently needed to bring her economy into better balance. Restrictions of Government expenditures to control domestic and imports demand and bank credit to control industrial activities would be essential." On Government policy, it stated that:

The Government appears to be adhering to its declared intention to reduce 1954 government expenditures. It insisted, even at a cost of a cabinet crisis and the resignation of three Ministers on a budget for 1954. [...] Categorical public declarations that bank credit would be reduced gradually have been repeatedly made during the last three months by the Minister of Finance and the Governor of the Bank of Japan. (vide *Ibid.*, pp. 2–3)

The mission was not too optimistic about the redirection of public investment to priority projects but found general agreement in establishing conditions favorable to increase exports and to actively promote an export campaign.

The next formal review of the Japanese economy was done in the middle of 1955, when the WB analyzed the Japanese economy through 1953, 1954 and the first half of 1955. The report, entitled "Recent

Economic and Financial Developments in Japan”, was published in October 1955.⁴ This report, for the first time had a positive tone compared to that of previous reports. The 1955 mission was impressed with Japan’s ability to manage fundamental economic problems arising out of limited resources, implying the need for more imported raw materials and fuels, increasing population, and the need to import more food. But it maintained the original position on the outlook of the balance-of-payments that was established in 1953. In the economic section of the ‘Report and Recommendations of the President to the Executive Directors’ dated October 17, 1955, it was stated that:

[...] It seems fair to note...that, during the period under review, Japan has displayed an encouraging degree of ability to recognize and deal with certain of her basic economic problems even in the face of considerable political pressure and to take advantage of the opportunities which have been presented to earn her own living.⁵

According to the economic report, the strong expansion of demand and output continued in 1953 resulting in a substantial deterioration of the balance of payments, attributable to a sharp increase in imports. Increased imports were due mainly to the expansion of the economy and secondarily to a policy adopted by the Government to liberalize imports of raw materials, iron ore, coal and machineries. On the other hand, exports did not increase. Consequently, in 1953, Japan’s overall deficit was balanced by the US special procurements that amounted to US\$800 million, the highest amount in this category of dollar income. The corrective measures were implemented in various forms during latter part of 1953. Restrictions were imposed on imports as well as import financing, and the Bank of Japan adopted deflationary programs through a high interest rate policy to restrict commercial banks credit expansion.

The objectives of these policy measures were to correct the balance of payments disequilibrium by reducing domestic demand and domestic prices, thus reducing imports and making exports more competitive. These objectives were successfully achieved in a relatively short period of a year’s time. The restoration of the balance-of-payments equilibrium was achieved by not increasing imports between 1953 and the first half of 1955. This was due mainly to lower demand for imports arising from reduced activity of the economy and it was also influenced by a decline in import prices. On the other hand, exports continued to increase in 1954 and 1955 due to reduced domestic demand and lower export prices. The report stated that:

[...] The conclusion of the previous report that Japan could markedly reduce her trade deficit has been more than borne out by developments in 1954 and in the first half of 1955 and the

⁴ Japan: Economic Report-Economic Situation and Prospects, June 30, 1953, the World Bank.

⁵ Report and Recommendations of the President to the Executive Directors on a Proposed Loan to the Japan Development Bank for Yawata Steel Project, October 17, 1955. P. 5.

recent record is encouraging. The comparative shortness of the period during which the greatest improvement in Japan's trade balance has been sustained, the unknown extent of reparation obligations, the uncertain duration and scale of U.S. special expenditures in Japan and the important influence of factors beyond Japan's control, however, suggest that it is prudent to suspend judgment at this time as to the extent to which Japan is approaching a self-sustaining foreign trade position. The demonstration that has been made of the flexibility of the Japanese economy and the responsiveness of Japan's foreign trade to internal credit measures does suggest that a somewhat more favorable view than has been justified heretofore might now be taken of Japan's prospects for eventual self-support, if favorable trends outside Japan continue, and if she continues to obtain adequate interim assistance and beneficial trade arrangements. (Ibid. pp. i–ii)

Thus the WB's view on Japan's structural trade deficits in terms of the balance of payments and the degree of reliance on receipts from the US special procurement account became more positive than before. However the economic improvements over 1954 and the first half of 1955 were not sufficient to change the WB's concern on the prospects of Japan's balance-of-payments position, as expounded in the first economic report in 1953.

The fourth review was made in April/May 1957 and the report was published in July 1957.⁶ The Japanese economy by then was continuing to expand without an external balance problem throughout 1956, due mainly to the expansion of exports. From the end of 1955, private investment and stocks began to rise and this continued throughout 1956. The industrial production index rose 6% quarterly on average as against 3.5% in 1955. Consequently, imports and related bills began to rise from the third quarter of 1956; the Suez Canal crisis in July 1956 contributed greatly to this trend as an extra factor. As export continued to increase almost offsetting the increase in imports and related bills, the current account surplus started declining in the third quarter of 1956. While the increase in imports and their related bills continued in 1957, the increase in exports began to slow down. By the end of the first quarter in 1957, the loss of foreign exchange reserves amounted to about US\$200 million. The WB's economic mission then had two jobs: (1) to analyze how Japan was faring in terms of economic development and (2) to evaluate what the Government was going to do to manage the overheated economy.

On economic development, the report stated that:

During the last four years, 1953–1956, the Japanese economy has made much more progress than was originally expected. Following the last postwar bout with inflation in 1953, the economy went through a disinflationary period of readjustment in 1954 and thereafter developed at an extraordinary pace. The rate of growth during these last two years is probably

⁶ The Development and Prospects of Japan's Economy, July 25, 1957, the World Bank.

unique in the world. From 1952 to 1956, industrial production went up by almost 75%, national income by around 30%, export trade by nearly 100% and foreign exchange reserves by about 15% (as observed on Tables 1 and 2). Despite the increase in population and the loss of the country's overseas possessions, the Japanese people are enjoying today a standard of life substantially better than in normal prewar years.⁷

[...] There now seems reason to hope that Japan can and will develop a self-supporting economy on a gradually rising standard of living despite the pressure of population on available resources. Gross national product and foreign trade have grown at a very rapid rate and at the same time the economy has become considerably more diversified. This progress must be attributed primarily to the capacity of the Japanese people—their ability to absorb and apply the advanced production techniques of the West; their willingness to work hard and their capacity to save. Other factors have also played a role: the sustained economic growth in the rest of the world, which has facilitated the marketing of Japanese products; and the willingness of the United States to assume most of the burden for Japan's defense, which has not only relieved the drain on Japanese resources but has continued to yield the currency a substantial although declining dollar income in the form of U.S. disbursements in Japan.⁸

The report recognized the excellent performance of the Japanese economy during the period and concluded that with stronger manufacturing capacity than before, Japan could continue to increase its national income at 4–5% a year over the next five years, without a major balance-of-payments problems. While acknowledging the fact that the speed at which Japanese economy grew was rather unusual, the WB by far underestimated the positive effects of economic growth on the improvements in the balance of payments. It should be also noted that over these years the US's position on Japan's role in the context of the US's defense and diplomatic policies in the Pacific area became clearer. Which meant that more definite estimates of US military special procurement were now possible. In this context, although the US military special procurements was treated as one of the most important item for foreign exchange earning, it was not considered as part of the industrial sector activity. The WB did not analyze their potential contribution to Japanese economy in terms of possible reduction in domestic production costs and improvement in the quality of motor vehicles and various kinds of garments. In the end, it took about four years for Japan to convince the WB that Japan was capable of managing her economy on her own, in spite of her limited economic resources.

3. Japan's Borrowing

Since 1953 the total amount that the WB could lend to Japan was fixed to US\$100 million. After subtracting the first lending to the three power companies that amounted to about US\$40 million (in

⁷ Ibid., p. 1.

⁸ Ibid., p. ii.

1953), the remaining US\$60 million was the amount Japan could borrow. However, Japan's actual borrowing during the period under consideration eventually only amounted to US\$44.7 million. If this amount was annually broken down, it accounted to US\$5.3 million in 1955, US\$32.4 million in 1956, and US\$7 million in 1957. In actual borrowing, it consisted of five loans: three loans (one in 1955 and two in 1956) to the Japan Development Bank (JDB) which were relent to private companies in the industrial sector; and two loans (one in 1956 and one in 1957) to the public corporations in the agricultural sector. Except one loan to Kawasaki Steel amounting to US\$20 million through the JDB, all the other loans were very small, not exceeding US\$8 million each. In relative terms the total amount of borrowing, US\$44.7 million was only equivalent to about 2% of the total annual import of Japan during 1954–1957. The details of the five loans can be found below:

Loans to the Industrial Sector

- Loan 1 US\$5.3 million loan to the JDB to finance the foreign exchange cost of replacement by Yawata Steel of three obsolete plate mills by a single modern four high plate mill approved by the WB Board on October 25, 1955
- Loan 2 US\$8.1 million loan to JDB to finance the foreign exchange cost of four modernization projects to be executed by Nippon Steel tube, Toyota Motor, Ishikawajima Heavy Industries and Mitsubishi Shipbuilding and Engineering approved on January 31, 1956
- Loan 3 US\$20 million loan to JDB to finance foreign exchange cost of imported equipment for a semi-continuous hot and cold strip mill and of related facilities of Kawasaki Steel at its Chiba plan near Tokyo approved on December 14, 1956

Loans to the Agricultural Sector

- Loan 4 US\$4.3 million loan to the Agricultural Land Development Machinery Public Corporation to finance foreign exchange cost of projects for land reclamation in Northern Japan and for import of cattle approved on December 14, 1956
- Loan 5 US\$7 million loan to the Aichi Irrigation Public Corporation to finance foreign exchange cost of a multi-purpose program in the Aichi area for irrigation, water supply and power generation approved on August 8, 1957.

Though the WB's initial loan to the three power companies in October 1953 were provided under unusual circumstances, without any project preparation/appraisal missions sent to Japan, this was not the case for the other loans mentioned above. As it usually does to prepare projects, the WB sent sector review missions to Japan in November/December 1953 to assess industry and in July/September 1954 to assess the agricultural sector. This was carried out with a view to identifying policy issues for improvement and specific projects that would be viable for WB financing. Unlike the first loans provided to the power companies it was going to become more cumbersome and time-consuming for the WB, as it would have to follow standard procedures and processes in preparing projects/loans.

As for Japan, the extensive time required to finalize loan packages was not acceptable. Given the persisting large deficits in the trade account in her balance of payments, what the country needed was ex-

tra foreign exchange resources. As the private industrial enterprises were hungry for these resources, as they were making efforts to rehabilitate and obtain modern technologies from industrial countries to expand their manufacturing capacity to produce for domestic and international markets. On the top of this, the lending strategy of the WB established in 1953, i.e., the lending amount to finance only part of the projects that cover their foreign exchange costs, was kept as intended until 1957. The WB did not even try to find ways to improve the speed of disbursement of needed foreign exchange, even after observing good economic performance in 1955. If program loans were not an option, some other means were required in order to disburse needed funds, for example, through a development finance corporation that is capable of checking the feasibility of proposals from enterprises and their financing.⁹

Whether Japan understood the value of the whole process of project identification, preparation, appraisal and loan negotiations, is not clear. But for certain, some did but most did not. In general, the Government and the final beneficiaries of loans did appreciate WB's involvement in technical matters, but did not in the management and organization of projects, its commercial/business and financial aspects. The Japanese side did not appreciate the WB taking long gestation periods, from identifying possible projects to preparing specific loans for WB financing. Further, it took too long to complete negotiations between Japan and the WB to receive a small amount of financing, compared to the total size of borrowing by companies and Government agencies required.

Another annoyance was the requirement of the Japanese Government, JDB and final beneficiaries to put security arrangements in a way foreign to Japan, requiring: Japanese beneficiaries to agree with specific financial ratios and future investment programs; and Japanese Government's agreement to finance more than one fiscal year of public corporations' multi-year investment program. Some staff of the Ministry of Finance even suggested getting foreign exchange resources from the U.S. Export-Import Bank as a better source, than the WB.¹⁰ There was an obvious mismatch between Japan's needs and the WB's lending during the period under review. In this section, by reviewing the experiences of Japan in receiving the five loans, through the complete process of project identification-preparation-appraisal and loan negotiations, the very same issue of the mismatch will be revealed.

