

# Japan and the World Bank, 1951–1966: Japan as a Borrower (4)

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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のもとに設立された 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記録である。この小稿は最終章に当たる第四章である。日本の経済成長が本格化し 1961 年に日本経済力が最早世銀に頼るべきでない段階に到達し世銀借款が一時打ち切りになった後、より多くの公共投資への資金が必要になった 1963 年から世銀借款が再開され、主に高速道路の建設に貸し出しがなされた。その 1963 年から 1966 年に世銀借款が最終的に打ち切りになる迄の調査分析である。最後に、当時の日本経済に世銀の果たした役割をこの一連の調査研究結果としてまとめてある。

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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 WB Archives. The purpose of the study is to record Japan's experiences as a borrower from 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, Receiving Loans for Financing Foreign Exchange and Local Cost Expenditures and Becoming Ineligible for Borrowing from the WB
- e. 1963–1966, Restarting Borrowing from WB and Graduating from WB Borrowing
- f. Concluding Remarks

The first paper was published in October 2011 in this Journal.<sup>1</sup> It addressed the initial two themes,

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Author's note: all the papers are written on the basis of the review of published information, including ones of the Archives of the IMF and the World Bank.

<sup>1</sup> Japan and the World Bank, 1951–1966: Japan as a Borrower (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](http://dSPACE.wul.waseda.ac.jp/dSPACE/bitstream/2065/35041/1/AjiaTaiheiyoTokyu_17_Abe.pdf).

items a. and b., an overview of Japan's borrowing from the WB and Japan's initial association with the WB between 1951 and 1953.

The second paper was published in August 2013 in this Journal.<sup>2</sup> The paper addressed the item c., analyzing how Japan received small loans only for financing foreign exchange expenditures during the period 1954–1957 and how the WB dramatically announced the change of its lending policy to Japan in mid-1957, to not only finance the foreign exchange expenditures, but also local cost expenditures.

The third paper was published in December 2015 also in this Journal.<sup>3</sup> The paper addressed the item d., analyzing the way the WB expanded its lending operations to Japan, by assisting Japan in getting into the New York financial market. However, the WB had to stop lending to Japan in 1961 as the country's level of economic development had reached too high a level to continue being a WB borrower.

The current paper deals with the fifth theme, items e. and f., analyzing the way the WB restarted lending and stopped lending to Japan for good in 1966. The paper ends with the review of the role played by the WB in Japan's economic development during the whole period under consideration, 1951–1966. Annex 1 lists all projects and loans from 1953 to 1966 and Annex 2 provides a summary of seven projects/loans during the period under consideration, and highlights specific issues associated with each project/loan.<sup>4</sup>

## 2. The WB's View on the Japanese Economy

The WB continued to review Japan's development efforts through periodically visiting Japan and discussing economic issues with government officials and prominent business leaders. The purpose of these reviews was to assess the country's economic and financial policy, and the amount of external debt the country could afford. The views on the economy were important inputs for determining WB's lending strategy to Japan.

Table 1 below shows the rate at which the economy was adjusting and expanding each year between 1962 and 1966. Table 1 indicates economic growth from 1963 onwards with higher than 10% annual increase in real GNP in 1963 and 1964 and about 10% or higher annual increase in industrial production. The annual price indices show rather stable wholesale prices and relatively higher increases in consumer prices in 1962 and 1963.

Table 2 below provides the balance-of-payments between 1962 and 1966, indicating large deficits in merchandise balance in 1963 and 1964 and a quite comfortable surplus in 1965 and 1966 due to:

1. Considerable increase in imports in 1963 and mild increases in imports in the following years;

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<sup>2</sup> Journal of Asia-Pacific Studies, No. 21, Institute of Asia-Pacific Studies, Waseda University, August 31, 2013, pp. 213–257: [http://dspace.wul.waseda.ac.jp/dspace/bitstream/2065/39814/3/AjiaTaiheiyoTokyu\\_21\\_Abe.pdf](http://dspace.wul.waseda.ac.jp/dspace/bitstream/2065/39814/3/AjiaTaiheiyoTokyu_21_Abe.pdf).