As for the source of information, the standard documents on these five projects/loans are either available on the external home page of the WB or in the WB Archives: respective Transcript of the

⁹ There were two WB's lending experiences to development finance corporations, one in 1949 and one, in 1950. Vide Report and Recommendations to the Executive Directors on the Loan Application of the Bank of Finland, July 22, 1949, the World Bank and Report and Recommendations to the Executive Directors on the Industrial Development Bank of Turkey Loan Application, October 11, 1950, the World Bank.

¹⁰ A statement made by Japanese Embassy staff early 1956 quoted in the letter from Rucinski in Washington to Russel in Tokyo indicates clearly the preference of the US Export-Import Bank over the WB shown by the power companies for imports of thermal power generators. According to the letter, "[...] a Japanese Embassy staff said that the Chubu and the Kansai power companies preferred to borrow from the Export-Import Bank because their requests were dealt with much expeditiously than in the WB and that their experience with the WB in 1953 was disappointing. [...]". vide Letter, Joseph Rucinski to Russel H. Dorr, March 7, 1956, Japan-General Folder # 1857455, WB Archives.

Board Meeting,¹¹ Report and Recommendations of the President to the Executive Directors and Appraisal Report in the external home page of the WB and Project Files consisting of documents, memorandums, and reports in the WB Archives. The contents of all Project Files mainly originate from the country desk units and only few documents from technical units are included in the Files. While there is this bias in filing in the Archives, there is an abundance of available documents associated with the processing of the Loans. But the ones related to WB's technical staff association with government officials, technical staff of beneficiaries such as steel and power companies are unfortunately missing. It is recommended that this paper be read with this limitation in mind.

After the publication of the first economic report on Japan in June 1953 and the approval of the first three loans to Japan in October 1953, the WB sent a mission to Japan in November/December 1953 in order to: (1) survey economic development with particular emphasis on production, investment and consumption; (2) discuss Japan's policy to determine investment priorities, to strengthen the economy, to find the resources necessary for essential investment, and to stimulate priority private investment; (3) examine problems of those industries which influence production costs of export industries; (4) explore with the Government and industries the possibility of finding additional sources of raw materials and foodstuffs; and, (5) expedite the effectiveness of the three thermal power loans.¹² The WB mission consisting of the Japan desk officer, a macroeconomist, a lawyer and an industrial engineering consultant stayed in Japan from November 12 to December 18, 1953. Unlike the first economic mission, this time the mission's duties specifically included the identification of projects suitable for possible WB financing as can be seen above mentioned in items (2), (3), and (4). And thus an industrial engineering consultant was included as a mission member. The report was published on May 31, 1954.¹³

Regarding investment needs, the report recommended¹⁴ that the agriculture sector be given higher priority in order to increase agricultural production, which is required to achieve a self-sustaining economy: "Despite the high efficiency of the sector, there is reason to believe that more could be done to increase agricultural production, particularly in the domains of land reclamation, irrigation, animal husbandry and better cultivation practices."

On industry, the mission singled out the steel sector as the most important for direct export and as the supplier of basic raw materials to export industries. While this plan was consistent with the steel industry's modernization efforts, the WB was in the position that there was a need for further modernization to maintain competitiveness, in moving beyond open hearth and rolling mill equipment.

On coal, recognizing the high production costs and considerable scope for modernization of equip-

¹¹ Transcripts of the Board Meetings are disclosable documents. They are being disclosed and so far all relevant transcripts related this paper, except one concerning Mechanical Land Reclamation Project, have been disclosed. They are available in the external home page of the WB.

¹² Memorandum, Joseph Rucinski to Russel H. Dorr, Mission to Japan, Terms of Reference, November 6, 1953, Japan-General Folder # 1857454, WB Archives.

¹³ Japan-1953 Mission Report, May 31, 1954, the World Bank.

¹⁴ *Ibid.*, pp. 3–5.

ment and techniques, the report was unsure whether Japan should concentrate on increasing production in the most easily worked beds or if there was an urgency to reduce coaking coal costs.

On power, in conformity with the WB's earlier conclusions concerning the inadequacy of power supply capacity, the report questioned Japan's policy of giving higher priority to hydro generation over thermal generation, given the shortage of capital in the country. In order to expedite the execution of major hydroelectric projects, the report suggested the provision to import the required heavy construction equipment.

On machine manufacturing, recognizing the sector as a major foreign exchange earner, it observed that light consumer goods and textile machinery were fully competitive, but other items such as railroad rolling stock and shipbuilding were only barely holding on. In principle, the sector was believed to be in need of better production techniques and facilities.¹⁵

As a next step, the report recommended a visit of an agricultural sector mission to lay the foundations for crystallizing Japanese thought as a necessity and means of increasing agricultural and livestock output and for securing an adequate allocation of resources to an effective program. It also clearly indicated priority sectors in the industrial sector for possible WB lending, i.e. steel and coal, power, and machine industry. In the case of steel and power, the emphasis was given to the modernization of the industry including coking coal production. On power, recognizing its importance, the WB preferred to diversify its investment. However the WB did not want to put too much emphasis on the machinery industry. It did so by saying that although it recognizes the importance of the machinery industry and the necessity in modernizing certain portion of its productive facilities, the WB was reluctant to become involved in the administrative entanglements of such a program and wanted to opt for other desirable projects that could be found.¹⁶

After reviewing all of the above-mentioned recommendations made by the mission, the WB management agreed with them. The WB further instructed that any additional loans be made to the different industries, to contribute as widely as possible to strengthening Japan's economy. These loans were also encouraged to be spread out over the period of time so that there could be a continuing opportunity to re-appraise Japan's economic situation. The WB's management also instructed its staff to consult with the US Government on its long-range policy and programs for Japan. The WB was keen on seeing the US government's willingness to support its own efforts to encourage Japan's pursuit of sound financial and development policies spread over the period of time.¹⁷

Upon drafting a letter to the Japanese government in accordance with the management's conclusions on the 1953 mission's recommendations, the WB formally met with the representatives of the US

¹⁵ *Ibid.*, pp. 3-5.

¹⁶ *Ibid.*, pp. 5-7.

¹⁷ SLC/M/506, Staff Loan Committee, Minutes of Meeting, Thursday, April 8, 1954, Japan-General, Folder #1857455, WB Archives.

government as they did in 1953¹⁸ in order to ascertain the US policy towards Japan, including the expected military procurement in Japan. They discussed: the positive effect of WB's economic policy discussions; need for the continuation of WB's lending to Japan, implying the WB lend the remaining US\$60 million; and, continuing strong presence of US in the Far East, implying the continuation of large amounts of military procurement to be done in Japan. There was one interesting comment from the US side, on the positive tenor of the WB's draft letter to Japan on the financial policy of Japan:

US commented that while the Japanese Government had made some moves in the direction of a sounder financial policy, they (Japanese Government) still had a long way to go, and that US felt that WB should be on its guard not to give too much praise in this regard.¹⁹

The letter advising Japan on the WB's position after the December 1953 mission visit was sent out dated April 9, 1954.²⁰ The Japanese Government's response came, a month later. It was cordial, agreeing with the WB's point on the need to improve the balance of payments accounts and to establish her economy on a self-supporting basis. While agreeing with the lending priority laid out by the WB (i.e. development of the domestic food production capability and enhanced competitiveness in the heavy/chemical industry through the modernization of the iron, steel and other basic industries including power), they again requested the possibility of local cost financing and increasing the amount of lending above and beyond the originally suggested US\$60 million.²¹ Against these requests, the WB simply reiterated a month later its position:

[...], the Management does not feel that it could recommend loans to Japan at this time beyond the direct foreign exchange requirements for approved investment projects. As to the extent of foreign indebtedness, which Japan could prudently incur, it was emphasized that in arriving at its conclusions the management had viewed Japan's problems most sympathetically.²²

The 1953 Mission Report was more comprehensive in terms of identifying projects, and differed from that of a typical economic report. The report provided an agricultural and industrial sector wide

¹⁸ The last meeting with the US Government is described in the previous paper, *Journal of Asia-Pacific Studies* No. 17, 2011, p. 230.

¹⁹ Memorandum from Dorr to Files, "Meeting with United States Government Officials regarding Bank loans to Japan-April 22, 1954", April 23, 1954, Japan-General, Folder #1857455, WB Archives.

²⁰ Letter from President of WB to Minister of Finance of Japan dated April 29, 1954, Japan-General, Folder #1857455 WB Archives.

²¹ Letter from Minister of Finance of Japan to President of WB dated May 29, 1954, Japan-General, Folder #1857455, WB Archives.

²² Letter from Vice President of WB to Minister of Finance of Japan dated June 24, 1954, Japan-General, Folder #1857455, WB Archives.

review, which assisted Japan and the WB in discussing the project specifics for possible WB financing. Japan wanted to agree with the WB on the specifics of the projects so that financing would start as early as possible, and so her Embassy staff approached the WB actively. At the staff level, the Japanese Embassy and WB discussed various projects and as of June 1954, the list of projects included²³:

Agriculture Projects

Aichi Irrigation project—the total cost of about US\$82 million with US\$14 million foreign exchange component

Hachiro Land Reclamation project—the total cost of about US\$ 31 million with US\$ 0.5 million foreign exchange component

Ishikari Peatland project—the total cost of about US\$ 119 million with US\$ 12 million foreign exchange component

Iron and Steel

Five steel companies, Fuji, Sumitomo, Yawata, Nippon Kokan and Kawasaki submitted proposals—the estimated total cost of US\$ 79 million with foreign exchange component of US\$ 39 million

Coal Mines

Four coal mining companies, Mitsubishi, Farukawa, Sumitomo and Ube submitted projects with the total cost of US\$ 20 million with foreign exchange component of US\$ 5 million

Hydro Electric

Japan Power Development Corporation submitted proposals with the total cost of US\$ 250 million with foreign exchange component of US\$ 31 million

Machine Tools

Five electrical equipment companies, four automobile manufacturing companies, three ball bearing companies and four machine tool makers submitted proposals with the total cost of US\$ 104 million with US\$ 38 million foreign exchange component

Equipment for two shipbuilding companies projects with the total cost of US\$ 4.5 million with US\$ 2.6 million foreign exchange component.

On the basis of the above description, the Japanese Government requested the WB to finance: US\$20 million for agriculture, \$30 million for steel and coal, \$10 million for hydroelectric and \$15 million for machine tool, totaling a sizeable US\$ 75 million. The Government was very aware that the total was over exceeded the \$60 million limit set by the WB, and that all these loans would be spread over a period and readjusted among projects, as the details of the projects would be gradually finalized in consultation with the technical experts of the WB. The Government then explained that borrowing by the steel, coal and machinery industries would be done through the JDB, as the case was with the three power loans approved in 1953, in view of the large number of companies involved. For the hydroelectric project it was decided that the borrower would be an autonomous public body, the Japan Power Development Corporation. As for agricultural projects, the Government planned to establish an autonomous public corporation to deal with the implementation of agricultural projects.

While the discussion between the Japanese Embassy staff and the WB in Washington continued, the

²³ Memorandum, N. R. Chakravarti to Files, Japan—Notes of a Meeting with the Japanese Government Representatives on June 8, 1954, on Future Loans Operations in Japan, dated June 9, 1954, Japan- General, Folder #1857455, WB Archives.

WB continued sending many missions to Japan through 1954 and 1955. The missions were checking the progress made by the three power loans approved in October 1953 and they were exploring ways to prepare specific projects in agriculture, power and industrial sectors for WB financing. Information available in the Archives indicate that: the power project supervision mission visited Japan in May/June 1954; the agriculture project identification/preparation mission in July/August 1954; for general discussions the desk officer in July/August 1954; the agriculture sector review mission in September/October 1954; the project identification/preparation mission for the modernization of steel and machinery manufacturing sectors in October/November 1954; and the power project identification/preparation mission in October 1954. These visits made throughout the year 1954 allowed the WB to accumulate plenty of knowledge on how the Japanese economy was managed.

One of the most influential visits made by the WB's staff during that time, in order to turn discussions into specific loans, was the visit of the Japan Desk Officer in July–August 1954. He met with the Prime Minister, Minister of Finance and Industry and Trade, and the Governor of the Bank of Japan.²⁴ In addition, he had broad discussions with senior civil servants and business leaders on the Japanese economy, investment requirements and the possible role of the WB. On his return to the headquarters, he orally reported his findings on the economic developments and the status of the various projects to the management of the WB.²⁵ Surprisingly these meeting signaled a rather new role for the WB. This meant that although the lending amount was to be further limited, the WB consultations with Japan and its technical advice was to be continued in order to impact on Japan's economy positively.

On the basis of this general note, the meeting agreed that provisions for formal and informal technical assistance to Japan would be a basic element of the WB operations. On the proposed projects, suggestions and presentations were made to improve economic/financial analysis of the proposals. It was also agreed, that with a view to preparing a project in the coal sector, the WB should give assistance to Japan by providing a list of qualified firms to conduct a proposed survey of the coal industry. The meeting also pushed the operating Departments to proceed swiftly in its examination of the proposed power projects, various steel and heavy industry projects, in order to address Japan's grievances that the WB was taking too long in processing project proposals. However, the proposed technical assistance was farfetched and the instructions of the WB's management to improve the processing time of loan preparation were not too assertive.

Given the overall strategy of financing with only foreign exchange costs of the project to be financed, the WB could have been more creative in finding ways to let Japan import necessary plants and equip-

²⁴ See a letter from Russell Dorr to Robert L. Gardner, Vice-president of the WB, dated August 7, 1954, sent from Tokyo; and Prime Minister Yoshida's note on his conversation with World Bank Staff (Dorr) dated August 17, 1954; Prime Minister visited the WB to meet the President of the WB and he was updated on the progress of the preparation of various loans. For this discussion, see Memorandum, R. H. Dorr to Files, "Aid Memoire for Prime Minister Yoshida, November 10, 1954", Japan-General Folder #1857455, WB Archives. For an additional note, Prime Minister Yoshida's cabinet fell in the beginning of December 1954.

²⁵ SLC/M/534, Staff Loan Committee, Minutes of Staff Loan Committee Meeting held Thursday, August 24, 1954, Japan-General Folder #1857455, WB Archives.

ment quickly. It was the need of the moment to help satisfy Japan's ambition for achieving economic growth through export expansion, enhancement of manufacturing capacity with higher efficiency, leading to import substitution and increased exports. In this sense, the timing of WB lending was important. Though small, quick decision on specific lending was required, the decision-making on the part of the WB regarding lending was too slow and all the events that took place in 1954 and 1955 were disappointing to Japan.

3.1 Lending to the Industrial Sector

The Japanese Government submitted in August 1954 formal requests, for the WB to finance six steel, seven other industrial, four coal mining, and three hydro power projects,²⁶ as a follow up of discussions between Embassy staff and the WB in June 1954. On the basis of the requests, an industrial mission visited Japan in October/November 1954 to examine the steel companies proposals as shown below in Table 3, and to collect the necessary information on the possibility of a machinery project under WB financing. The WB's analysis was that the proposals made by Yawata and Japan Steel Tube (ranking first and third respectively in the Japanese steel industry) were suitable for WB financing provided that they strengthen their financial position. The Sumitomo seamless tube mill project was economically sound and the WB did not want to be involved in the financing of its small foreign exchange requirement of about US\$350,000.

On the Kawasaki Steel project, the WB had doubts regarding its marketing and financial plans due to the lack of information, and it wanted revised proposals and more information for its consideration. On the Sumitomo pipe mill and the Fuji Steel projects, the WB was not convinced that market requirements justify the construction of these facilities at that time. Subsequently these two projects were

Table 3. Loan Proposals for Steel Modernization

Company	Equipment	Total Cost US\$ '000	Foreign Exchange US\$ '000
Yawata Steel	High Plate Mill Replacement	13,890	4,378
Fuji Steel	Tin Plate Mill—Addition to Capacity	4,128	2,270
Japan Steel Tube	Seamless Tube Mill—Replacement	8,889	3,995
Sumitomo Steel	a. Seamless Tube Mill—Replacement	2,222	337
	b. Butt Weld Pipe Mill—New Capacity	2,733	1,191
Kawasaki Steel	Hot and Cold Rolled Strip Mill Mainly Replacement	35,275	13,773
Total		67,139	25,953

Source: SLC/O/767, Memorandum, Staff Loan Committee, Japan-Loan Proposals for Steel Mill Modernization, Department of Operations Asia-Middle East, May 11, 1955, Japan-Nippon Steel Project Folder #1857635, WB Archives.

²⁶ Memorandum, A. L. Moffat to Eugene R. Black, Japanese Loan Applications, August 18, 1954, Japan-General Folder #1857455, WB Archives.

withdrawn.²⁷ The memorandum to the Staff Loan Committee had a special section entitled “Discussion” explaining the importance of this industry in the context of the reconstruction efforts of the country. It also contained the history of the steel industry in Japan particularly during the war, through nationalization, and after the war, with denationalization, and its poor financial structure. The management of the WB agreed with the recommendations made by the memorandum and the WB started the preparation of the two specific projects, one for Yawata Steel and the other for Japan Steel Tube. While the Yawata Steel project became ready for further processing, the Japan Steel Tube project was delayed because of changes in the contents of the project including changes in the financial plan of the Company.²⁸

Yawata Steel Project

According to the Technical Report on the Yawata Steel project, Yawata was undertaking an extensive modernization program since 1951. This was being carried out with a view to improving iron and steel making facilities, by renovation and repair of existing facilities and the addition of new facilities. This investment program after completion would have amounted to about US\$100 million equivalent. As part of the modernization program, a single modern plate-mill was to replace three obsolete plate-mills with an annual capacity of 360,000 tons, at Yawata in Fukuoka Prefecture, Kyushu. The total cost of the new mill was estimated at US\$15.6 million with a foreign exchange cost of US\$5.3 million. The Technical Report explained that the unit production cost of the plate after the installation of the new plant would be reduced by US\$12 equivalent per ton or about 12%.²⁹

The formal negotiations on the Yawata Steel project started on August 5, 1955 when the representatives of Yawata, JDB and the Japanese Government met with the WB for the first time. The project was initially proposed with a loan amount of US\$4.4 million but this had to be increased to US\$5.3 million mentioned above due to increases in price, escalation and contingencies and new items added for financing. The discussions were difficult and protracted. The technical discussion on the project itself was simple and the Yawata Steel ordered the main plate equipment through the WB’s agreement even before the start of the negotiations.³⁰

On the other hand, the discussions on financial covenants and security arrangements took a long time to reach agreement.³¹ These experiences were similar to those at the time of the first loan to the three power companies in 1953. On financial covenants detailed in a letter to Yawata Steel in the Proj-

²⁷ SLC/O/767 Staff Loan Committee, Japan-Loan Proposals for Steel Mill Modernization, Department of Operations Asia-Middle East, May 11, 1955, Japan-Nippon Steel Project Folder #1857635, WB Archives.

²⁸ Memorandum, S. Lipkowitz to Mr. Hugh B. Ripman, Japanese Projects Status, September 13, 1955, Japan-General Folder #1857455, WB Archives.

²⁹ Technical Report on Yawata Steel Project, October 17, 1955, the World Bank. P.6

³⁰ Letter, President of Yawata Iron Steel CO., to President of the WB, Ordering of Heavy Plate Equipment, July 18, 1955, Japan-Nippon Steel Project Folder #1857635, WB Archives.

³¹ A complete set of minutes of the meeting, in total 34 meetings, between Japanese delegation and WB is available in Japan-Nippon Steel Project Folder #1857636, WB Archives.

ect Agreement, the WB was more aggressive than during its stance taken at the time of negotiations with the three power companies. This was because Yawata Steel was purely a private entity from the WB's point of view. The WB was concerned over its debt financing, largely short-term on its face, to carry out heavy reconstruction and expansion programs. Given this situation, the WB wanted to see definite improvements in the financial position of Yawata Steel.

After long discussions, often difficult, Yawata Steel and the WB agreed that Yawata would reduce the margin between total liabilities and current assets after March 31, 1957. Furthermore this margin was to be eliminated by March 31, 1965. This margin as of March 31, 1955 was ¥8.8 billion and was estimated at ¥8.3 billion for March 31, 1957. Yawata would also undertake to progressively reduce its total liabilities compared to net worth during the same period. The ratio of liabilities to net worth stood at 144:100 on March 31, 1955 and was to be reduced progressively to 115:100 by March 31, 1965. Though Yawata understood the objectives of these undertakings, it was difficult for it to realize the meaningfulness of these conditions. As they were too rigid it made it difficult for a private enterprise to manage its own affairs on these margins and the ratios were to be improved year by year in some case and in periods of two or three years in other cases. If it was the job of the WB to make this kind of conditions, it was only natural for Yawata to think that it was the job of the Government as the guarantor and JDB as the borrower.³²

On security, a key issue was how to set up a legal instrument to secure the relationship amongst Japan, the borrower (JDB), the beneficiary of the loan (Yawata Steel) and the WB. Basically there were three agreements: a Loan Agreement between the WB and JDB, a Project Agreement between the WB and Yawata Steel, and a Guarantee Agreement between the WB and Japan. The negative pledge issue was handled in a similar way to the power loans, in that Yawata was to execute a general Mortgage Note evidencing a "general mortgage" priority on its assets as security for the JDB loan and the General Mortgage Note was specifically to include a negative pledge covenant in the Loan Agreement. Similar to the form in the previous power loans, the Guarantor would undertake to make the provisions of its negative pledge clause effective with respect to liens on assets of political subdivision and their agencies within the limits of its constitutional powers. An undertaking to make the negative pledge clause effective with respect to liens on the assets of the Bank of Japan was, however, given separately.³³

From the time Japan formally applied for the steel project in August 1954 it took the WB's Board 14 months to prepare the loan. One might ponder why it took so long? As in the end after long extended discussions, all concerned agreed and the WB's Board approved the Yawata Steel loan on October 25, 1955. It must have been difficult for Yawata, being a large private steel company to spend 14 months to comply with the WB for only a US\$5.3 million loan. The project was executed efficiently. Using the available balance in the loan account, Yawata imported additional items, equipment and bearing. This

³² Similar sentiments were felt by Japanese representatives at the time of negotiations of the Power Loans in 1953.

³³ Memorandum, Memorandum to the Staff Loan Committee, Japan-Proposed Loan for Yawata Steel Project, October 11, 1955, Japan-Nippon Steel Project Folder #1857636, WB Archives.

necessitated the extension of the original closing date of the loan by another year. It is interesting to note that Yawata Steel returned to JDB and the WB to receive another loan in 1959.

After all the dust settle down on the Yawata Steel loan negotiations, the preparation started for the negotiations on the next loans for the Various Industrial Projects. The two WB lawyers working on Japan including the Yawata Steel loan negotiations wrote a warning memorandum to their superiors saying that

[...] given the cultural differences between Japan and the Western world,

[...] the WB must concede something to these fundamental differences of outlook and recognize that contractual relations and forms of expression and conventional financial doctrines may not have the same meaning to the Japanese as to us.

[...] They will especially respect the Bank if the Bank lends them money and demonstrates that it really understands the context in which the lending is being made.

[...] The Japanese are anxious to learn financial “know-how”- and increasing commercial relations with foreigners makes it increasingly necessary that they should conform to foreign methods. However, in some cases, it may be doubtful that we have been teaching them the kinds of lessons which they can at the present time understand and regard as useful, or indeed which it is desirable that they should learn (vide the Yawata “financial covenants letter”). The power loans were good loans because they were large loans made fairly expeditiously for projects the Japanese themselves wanted. All loans to Japan should have these characteristics if the Japanese are to continue to respect us and we are to influence them. Per contra, small loans made with difficulty after protracted negotiations, or any loan made within a framework, which we create for them, may be a disservice both to us and to them. The pattern of future lending to Japan might well take these broad considerations into account.³⁴

There is no record of follow-up discussions on this memorandum among the information available in the Archives, but there were signs of WB’s efforts to improve the situation. But from then on, the process of negotiations between Japan and the WB were more organized than before, especially on the loans for the Various Industrial Projects that will be described below.

Various Industrial Projects

After the industrial mission visited Japan in October 1954, the Japanese Government and the WB’s discussion on floating a machinery project became concrete. Of the seven industrial machinery projects (Mitsubishi Shipbuilding, Ishikawajima Heavy Industries, Hitachi, Tokyo Shibaura, Nippon Electric, Toyota Motor and Nissan Motor) submitted to the WB, two companies (Hitachi and Tokyo Shi-

³⁴ Memorandum, V. Morsely and R. B. J. Richards to Messrs. Sommers/Broches, Lending to Japan, January 23, 1956, Japan-General Folder #1857455, WB Archives.

Table 4. Loan Proposals for Various Industrial Projects

Company	Equipment	Total Project Cost (US\$ million)	Proposed Loan (US\$ million)	Actual Loan (US\$ million)
Japan Steel Tube	Seamless tube mill (replacement)	11.2	2.6	2.6
Mitsubishi Shipbuilding	18 machine tools for retooling, marine engine and supercharger production	1.7	1.3	1.5
Ishikawajima Heavy Industries	Tooling for production of large marine turbines	2.5	1.6	1.65
Toyota Motor	Medium truck production	9.6	2.9	2.35
Nippon Electric	Telephone and telegraphic equipment production	5.4	1.6	
	Total	30.4	10.0	8.1

Source: SLC/O/810, Memorandum, Staff Loan Committee, Japan-Loan Negotiation Concerning Various Industrial Projects, November 18, 1955, Japan-Industry Project Folder #1857646, WB Archives. Of the above, Nippon Electric withdrew its application after the memorandum was prepared but before the loan negotiations started.

baura) withdraw their applications and the WB rejected one proposal (Nissan Motor), and thus remaining four projects were to form a project called Machinery Projects.³⁵ During the Annual Meetings of September 1955, the Japanese Minister of Finance requested the WB to simplify borrowing procedures referring to the complicated Yawata negotiations. The WB suggested an approach under which all industrial projects would be lumped together and one loan would be made to an appropriate institution, in this case the JDB. Following this approach, the Japan Steel (one of the two remaining steel projects) and Machinery Projects were put together as one as Various Industrial Projects, as revealed in Table 4.³⁶

According to the Technical Report on Various Industrial Projects,³⁷ the proposed loan of US\$8.1 million equivalent would be lent to the JDB for relending to four industrial companies: (1) The Japan Steel Tube was the third largest steel producer with an output of 500,000 tons of finished steel per year. The proposed loan was to install a new 120,000 tons seamless tube mill to replace two old mills in order to produce a wider range of tubes of higher quality and at a lower cost; (2) The Mitsubishi Shipbuilding and the Ishikawajima Heavy Industries were primarily producers of ships and marine engines, although they produced other industrial equipment as well. The proposed loan was to retool for more efficient production of diesel engines and superchargers in order to produce higher quality products at a lower cost; and, (3) The Toyota Motor Company was making cars, trucks and busses with a total annual output of 23,000 units. The proposed loan was to modernize its truck and bus production with better quality and reduced costs.

Also the WB responded to the Japanese complaints over its slow speed of processing loans, complicated financial covenants and security arrangements. Several considerations favored combining the

³⁵ Memorandum, D. W. Jeffries to R. H. Dorr, Summary of TOD Report on Japanese Machinery Projects (Draft of August 26, 1955), October 12, 1955, Japan-Industry Project Folder #1857646, WB Archives.

³⁶ SLC/M/604, Staff Loan Committee, Minutes of Staff Loan Committee Meeting held Wednesday, November 23, 1955, Japan-Industry Project Folder #1857646, WB Archives.

³⁷ Appraisal Report on Various Industrial Projects, February 14, 1956.

proposed projects into a single loan. The projects were small in relation to the Japanese economy and its requirements for capital. Negotiation and processing of separate loans would have caused delays and increased administrative burdens upon all parties. Thus both from an administrative and public relations point of view, handling these projects as a package seemed most desirable.³⁸ Another factor was that these loans were set up in such a way that there was no direct legal relation between the WB and the beneficiary companies i.e. no Project Agreement. It meant that the subsidiary loan agreements between the JDB and the beneficiary companies would replace a Project Agreement between the WB and the beneficiary companies.

On security arrangement, unlike the previous loans made by the WB to the JDB, no provisions were made for the WB to receive from the JDB, the security which the JDB received from the beneficiary companies. The WB understood that these security arrangements were in conformity with normal Japanese banking practice. The WB would obtain from the JDB a negative pledge clause in the usual form. The Guarantee Agreement was similar to the Yawata case, except that Japan would guarantee payment but not performance. The negative pledge clause was also identical to the Yawata loan.

On financial matters, the WB became more flexible than before and there was the “Financial Covenants Letter” for each of the four companies, they were similar in form but different in detail. As Japan Steel Tube’s financial condition was poorer than the others at that time, tougher conditions were spelled out in the financial letter (Ibid., Appraisal Report, p. 22). The WB’s Board approved the loan on February 21, 1956.

Since most of the equipment was to be imported, they were already contracted by the time the Board approved the Loan. Thus the procurement of equipment financed by the Loan and project implementation went on smoothly, but as expected there were some changes in the list of equipment imported. The loan eventually financed more than 100 machines and machine tools from the US, UK, West Germany, France and Italy.³⁹

Kawasaki Steel Project

The Kawasaki Steel was one of the leading Japanese manufacturers of plates and sheets. But its mills were obsolete and their costs of production were higher than those of modern continuous or semi-continuous strip mills. The original Kawasaki Steel project prepared in 1954 was intended to construct a new strip mill with a fully continuous hot and cold strip mill: with a rated annual capacity of 600,00 tons of hot strip and 400,000 tons of cold strip. In order to utilize the capacity of such a mill, sub-

³⁸ Report and Recommendations of the President to the Executive Directors on a Proposed Loan to the Japan Development Bank for Various Industrial Projects January 31, 1956, the World Bank, p. 2

³⁹ It should be noted that the important expanded role of JDB within the framework of the Various Industrial Projects going beyond usual borrower’s role as in the Power and the Yawata Steel Projects did not go further to make it as a development finance corporation. The expanded role of the JDB could have been the WB to finance small foreign exchange requirements of many private sector enterprises and the JDB becoming a WB’s partner to evaluate feasibility of private enterprises’ proposal for financing.

stantial expansion of existing metallurgical capacity was also planned. The total cost of this expansive program was estimated at US\$59 million. The WB mission's review thereof in the fall of 1954 concluded that the proposal was too ambitious, considering the marketing required for the products and Kawasaki's limited financial resources. In December 1955, a more realistic proposal was presented to the WB for a semi-continuous mill with an annual capacity of 390,000 tons of hot strip and 300,000 tons of cold strip at the Chiba plant, with an estimated investment cost of US\$42.1 million. The Kawasaki Steel requested the WB to finance the foreign exchange cost of the project, totaling US\$18.5 million.⁴⁰

Due to the heavy debt incurred in the past few years for the construction of new pig iron and steel facilities, the company's financial position had been weak. Kawasaki Steel proposed to strengthen its own financial position, but from the WB's point of view, it was not far enough.⁴¹ In order to keep Kawasaki Steel as one of the key Japanese steel makers, a balance between improving the existing productive capacity and the improvement in utilization of the existing plant was called for. The substantial amount of investment proposed would seek to rectify this situation. After careful analysis of a long list of concerns, including the quality of management of the Kawasaki Steel and its principal banker, the Daiichi Bank, the WB eventually decided to go ahead with the project and to accept the risk of possible financial difficulties to be faced by the Kawasaki Steel.

In order to have safeguards preventing possible financial difficulties, the WB proposed far-reaching financial reorganization for Kawasaki Steel. This involved the increase of its equity capital by ¥2 billion, most of which was used to reduce medium term debt. New arrangements with the company's long-term creditors were made, involving the rescheduling of capital repayments and postponing their maturities until and after the completion of construction. Amortization on these loans was made contingent upon its payments to ensure Kawasaki Steel's current ratio did not fall below 1.8 to 1. Finally, Kawasaki Steel's principal banker, the Daiichi Bank, entered into standby arrangement with a 15 years line of credit to provide working capital and it also undertook to underwrite refunding issues of mortgage debentures if needed.⁴²

The negotiations among the Government, Kawasaki Steel, JDB and the WB were smooth, despite needed agreements on many complicated financial covenants. In the end, the basic legal status among the Japanese Government, the WB, JDB and the Kawasaki Steel remained similar to when the loans were provided to Yawata Steel and Various Industries. One new feature was the financial arrangements between the Kawasaki Steel and its various long-term creditors. A set of Agreements with conditions

⁴⁰ A Letter from Kosuke Okada, Treasurer, Kawasaki Steel Corporation to International Bank for Reconstruction and Development, dated December 23, 1955, Japan-Kawasaki Steel Project Folder #1857657, WB Archives.

⁴¹ Memoranda, S. Lipkowitz to S. Aldewereld, Kawasaki Semi-Continuous Strip Mill Project, December 30, 1955 and Kawasaki Construction Plans and Cost Estimates, January 3, 1956, Japan-Kawasaki Steel Project Folder #1857657, WB Archive.

⁴² SLC/M/624, Staff Loan Committee, Minutes of Staff Loan Committee Meeting held Tuesday, March 20, 1956, Japan-Kawasaki Steel Project Folder #1857657, WB Archives, and A Letter from R. L. Garner, Vice President of the World Bank to Kawasaki Steel Corporation dated April 26, 1956, Japan-Kawasaki Steel Project Folder #1857657, WB Archives.

for effectiveness was put forth for the loan. The WB's Board approved the loan on December 14, 1956. The project was implemented quicker than expected and the mills were in operation a year earlier. It is interesting to note here that Kawasaki Steel had returned to the WB for additional loan, soon after the first loan was approved.

The relationship between the WB and Kawasaki Steel was more favorable, as compared to the relationship it had with Yawata Steel. This was surprising considering that Kawasaki Steel was in a worse financial situation when compared to the other steel companies and it had deep marketing concerns for its products. Somehow there was a breath of fresh air, with improved communication and professional understanding between Kawasaki Steel and the WB. This could also possibly be attributed to the Kawasaki Steel's successful strategy in using the WB to expand its steel production capacity and moreover improve its financial position. The Japanese Government also needed the WB's involvement, especially to obtain an independent evaluation of steel demand, both at the domestic and international levels, and a detailed supply analysis.

3.2 Lending to the Agriculture Sector

Agriculture Sector Report⁴³

On the basis of discussions in December 1953 between the Japanese Government and WB mission, and another formal request from the Japanese Government, the agriculture mission visited Japan in July/September 1954. The purpose of the mission included a general review of Japanese agricultural and animal husbandry conditions and practices. The WB sought to familiarize itself with Government policies and programs to increase agricultural and livestock production. So it conducted a review on the pattern of resource allocation in order to achieve the greatest production increases within the next ten years, and to recommend specific projects that would be appropriate for WB financing. The agriculture sector report titled "Present Position and Prospects of Agriculture in Japan" was published in January 1955. It was immediately made available to the Government, so that the report's suggestions could be taken into consideration in the formulation of the 1955 budget.

The report elucidated the inherent drawback the sector faced:

Perhaps the most important single feature of Japan's present and prospective economic position is that she cannot feed her people without importing large and ever increasing quantities of food from abroad. In 1953, she imported 4 million tons of grains and other staple foods and had to devote 40% of the proceeds of her merchandise exports to pay for them.

[...] In the absence of effective measures to increase food production above the current level, it appears that essential to increase food imports would mount in ten years to around 6 million tons at a cost, at then current prices, of US\$ 750 million a year.

⁴³ Agricultural Sector Report, Present Position and Prospects of Agriculture in Japan, January 3, 1955, the World Bank.

[...] Larger food production thus appears to be an absolutely essential feature of any Japanese drive to make her own way and to achieve an independent economic position. (Ibid., p. 2)

On the basis of this principal understanding, that somewhat larger allocation of funds was of fundamental importance to addressing the food problems in Japan. The report recommended (Ibid., pp. ii–iii) that:

1. Increased attention should be given to non-rice projects. Accepting the fact that the diminishing returns for increasing the area and yield of rice cultivation, energetic national effort should be applied to the cultivation of upland crops and to animal husbandry. Without neglecting rice production, the use of modern methods and equipment would bring much larger additions to the food supply;
2. Land reclamation should be greatly accelerated. In the next 10 years at least 80,000 hectares should be reclaimed per annum;
3. More resources should be devoted to increasing livestock numbers. Present pasture and grazing lands are not fully exploited, and a sharp increase in livestock through larger imports, at least 2,500 young cattle per year, will be necessary;
4. Greater effort should be made to increase upland irrigation. Since positive result can be achieved with small amounts of irrigated water at low costs, 20,000 hectare should be irrigated per year over the next decade;
5. Increased emphasis should be placed on research and extension work relating to upland irrigation, developing difficult soils, upland crop cultivation and mixed farming;
6. Increased funds and credits should be provided for settlers;
7. The crop insurance scheme should be modified to reduce the drain on the Government budget, and adjustment of the present price subsidy system to producers and consumers should be considered; and,
8. Current and projected land improvement projects should be carefully re-examined and low return undertakings should be postponed in favor of high return ones, and available funds should be concentrated upon the rapid completion of projects now underway (vide Ibid., pp. 27–28).

On Japanese requests for possible WB financing, the mission reviewed the proposals and concluded four projects worthy of further study, as they seemed particularly useful in leading to increased food production. They were the Aichi Irrigation, Hachiro Lagoon, Shinotsu (Ishikari) Peatland Reclamation, and Mechanical Land Reclamation Pilot Projects. The report specified that the remaining work left for WB's appraisal included: the possibility of constituting an executing organization for project implementation, the completion of engineering studies and the scope for domestic currency financing for executing projects. In regards to project financing, assuming all four projects to be implemented,

the report estimated the need for additional budget allocations of US\$14 million (or ¥5 billion equivalent) per annum, for a period of 7 years. This amount was not considered too large, especially comparing to the total annual budget of the Ministry of Agriculture and Forestry, which was US\$ 440 million in 1955. For a possible source of financing and additional investment, the report mentioned the availability of counterpart funds under the provisions of U.S. P. L. 480 (Ibid., p. 35).

On the basis of these recommendations in the report, the WB conducted deliberations with the Japanese Government.⁴⁴ Over the year 1955 several agricultural specialists visited Japan: an agricultural economist to ascertain the reaction of the government to the recommendations made in the Agriculture Report; two agriculture experts to review progress made in the preparation of the mechanical land reclamation projects; and, an animal husbandry specialist, to assist the Government in the preparation of a possible cattle import project.

Conversely several Japanese specialists from the Land Bureau of the Ministry of Agriculture and Forestry also visited the WB to discuss the land reclamation projects. Out of four projects (Aichi Irrigation, Mechanical Land Reclamation, Livestock Improvement, Hachiro Lake reclamation, and Shinotsu Peatland Reclamation), the WB only deemed two, the Livestock Improvement and Mechanical Land Reclamation projects were ready for negotiations in 1955. Indeed, this was the case as there were still many issues to be resolved, including the provision of adequate local currency funds, the completion of engineering studies including cost estimates, and the setting up of appropriate organizations for the implementation of various projects. During the Annual Meetings in September 1955, the Minister of Finance asked the WB which agriculture projects were ready for financing in the near future. The WB explained that the Mechanical Land Reclamation and Livestock Improvement projects might be ready for negotiations before the end of the year. On the Aichi Irrigation project, the WB indicated the need for further time to review the ongoing engineering studies.⁴⁵

Loan to the Agriculture Land Development Machinery Public Corporation

By the end of 1955, the WB put three projects, the original Mechanical Land Reclamation, Shinotsu Peatland Reclamation and the Livestock Improvement project together to form one undertaking, the new Mechanical Land Reclamation project.⁴⁶ The reason why these projects were combined into a single project was that each component was small in relation to Japanese agricultural undertakings and that if each component were treated as a separate project, administrative burdens would increase. Thus the new Mechanical Land Reclamation project involved the introduction into Japan techniques of rap-

⁴⁴ Among the Files associated with the Agriculture Report and Projects in the Archives, it is unfortunate that no record of the formal discussions between the Japanese Government and the WB on the Report. On the basis of available memorandum and records of discussion, this paragraph was written up.

⁴⁵ Memorandum, Joseph Rucinski to Files, "Meeting with the Japanese Delegation on September 14, 1955," September 22, 1955, Japan-General Folder #1857455, WB Archives.

⁴⁶ SLC/M/609-B, Staff Loan Committee, Minutes of Staff Loan Committee Meeting held Friday, December 23, 1955, Japan-Mechanical Land Reclamation Project, December 23, 1955, Japan-Agriculture Project Folder #1857674, WB Archives.

id, large-scale, low cost land reclamation through pilot operations in three regions. These regions had different soil and vegetation and were in different parts of Japan, Ishikari peat land (Shinotsu), Konsen Plain in Eastern Hokkaido (Konsen), and Kamikita area of Aomori in the Northern Main Island (Kamikita). With a view to assisting farmers in developing mixed farming in Konsen Plain and Kamikita areas, importation of young cows was recommended. The main elements as part of the proposed loan of US\$5.2 million to the Agricultural Land Mechanical Development Public Corporation (Corporation)⁴⁷ were to import:

1. Machineries for clearance, plowing and harrowing of about 12,000 hectares of land in Kamakita area in Northern Honshu with foreign exchange requirements of US\$550,000;
2. Machineries for similar operations of 12,000 hectares of land in Konsen area in Hokkaido with foreign exchange requirements of US\$ 600,000;
3. Machineries for draining, irrigation and soil dressing for 100,000 hectares of peatland in Shinotsu area in Ishikari Valley in Hokkaido with foreign exchange requirements of US\$3,100,000; and,
4. Cattle for distribution to settlers, of US\$950,000.

The preparation of each component of the loan and the basis for project formulation was complicated from the beginning, as different agencies had to handle the various components of the project. It was decided that the Corporation would undertake reclamation in Kamakita and Konsen areas. The works in Shinotsu area, the largest of the projects, would be undertaken by a government agency, the Hokkaido Development Bureau and the Corporation would make available specialized modern machineries for construction of various works and for soil dressing. It was determined that the purchase of cattle and its distribution would be looked after by the Ministry of Agriculture and Forestry and by prefectural governments. This would ensure the Corporation would confine itself to providing the necessary foreign exchange for the purpose. The project was primarily intended to introduce modern mechanical methods of land reclamation for the three different types of unused land. This made perfect sense, as much wider areas of unutilized lands was available in the vicinity of each chosen area for the pilot projects. If pilot operations were successful, the process would naturally be extended gradually beyond the project sites to develop further farms.⁴⁸

On the basis of the project concept discussed above, Japan and the WB started discussions on the details of a potential loan operation. In order to facilitate discussions on the features of the loan, initial discussions were held among officials of the Ministry of Finance, the Ministry of Agriculture and Hokkaido Development Agency, the Corporation and the WB on March 1956, in Tokyo rather than in Washington. The main issues during the meeting then were: (1) how to secure local funds financed by the Government and/or the Corporation specifically to finance the initial capital investment as well as

⁴⁷ As suggested by the WB, the Government established in October 1955, the Corporation, a Government agency, to undertake leasing operations of modern equipments for land reclamation as well as improvement.

⁴⁸ In the Archives, the available documents are mainly related to ones associated with the preparation of legal documents and thus they lack records of agricultural experts' discussions with farmers in the areas.

working capital for the Corporation, in order to fund investment for the construction of dams and pumping stations associated with the project and to assist settlers utilize the reclaimed lands; (2) the necessary understanding on procurement procedures on imports of machineries and cattle; (3) proper specifications of machineries and tractors to be imported by the Corporation; and, (4) the guidelines to govern the use of imported equipment by the Corporation and by other Government agencies other than the Corporation.

The WB tried to secure the commitment of the Government on local cost financing and proper execution of the projects without the need for any new legislation to be enacted in the Diet. Though in order to simplify the legal structure of the proposed loan, several components were put together to form one project, unfortunately because of that intention, the discussions became protracted again.⁴⁹ This time as well there were prickly issues that had to be dealt with. For example using the Shinotsu project as an example, the work for this project would be implemented by the Hokkaido Development Bureau, but the machinery would be imported by the Corporation. In order to ensure local cost financing and proper implementation of this part of the project, the legal relationship among the Corporation, the Hokkaido Development Bureau, the Government and the WB had to be established.

In the end, the project concept was kept as originally prepared and the total capital cost of the project was estimated at about US\$8.7 million. The loan amount was reduced from the original figure of US\$5.2 million to US\$4.3 million since ocean freight charges would not be financed by the proposed loan and the government found that some of the machinery needed for the Reclamation and Shinotsu projects could be procured within Japan.⁵⁰ The loan was finally sent to the Board of the WB and approved on December 14, 1956.

Available documents in the Archives on the projects and the loan are mainly related to the processing of the loan. Thus it is difficult to establish the relationship between the original purpose of the projects and possible effects it had on the farmers in the reclaimed area and on other reclamation programs in Japan. However, on the basis of the review of available reports on the project implementation in the Archives, it is apparent that: (1) the implementation of the Kamikita and Kosen reclamation projects went well with settlers who were working under satisfactory conditions and with the result was an expansion of reclaimed areas within Hokkaido and in other parts of Japan such as another area in Kyushu; (2) the implementation of the Shinotsu project went on well too with limited use of leased machinery from the Corporation, as the soil-dressing program was modified to use mud pumps in-

⁴⁹ The letter from the WB, signed by Dorr to Mr. Tsutomu Narita, President of Agricultural Land Development Corporation dated January 21, 1956. Two sets of minutes of the meetings in Tokyo are available one for the meetings in March and the other, during July/August 1956. Japan-Agriculture Project—Negotiations 01 Folder #1857674, WB Archives. Also see Memorandum, SLC/O/859, Staff Loan Committee, "Japan—Draft Loan Documents for Proposed Agricultural Projects, Memorandum from Department of Operations Asia—Middle East, July 9, 1956 in the same Folder.

⁵⁰ Memorandum SLC/O/876, Staff Loan Committee, "Japan-Proposed Loan to the Agriculture Land Development Machinery Public Corporation for Three Land Reclamation Projects and the Importation of Cattle", Memorandum from Department of Operations Asia-Middle East, November 21, 1956, Folder #1857675, WB Archives. And also Appraisal Report on Mechanical Land Reclamation Project, November 29, 1956, the World Bank.

**Table 5. Loan to the Agriculture Corporation
(US\$ 000)**

	Appraisal	Actual
Kamikita	490	1,418
Konsen	510	467
Shinotsu	2,416	884
Cattle	884	1,348
Total	4,300	4,118

Sources: Appraisal figures are from Appraisal Report on Mechanical Land Reclamation Project, November 29, 1956, pp. 2-3 and actual figures, from Memorandum, A. Casson to N. Chakravarti, Loan 158-JA List of Goods, June 9, 1961, Japan-Agriculture Folder # 1857677, WB Archives.

stead of hauling units; (3) the cattle import program was implemented without any major problems and about 7,700 head of cattle, as compared with the original plan of 5,000 head, were distributed to farmers and about 50% went to Hokkaido and Aomori in support of the reclamation and settlement works; and, (4) the Corporation operated and maintained imported machinery properly.⁵¹ Table 5 below should be above indicates the revision of costs while there were changes in project implementation as explained above:

Loan to Aichi Irrigation Public Corporation

The Aichi Irrigation project was one of the projects evaluated by the agricultural sector mission that visited Japan in July/August 1954. The mission's view on the project was favorable for a possible WB lending, to carry out a multi-purpose program in Aichi to improve and extend the irrigation of about 33,000 hectares of paddy and upland fields east of Nagoya. In addition the project would also provide the expanded capacity of water supply and power generation to the region. The project was under preparation by the Ministry of Agriculture and Forestry since 1951 and had political significance with a long-standing Government commitment. The cost was estimated at US\$70 million or ¥25 billion or equivalent with a foreign exchange component of about US\$10 million (Ibid., "Present Position and Prospects of Agriculture in Japan", January 1955, pp. 29-30).

Although these components looked attractive for WB financing as they were in support of Japan's efforts to increase food production, the WB had to grapple with many organizational, financial and management problems. The complexity it had to face can be seen with the fact that in order to implement the project, it had to deal with three national Ministries, five prefectural governments and an autonomous corporation. Even after a consensus it took a long time to prepare the technical/engineering report on the project, and then to make operational arrangements with local governments and Power

⁵¹ Memorandum, J. H. Connors to R. A. Reid, Summary Report of Agriculture Machinery Corporation Japan, September 3, 1957, Japan-Agriculture Folder #1857676; Memorandum, J. H. Connors to R. A. Reid, Back-to-Office Report, Agriculture Land Development Machinery Corporation-Loan 158-JA, November 3, 1958; and, Memorandum, W. A. Wapenhans to R. A. Reid, Back-to-Office Report-End-Use Inspection Japan 158-JA, Land Reclamation Project, October 17, 1962, Japan-Agriculture Folder # 1857677, WB Archives.

Company. The Government established the Aichi Irrigation Public Corporation (AIPC) in October 1955 at the suggestion of the WB, established on the lines of Agriculture Land Development Machinery Public Corporation. The AIPC and the WB continued discussion on project preparation both in Tokyo and Washington. The main points of discussions were the progress of the design work by the consultants, cost estimates of the main work, irrigation plan for water use by farmers, land acquisition and Government financing of the project.⁵² By the end of 1956 the WB doubted the readiness of the project for appraisal. The reasons were that the cost estimates were still uncertain, apart from that the irrigation systems as well their management, and the water charges to farmers were still to be determined.⁵³

The WB finally received the results of the engineering studies at the end of 1956 to find part of information still incomplete, particularly on the specifics on the management of the irrigation system. A key letter from the WB to the AIPC dated March 11, 1957 stated that,

[...] on the whole the engineering and agricultural questions are being satisfactorily clarified, there remain a few matters on which we would like to further information.

[...] In order to confirm and update our understanding, we are sending you the attached list of the questions upon which were at present insufficiently informed. [...]⁵⁴

The main questions were related to the AIPC's future financial situation, estimates of the average farmer's net income both before and after irrigation, information on all subsidies provided to the farmers, the division of responsibility among the AIPC, the Ministry of Agriculture and Forestry and the Prefecture for planning and operations beyond the secondary canals. Eventually, the Corporation did furnish answers to most of the questions raised in the March WB letter. After reevaluating the nature of WB's association with the project and the AIPC, the WB finally invited the AIPC to send negotiators to Washington on June 15, 1957.⁵⁵

According to the appraisal report⁵⁶ on the project, the purpose of the project was to increase food production, by about 100,00 tons (brown rice equivalent which was about 3% of the national food deficit) and to test the feasibility of irrigation on rolling upland country, a type of farming new to Japan. The basic components of the proposed project were: (1) construction of a rock-fill dam for irriga-

⁵² Various Memoranda written in Tokyo by D. W. Jeffries on the discussions between the Corporation and the WB on the Project from August 2-September 26, 1956, Japan-Aichi Water Project Folder #1857718, WB Archives.

⁵³ Memorandum, Piccagli/Reid/Kephart, "JAPAN—STATUS OF AICHI PROJECT", December 6, 1956, Japan-Aichi Water Project Folder #1857718, WB Archives.

⁵⁴ Letter, Bernard Chadenet to Mr. Shiro Sakurai, Director of Technical Affairs, the Corporation, Macrch11, 1957, Japan-Aichi Water Project Folder #1857719, WB Archives.

⁵⁵ Memorandum SLC/O/892, Staff Loan Committee, Department of Operations Far East, Japan-Aichi Irrigation and Water Supply Project, April 23, 1957, Japan-Aichi Water Project Folder #1857719, WB Archives and Memorandum, Richard F. Quandt to Mr. Martin M. Rosen, "Japan: Aichi Irrigation Project—Degree of the Bank's Commitment to make the Loan," April 26, 1957, Japan-Aichi Water Project Folder #1857719, WB Archives.

⁵⁶ Appraisal Report on Aichi Irrigation Project, July 30, 1957, the World Bank.

tion purposes with an effective capacity of 69 million m³ at Makio Bridge on the Otaki River, US\$11.8 million equivalent; a main canal, 114 km long, US\$26.8 million; secondary canals, totaling 1,300 km, US\$11.2 million; regulating reservoirs, US\$3.8 million; land reclamation, US\$4.3 million; (2) the installation of a power plant with 10,000 kW capacity, US\$1.8 million, and a water supply system, US\$8.1 million; (3) right of way, US\$7.1 million; overhead and expenses, US\$6.3 million; engineering, field expenses and supervision by consultants, US\$7 million. Adding contingencies and interest during construction, the total cost was estimated at about US\$100 million with a foreign exchange component of about US\$7 million for which WB lending was requested.

The proposed loan was to finance foreign exchange needed for the imports of heavy machinery for the construction of the dam, canals and reservoirs in the Aichi area. The payments for services went towards foreign irrigation and construction consultants and training AIPC personnel in the techniques of ridge land irrigation (Ibid., Appraisal Report Annex B). The AIPC was to construct and operate the project. The Association of Farmers would construct and operate the supplementary works in the area to supply irrigation water. The Aichi Prefecture would build, with funds provided by the AIPC, operate potable and industrial water facilities. An arrangement was made for the reimbursement of the proportionate share of the AIPC's investments. A contract between the AIPC and the Kansai Power Company was made on similar lines with respect to the installation of an electric power station. Besides WB loan the project cost of about US\$100 million, the AIPC was to be financed through subsidies from the Central Government of US\$24 million equivalent; loans from the Central Government of US\$53 million; and, provision of P. L. 480 counterpart funds of US\$17 million (Ibid., Appraisal Report, p. 7).

The benefits from the project according to the Appraisal Report (Ibid., p. 8), was an estimated market value of US\$13 million a year in increased agricultural production. This meant that production in the area would see an increase of more than 60%. Nearly 90% of the increase would come from additional rice, vegetables and fruit production. Irrigation was to be improved for farms that already existed, and new farms were to be expanded on unused land in the area. This meant that many paddy fields in Aichi that were used in winter to store water, would soon be irrigated and would be available for growing winter vegetables and cereals.

On the ridge lands, increased production would come from a wider cropping pattern and from higher yields of crops that were damaged by severe drought in late summer. According to the WB announcement concerning the project, the paddy farmers should have no difficulty in maximizing on benefits from the project almost immediately bearing in mind that rice farming was already an old and highly developed skill in Japan. The real difficulty was seen as the rapidity with which farmers could master the intricacies of irrigation on rolling ridge lands, which was a new kind of agricultural technique in Japan. However, Japanese farmers were renowned for their competence and diligence and were expected to obtain maximum yields, once enough experience was gained in applying water management under these conditions. They were to receive further training and guidance in acquiring the nec-

essary skills from the results of research being carried out by the Government.

During negotiations, it was clear that the WB had tried its best in ensuring the smooth implementation of the project by insisting the involvement of foreign consultants. These consultants were responsible for designing and supervising the construction of the dam, reservoirs and main canals, irrigation consultants were used for general planning and secondary canal design, soil conservation and earth moving, and irrigation operation. Negotiations in Washington took about two weeks to complete.⁵⁷ In the end, the loan amount was reduced from the originally proposed US\$10 million to US\$7 million and the list goods to be financed through the loan (Ibid., Appraisal Report, Annex B) were:

1. Consulting services for design and construction	US\$1.50 million
2. Construction equipment	US\$4.40 million
3. Consulting services for upland irrigation	US\$0.04 million
4. Interest during construction	<u>US\$1.06 million</u>
Total	US\$7.00 million

The WB's Board approved the loan on August 8, 1957. This loan was the last one for the agriculture sector and also the last one under the initial WB's lending framework (totaling US\$ 100 million for several years covering only financing of foreign exchange costs). The implementation of the project was not completely documented in the files of the project at the WB Archives. The review of available information indicates the poor relationship between the Corporation and the WB. Although their regular visits to the project sites to assess the progress of implementation of the agriculture component were made, the WB's engineer did not make visits to the construction sites after December 1958.⁵⁸ The Corporation did not send progress reports to the WB as prescribed in the Loan Agreement. As such, the progress of works was not monitored properly and the final costs of construction works were unknown. It was certain that there were cost increases, as additional works were required to repair the damages caused by a typhoon that struck the area in September 1959 and an extremely heavy rainstorm in June 1961. There were also some increases in unit cost of construction.

The relationship between the Corporation and the consultant firm for design and construction, were not good either. For example, there were contractual issues relating to the extension of the original contract. Though the consultants considered the dam and waterways system still incomplete, about 45% of the waterways were already put to use. According to the letter from the AIPC to the WB, the final loan disbursements amounted to only about \$4.9 million as of April 1962 against the originally in-

⁵⁷ A complete set of minutes of the meeting between Japanese delegation and the WB is available in Japan-Aichi Water Project Folder #1857719, WB Archives.

⁵⁸ Memorandum, Jack H. Connors to P. A. Reid, Report on the Aichi Irrigation Project-Loan 173-JA, December 31, 1958, Japan-Aichi Water Project Folder #1857720, WB Archives.

tended loan amount of US\$ 7 million.⁵⁹ On the basis of limited available information, the project was implemented without additional major problems or big expenses, and agricultural activities increased as expected. Beyond that, the WB's contribution towards the project implementation cannot be assessed properly.

4. Dramatic Changes in the WB's Lending Policy to Japan

Observing positive developments with the Japanese economy in 1955 and the first few months of 1956, the WB staff started to consider the possibility of increasing the lending ceiling of US\$100 million. The desk officer discussed this possibility with the Embassy staff of Japan in March 1956. The reaction from the Embassy staff then was that an increased foreign exchange lending would create in turn, an additional need of local currency. Since Government expenditures were increasing rapidly anyway, it was perceived difficult to find new projects for potential WB foreign exchange financing that would require additional local currency.⁶⁰

There were also outstanding issues on the execution of lending operations to Japan as already mentioned in the previous section. Realizing the apparent need to change its lending policy to Japan, the WB management took judicious steps in this direction. The first formal step was taken when the WB President met with the Minister of Finance from Japan during the Annual Meetings in September 1956. They discussed the status of loan negotiations on the Agricultural Development and Kawasaki projects, and the WB President himself proposed to send an economic mission in 1957 to consider whether there were any other ways in which the WB might assist Japan. The Minister welcomed this proposition and hoped that Mr. Black himself would visit Japan in the near future.⁶¹

In December 1956, the management of the WB instructed the department in charge to prepare a new approach to future lending to Japan. The department prepared a memorandum entitled "Future Bank Lending to Japan" dated February 5, 1957.⁶² Its conclusions were: (1) Though a full analysis of Japan's credit worthiness is required, the progress made by the Japanese economy during recent years indicates that she could now safely undertake further external borrowings; and, (2) Assuming any additional lending towards funding projects, it would be in the form of financing a percentage of capital cost of the projects, without much regard to the foreign exchange component.

In order to reach these conclusions, the memorandum explained succinctly how Japan achieved high rates of economic growth without jeopardizing economic stability. The document also acknowl-

⁵⁹ Letter, President of Aichi Irrigation Public Corporation to the World Bank, "List of Goods Aichi Project—Loan No. 173 JA", April 11, 1962, Japan-Aichi Water Project Folder # 1857722. Several memoranda exist in the Archives discussing agricultural activities and civil works on the Project in Japan-Aichi Water Project Folders #1857720–1857722.

⁶⁰ Memorandum, D. W. Jeffries to Files, Japan—March 22 Meeting With Minister Suzuki, March 22, 1956, Japan-General, Folder #1857455, WB Archives.

⁶¹ Memorandum, R. Goodman to J. R. Rucinski, Notes of Meeting between Representatives of the Japanese Government and the Bank on Friday, September 28, 1956, dated October 8, 1956, Japan-General, Folder #1857456, WB Archives.

⁶² Memorandum SLC/0/883, Department of Operations, Asia and Middle East to Staff Loan Committee, Future Bank Lending to Japan, February 5, 1957, Japan-General, Folder #1857456, WB Archives.

edged the radical improvement in her international balance of payments, emphasizing dramatic increase in exports and well-controlled increase in imports. The impressive increase in export was achieved through the increased sales of capital goods and heavy industrial products and maintaining a higher than expected rate in textile exports. Exports of non-ferrous metal products had also increased markedly. Assuming that total world trade continued to expand, Japan would be able to share fully in these larger markets. Increased trade for Japan implied lower than expected dependency on US military special procurements and the increased ability to make debt repayments including public debt, all pre-war debt, reparation and war claims settlements. The memorandum further stated that:

[...] A more thorough study is required to determine the amount of additional external debt, which Japan could prudently incur. It seems clear that the amount is likely to be substantial and justifies consideration now of the general principles that should apply to future lending to Japan [...]. (Ibid., p. 4)

However, as the expansion of the economy continued, bottlenecks in power, transportation and iron and steel appeared, despite the fact that these industries received their full share of attention in post-war investment programs. Investment in these sectors would be required if Japan was to be self-supporting and provide a better standard of living for its people. It was widely felt in conservative circles that unless moves were made toward such an expansion, a government committed to socialistic methods would inevitably come to power. Investment expenditures to meet those ends over the next five years were now imperative, on an even larger scale. The evaluation of such high-priority investment requirements indicated that they were likely to exceed domestic savings, even if some annual increase in national income were taken into account. A substantial amount of additional foreign borrowing seemed essential for Japan, especially in the near future (Ibid., pp. 5–6).

On the second conclusion, the memorandum conceded that many of past loans were inconveniently small and had a relatively minor foreign exchange component. Only the loans to the three power companies and Kawasaki steel had a larger foreign exchange component, and they were considered exceptional. By then as Japan developed its capital goods industries, which supplied the bulk of her domestic requirements and made an important contribution to exports. Imports of capital goods were marginal or they were mostly special items of machinery and equipment. The WB was aware that as Japanese industry modernized its techniques, it would be increasingly difficult to implement any lending program of significant amounts tied to imports of machinery and equipment, particularly if they were also tied to projects. Furthermore, if foreign exchange financing would continue as before, the WB's financial contribution to particular projects or enterprises would be too small to influence their project design, organization or execution.

Accordingly, the memorandum recommended that the WB shift from foreign exchange financing to local expenditure financing. It was also in support of the project lending approach and rejected the

idea of lending to a development bank in Japan to make local expenditure loans. The memorandum also explained that to undertaking local expenditure financing does not eliminate the problems inherent in the Japanese legal and constitutional system. It recommended a rather flexible approach for the WB, recognizing that the Japanese might be expected to make effective use of resources, though their methods differ widely from those of the West. This approach would then reduce lending difficulties to a level mutually acceptable to the WB as well as Japan and eventually enable the undertaking of larger individual loans based on the local expenditure principle. The memorandum further indicated that the sectors and projects for prospective WB financing included: the iron and steel industry, railroad transportation, electric power sector, important land reclamation projects such as the Hachiro Lagoon, the coal industry, regional development plans in Hokkaido and highway construction programs (*Ibid.*, pp. 6–7).

The WB's management reviewed the above conclusions and recommendations and expressed their general agreement with the findings on Japan's recent economic progress and the future direction of financing local cost of Japanese projects. However, the management expressed its caution in making firm conclusions on the creditworthiness of the country, as they wanted to also confirm it through the analysis of the forthcoming mission to Japan. The management also urged for a study on the JDB, in order to determine whether the JDB would be a useful and desirable vehicle for future WB operations. Other proposals included the setting up of a separate or joint market operations with private financial institutions to draw in additional foreign exchange resources, considering the substantial need for foreign resources to finance Japan's development efforts.⁶³

The next step that was taken internally was the reorganization of the Department within the WB that was responsible for operations in Japan. The Annual Report 1957/58 of the WB (page 26) stated that:

In April 1957, a new Department was formed in the Bank to assist in handling the growing volume of work in Asia. Over the last two years, the total lent in that Region has more than doubled and a corresponding increase has take place in the Bank's advisory work. Responsibility has therefore been assigned to a separate Department of Operations, Far East, for the following countries: Burma, Ceylon, China, Indonesia, Japan, Korea, the Philippines, Thailand and Viet Nam. Relations with the remaining countries that were formally the responsibility of the Department of Operations, Asia and the Middle East are now handled by the Department of Operations, Middle East.⁶⁴

In April 1957, in accordance with the decision of the WB's management, the economic mission vis-

⁶³ Vide Memorandum SLC/M/660, Minutes of Staff Loan Committee Meeting held on Monday, February 11, 1957, Japan-General, Folder #1857456, WB Archives.

⁶⁴ Thirteenth Annual Report: 1957–1958, the World Bank

ited Japan to stay in the country till end of May. Its report was published on July 25, 1957 as discussed in the second section of this paper. While the economic mission was reviewing the Japanese economy, it also had the task of scheduling the visit of President Black to Japan and convincing the Government on the positive role of the WB through the changes put forward to its lending policy in local cost financing. Given the Government efforts at that time to reduce the current account deficits in the balance of payments problems, the Government was skeptical about the increased borrowing from the WB, as any borrowing was considered “inflationary”. Within the Ministry of Finance, one important question was how effective the WB would be as an agency to assist the Ministry in performing its function as the arbiter of allocating budgetary resources, considering each Ministry claimed for a larger share of these resources.⁶⁵

When the economic mission was still in Japan, the President of the WB, Mr. Black, visited the country for 11 days. The Director of the new Department, Mr. Rosen, accompanied him. According to the minutes of the meeting between the Minister of Finance, Mr. Ikeda, and Mr. Black, they discussed Japan’s proposed borrowing from the WB, the prospects of private US investment in Kobe–Nagoya highway project, and others.⁶⁶ On the proposed borrowing, the Minister presented a list of projects in the power, steel and highway sectors with a total investment amounting to US\$770 million, over the course of the next five to six years. The WB was to finance about 30% to 40% of the total cost, virtually all in local currency. The Government intention was to borrow foreign exchange resources substantially from the US Export–Import Bank to finance imported equipment with the Government’s guarantee. For the WB, it was impossible to accept the proposal to divide the financing, where the US Export–Import Bank would finance imported equipment and while local currency expenditures were to be financed by the WB.

Mr. Black explained that the WB could make loans for local currency expenditures only on the exceptional condition, i.e. where the bulk of the required capital equipment was produced in the borrowing country and only relatively small amounts of equipment had to be imported. In other words, the WB’s lending should include necessary import items even if others were to finance these imports. Mr. Black made it rather explicit as to how far Japan could go with borrowing from the US Export–Import Bank, i.e. the question of exceptions for which import equipment financing was to be from the US Export–Import Bank in addition to the US\$50 million contract being negotiated at an advanced stage. In the end, an agreement was reached that Japan would prepare a 4–5 year general investment and borrowing program including specific proposals for the next two years for further discussion. Though the specific amount of lending was not discussed, it was reasonable for Japan to expect that 30%–40% of the total project costs would be covered by the WB’s local currency loans. Mr. Black also mentioned

⁶⁵ Letters from Tokyo, J. de Wilde to Martin Rosen, Letter 4, undated and Letter 10, April 22, 1957, Japan-General, Folder #1857456, WB Archives.

⁶⁶ Memorandum, H. E. Tolley to Files, “Japan—Meeting between Mr. Black and the Minister of Finance, May 15, 1957”, May 27, 1957, Japan-General, Folder #1857456, WB Archives.

that the WB was prepared to speed up loan negotiations and to be more flexible in setting up of loan conditions.

It is interesting to note that the WB and the government discussed the possibility of joint financing the highway project with US private investment, as an important step in re-establishing the strong position that Japanese bonds held in foreign capital markets before the war. Other subjects of concern was the decision made by the Government to release the remaining US\$35 million of Japan's 18% subscription to the WB over the next five years, the WB's request for Japan to purchase part of a two year bond issue in 1958, and Japan's request for the expansion of WB's lending operations to Southeast Asia implying more business to Japanese industries.

In Japan, in addition to the meeting with the Minister of Finance, Mr. Black met with key Ministers and business leaders and visited factories in Osaka and Chiba. His impression of Japan was positive and he made a presentation on his visit to Japan in the Board meeting on May 27, 1957, a few days after his return to Washington. The last paragraph of his speech was:

[...] I was very impressed with the progress in the country, with the skill and the energy and the resourcefulness. When I say "energy," that means the hard work, and the resourcefulness and the managerial ability of the Japanese people. Of course they have problems, as everybody else has, but you can't help but be impressed with the job that they have done and are doing today. I was also greatly impressed with the literacy. It is about 99 percent there. It was a very profitable trip.⁶⁷

His visit to Japan signaled the start of the new WB approach to future lending to Japan. The mismatch between Japan's needs and the WB's lending would dissipate and a new era of Japan's borrowing from the WB was going to start from then on.

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⁶⁷ Transcript of Proceedings, "Visit to Far East," 129th Special Meeting of Executive Directors, May 28, 1957, p. 28. International Bank for Reconstruction and Development. Also in the President Report on a proposed Loan to Aichi Irrigation Public Corporation in July 1957, Mr. Black makes a similar statement on his visit: "As a result of my recent visit to Japan [...], I have come to conclusion that despite the present difficulties the over-all economic development of Japan is proceeding satisfactorily and that the Japanese Government authorities are fully conscious of their task of keeping development within the limits of Japan's economic and financial capacity. In my opinion Japan offers appreciable possibilities for the Bank's co-operation in further development." (vide Report and Recommendations of the President to the Executive Directors on a Proposed Loan to Japan, July 30, 1957. p. 4)

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ANNEX 1

Basic Structure of the WB Projects and Loans [†]

Yawata Steel Project

1. Borrower: Japan Development Bank (JDB)
2. Guarantor: Government of Japan
3. Loan Amount: US\$5.3 million¹ lent to Yawata Iron Steel
4. Date of Loan: 10/25/1955
5. Effective Date: 02/16/1956
6. Closing Date: 12/31/1957
7. Terms of Loan: 15 years
8. Interest Rate: 4–5/8%
9. Project Description: The total cost of Yawata steel project amounting to about US\$15.6 million equivalent was to assist Yawata Steel Company to replace three obsolete plate mills by a single modern four high plate mill in the city of Yawata. The loan of US\$5.3 million would finance all the foreign exchange costs of the imported equipment required for the project.
10. Security: Broadly similar to those in the previous power loans. A general Mortgage Note by Yawata in favor of JDB, which the latter in turn pledge to the WB. According to the records of negotiations of this loan, outstanding obligations to create liens in favor of Japan's commercial banks and negative pledge clauses in favor of such banks existed and those existing arrangements, believed

[†] Sources: Five Report and Recommendations of the President to the Executive Directors on each Loan published by the World Bank.

¹ Of which US\$171,142 was cancelled according to Annual Report 1960–1961, the World Bank.

to be about 50 agreements, had to be altered or cancelled.

11. **Legal Instruments and Legal Authority:** Similar to the previous power loans, the legal instruments were the Loan Agreement between the WB and the JDB, the Project Agreement between the WB and Yawata, and the Guarantee Agreement between Japan and the WB. As part of the Loan Agreements, a financial covenants letter to Yawata was signed to improve its debt-equity ratio in accordance with an agreed schedule and the margin between its total external liabilities and its current assets. As part of the Guarantee Agreement, the Guarantor would undertake to make the provisions of its negative pledge clause effective concerning liens on assets of political subdivision and their agencies. An undertaking to make the negative pledge concerning liens on the assets of the Bank of Japan was, however, given separately.
12. **Justification:** The proposed project would remove deficiencies in existing equipment, improve the amount and quality of the product, and reduce costs and increase Yawata's ability to compete in export markets. Annual capacity would increase from 342,000 tons to about 360,000 tons, and unit production costs would be lowered by about 12%.

Various Industrial Projects

1. **Borrower:** Japan Development Bank
2. **Guarantor:** Government of Japan
3. **Loan Amount:** US\$8.1 million² relent to four companies:

Nippon Steel Tube	US\$2.6 million
Mitsubishi Shipbuilding and Engineering	US\$1.5 million
Ishikawajima Heavy Industry	US\$1.65million
Toyota Motor	US\$2.35million
4. **Date of Loan:** 02/21/1956
5. **Effective Date:** 05/10/1956
6. **Closing Date:** 12/31/1958
7. **Life of Loan:** 15 years
8. **Interest Rate:** 4-3/4%
9. **Project Description:** The loan would finance the purchase of more than 100 imported machines and machine tools for various modernization projects being undertaken by the four companies. The Nippon Steel Tube would construct a new seamless tube mill to replace two obsolete mills; Mitsubishi would install new equipment to facilitate production of turbo superchargers and heavy components for modern diesel engines; Ishikawajima would retool for the manufacture of larger and more powerful marine steam turbines, marine turbo supercharges and heavy industrial machinery; and, Toyota would import machinery and equipment for manufacturing components

² Of which US\$539,555 was cancelled according to Annual Report 1960-1961, the World Bank.

for trucks and buses.

10. Security Arrangements: No provision was made for the WB to receive from the JDB, the security, which the JDB receives from the beneficiary enterprises. The WB would obtain from the JDB a negative pledge clause in the usual form.
11. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between the WB and the JDB, and the Guarantee Agreement between Japan and the WB. But no Project Agreement between the WB and the beneficiary enterprises, as the WB would not have any contractual relations with the enterprises. The Loan Agreement included the JDB causing the projects to be properly carried out. The Guarantee Agreement included Japan's guarantee payment but not performance and also the negative pledge clause in the same form as Yawata's case.
12. Justification: Modernization of Japanese heavy industry, including shipbuilding, was of basic importance to the economy. These industries not only produced for the domestic market, but were also a principal source of export earnings. The projects would result in more efficient operation, lower production costs, and improvement in the quality of their products.

Kawasaki Steel Project

1. Borrower: Japan Development Bank
2. Guarantor: Government of Japan
3. Loan Amount: US\$20 million lent to Kawasaki Steel
4. Date of Loan: 12/19/1956
5. Effective Date: 03/25/1957
6. Closing Date: 04/30/1959
7. Terms of Loan: 15 years
8. Interest Rate: 5%
9. Project Description: The loan would cover the foreign exchange cost of imported equipment for a semi-continuous hot and cold strip mill and of related facilities with 300,000 tons capacity at Kawasaki's Chiba plant near Tokyo. The new strip mill was the final stage of the construction of a fully integrated steel plant at Chiba. The total cost of the project was estimated at US\$45 million.
10. Security: No provision was made for the WB to receive from the JDB, the security which the JDB receives from the Kawasaki. The WB would obtain from the JDB a negative pledge clause in the usual form. In comparison with other loans, this loan had unusual characteristics with respect to actions to be taken before the loan becomes effective to improve financial condition of the Kawasaki. The financial actions would be through: "Creditors Agreement" between Kawasaki and its long-term creditors to postpone and extend maturities of the long-term debt; "Paramount Agreement" between Kawasaki and the long-term creditors for them to defer repayment of the principal amounts to protect Kawasaki's working capital; and, "Daiichi Agreement" between Kawasaki and the Daiichi Bank for Daiichi to provide a line of credit and to refund Kawasaki's mortgage

bonds. In addition, one of effectiveness condition was that Kawasaki should have entered into the agreement with its creditors to borrow ¥4 billion of new long-term debt.

11. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between the WB and the Japan Development Bank (JDB), the Project Agreement between the WB and the Kawasaki, and the Guarantee Agreement between Japan and the WB. The Loan/Project Agreement reflected an approach of the WB to use the power of the JDB for financial transaction and project implementation through the Subsidiary Loan Agreement between the JDB and the Kawasaki. The Guarantee Agreement was similar to previous guarantee agreements with Japan.
12. Justification: The Kawasaki Steel was one of the largest steel producers in Japan. It constructed modern blast and open-hearth furnaces and a high capacity blooming mill in Chiba, but its finishing facilities were located some 300 miles away in the Kobe area. It was a major producer of steel sheet but forced to rely upon inefficient pullover hand mills for this product. The new mill would enable Kawasaki Steel to benefit more fully from its large investment at Chiba, would reduce the cost of its sheet production, and would improve the quality of the product.

Mechanical Land Reclamation Project

1. Borrower: Agricultural Land Development Machinery Public Corporation
2. Guarantor: Government of Japan
3. Loan Amount: US\$4.3 million³
4. Date of Loan: 12/14/1956
5. Effective Date: 03/19/1956 (Kamikita and Konsen component);
03/19/1957 (dairy cattle component); and,
05/15/1957 (Shinotsu project component)
6. Closing Date: 03/31/1959
7. Terms of Loan: 15 years
8. Interest Rate: 5%
9. Project Description: Japan imported about 20% of her food requirements, with population increasing; she had to increase her agricultural production by 15% within 10 years. This project was a part of the program to enhance the food production. The proposed loan would finance the import of equipment, amounting to US\$1 million, for pilot projects on the Kamikita and Konsen areas of Northern Honshu and Hokkaido to test the feasibility of large scale and rapid reclamation of land by the use of modern land clearing and earthmoving equipment; a part of the loan, US\$2.4 million, would finance the cost of modern earthmoving and construction equipment for reclamation in the Shinotsu area of the valley in Hokkaido; and, in order to foster the development of mixed farming, the loan would finance the import of 5,000 head of dairy cattle breeding stock

³ Of which US\$183,076 was cancelled according to Annual Report 1960–1961, the World Bank.

over the period of three years.

10. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between the WB and the Agricultural Land Development Machinery Public Corporation, and the Guarantee Agreement between Japan and the WB. The complication came from the fact that the loan itself was a package of 4 different sub-loans, of which the Borrower was directly responsible for only two. The Loan Agreement provided specific responsibilities of the Corporation, i.e. undertaking the Kamikita and Konsen projects plus additional agreed projects to be carried out with the imported machinery, procuring equipment and lease it to Hokkaido Development Bureau and importing cattle for the Ministry of Agriculture and Forestry and sale of cattle to farmers together with prefectural governments. The Guarantee Agreement contained covenants concerning general commitment of the government and the Corporation to implement the programs the use of the imported machinery and agreement to promote the settlement of lands to be reclaimed.
11. Justification: If the pilot projects were successful, they would demonstrate that mechanized methods could be used effectively on other unused but potentially arable land. Raising livestock offered another venue for increased food production.

Aichi Irrigation Project

1. Borrower: Aichi Irrigation Public Corporation
2. Guarantor: Government of Japan
3. Loan Amount: US\$7 million⁴
4. Date of Loan: 08/08/1957
5. Effective Date: 10/08/1957
6. Closing Date: 05/31/1961
7. Terms of Loan: 20 years
8. Interest Rate: 5–3/4%
9. Project Description: The total cost of the project was estimated at about US\$100 million equivalent. The projects would make possible the production of about 200,000 tons of additional food crops annually through provision of irrigation to 17,000 hectares of paddy fields and 16,000 hectares of upland country; the supply of domestic and industrial water, about 45 million cubic meters, to municipalities including the city of Nagoya; and, the supply of additional 100 million kwh per annum to regional power system. The loan would finance the import of heavy earthmoving equipment, the consultant services for irrigation and construction, and the training of key personnel in the organization. The Aichi Irrigation Public Corporation was established to plan, construct and operate a regional irrigation system and accessory works.
10. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between

⁴ Of which US\$2,127,571 was cancelled according to Annual Report 1962–1963, the World Bank.

the WB and the Aichi Irrigation Public Corporation, and the Guarantee Agreement between Japan and the WB. The Loan Agreement provided that the Corporation was to employ suitable consultants and that the proceeds of the loan might finance the cost of the consulting services and also the cost of necessary technical training outside Japan of selected staff of the Corporation. The Guarantee Agreement contained a guarantee by the Central Government to ensure that the Corporation would receive funds sufficient to cover any shortfall in the resources to carry out the project and operate its enterprise.

11. Justification: It was urgently necessary to Japan to increase food production and this project would add to food, water and electric supply, but in a broader way it would contribute importantly to Japanese knowledge of upland irrigation techniques. The project operations would test the feasibility of similar development of much larger areas in Japan with a view to significantly reducing the national food deficit.

ANNEX 2

Report of the End-Use Mission to Japan, August 5, 1954

The end-use (later this naming was changed to the supervision) mission report of August 5, 1954 on the first loans to the three power companies is available in the Archives and this Report prepared by the technical experts (in the Technical Operations Department) is one of rare documents, as most of documents in the Archives are originated from the country desk (in the Operations Department). The report had an overview of the three power companies, Chubu, Kyushu and Kansai Power companies, the three beneficiaries of the first WB loans via the Japan Development Bank (JDB) as the borrower. The main conclusions were: Thermal capacity presently available is used for peaking and integration purposes, the resulting low utilization due mainly to the very small storage capacity of the hydro systems and to the high cost of steam power generation as compared with current power rates. Efficiency of thermal generation is very low due both to the low design efficiency of many units and to the intermittent type of operation. Specific comments were:

1. Transmission and distribution facilities are overloaded. Planning for expansion of these facilities is unsatisfactory;
2. Losses of power are very high and are not expected to improve appreciably in the near future;
3. The committed and Improvement Programs, as defined in the Loan Agreements, are being carried out with some delays and considerable increases of cost especially as regards hydroelectric projects. In several instances this appears to be partly caused by inadequate planning;
4. In finalizing their plans beyond the Committed Programs, the companies are keeping addition of new capacity to a minimum and concentrating their efforts on expansion of transmission and distribution facilities, within the limitations of expected availability of funds. This reverses the policy of recent years and should be beneficial in bringing about a better system balance;
5. The two principal interrelated problems affecting the companies' financial conditions are a con-

tinued shortage of funds to ensure financing of present expansion and improvement programs and the inadequate earning power under present rates to meet increased operational expenses and financial charges and to provide a reasonable return on capital;

6. In January 1954, the three power companies applied to the Ministry of International Trade and Industry for rate increase amounting to 26.8% for Chubu, 10.7% for Kansai and 16.1% for Kyushu, within a requested national average increases in power rates of 17.1%. Subsequently, the companies reduced their requests to 20.8% for Chubu, 6.3% for Kansai and 11.1% for Kyushu, respectively, taking account of lower fuel cost resulting from the current decline in coal prices and of reductions in taxes and interest rates. The Ministry has favorably commented on these rate applications but the Government action to thereon is still outstanding.

On the basis of the above, the Report concludes that: "Inasmuch as the final success of the three power projects financed under the WB loans depends to a large extent on the timely completion and smooth operation of the companies' overall power programs as well as on their sound financial condition, the question of rate increases is one of direct concern to the WB.—The most critical current needs if the power companies can be listed as follows in order of priority:

1. Obtaining government action on an increase in power rates;
2. Improving the quality of the companies' present operations, especially at the planning and managerial level. Specialized outside assistance may be needed to achieve this purpose.

Source: Report of the End-Use Mission to Japan, dated August 5, 1954 pp. 1–38, Japan, Folder # 1857454, WB Archives.