<sup>3</sup> Journal of Asia-Pacific Studies, No. 25, Institute of Asia-Pacific Studies, Waseda University, December 15, 2015, pp. 177–243: [http://dspace.wul.waseda.ac.jp/dspace/bitstream/2065/46836/1/AjiaTaiheiyouTokyu\\_25\\_Abe.pdf](http://dspace.wul.waseda.ac.jp/dspace/bitstream/2065/46836/1/AjiaTaiheiyouTokyu_25_Abe.pdf).

<sup>4</sup> Please also refer to Chapter 16 entitled "the World Bank and Japan," Japan's Development Assistance: Foreign Aid and the Post-2015 Agenda, pp. 255–275, Palgrave Macmillan UK, 2016. This chapter was written by Shigeo Katsu and the author.

**Table 1.** Economic Indicators for Japan 1962–1966  
Percentage Changes over Preceding Year

	1962	1963	1964	1965	1966
GNP (real terms)	6.4	10.6	13.4	4.4	9.7
Industrial Production	8.4	11.3	15.7	10.4	13.2
Gross Domestic Capital Formation	−3.2	15.5	17.7	−1.3	13.4
Personal Consumption Expenditure	9.6	9.8	11.1	5.2	8.0
Merchandise Balance of the BOP (US\$ million)	401	−166	377	1,901	2,275
Wholesale Prices	−1.6	1.7	0.2	0.8	2.4
Consumer Prices	6.8	7.6	3.8	0.8	5.1
Net Bank Credit	21.1	25.1	11.8	17.2	15.6
Money Supply	18.1	26.5	13.0	18.2	13.9

Source: Annual Report on National Income Statistics, Economic Planning Agency, Japan, 1967.

**Table 2** Summary of International Transactions, 1961–1966 (US\$ million)

	1962	1963	1964	1965	1966
Goods and services					
Exports f.o.b.	4,861	5,391	6,704	8,332	9,641
Imports f.o.b.	4,460	5,557	6,327	6,431	7,366
Merchandise Balance	401	−166	377	1,901	2,275
Other Services	−826	−970	−1,186	−1,295	−1,487
US Military Expenditures	377	356	329	326	466
Current Balance (including transfer payments)	−48	−780	−480	932	1,254
Capital Transactions: Long Term	172	467	107	−415	−808
of which WB Disbursement	64	50	19	33	108
Short Term	107	107	234	−61	−64
Errors and Omissions	6	45	10	−51	−45
Change in Foreign Exchange Reserves	355	37	121	108	−33
Others	−118	−198	−70	297	370

Source: International Balance of Payments, pp. 281–282, Economic Statistics of Japan, 1970; Military transactions, 1961–1964, The Bank of Japan 1964 p. 264, 1966; and IMF IFS October 1967, p. 12.

2. Sharp increases in exports in 1965 and 1966;
3. Increasing trend in deficit in ‘Other Services’ including shipping costs;
4. Continued substantial income from ‘US Military Expenditures’ offsetting part of deficit in ‘Other Services’; and,
5. Large inflows of long- and short-term capital in 1962, 1963 and 1964.

The Japanese economy continued to grow rapidly, with periodic fluctuations. Japan experienced another cyclical wave of contraction and expansion between 1962 and 1966. This period was more than a full business cycle with the fourth period in 1962, a trough, right after experiencing a peak in the fourth period in 1961. Within a few years in the fourth period there was a peak in 1964 immediately

followed by a trough in 1965.<sup>5</sup> This was the fourth cyclical experience in the post-war economy. During the period under consideration, the WB published three economic reports in September 1963, September 1964 and November 1965.<sup>6</sup> Each report served as a basis for discussion at the respective annual meetings, on the WB's lending to Japan for the following year. The 1963 report supported the WB's restart of lending operations to Japan in September 1963 and the continuation of the WB's lending in 1964. The 1964 and 1965 reports supported the argument to further continue lending to Japan in 1965 and 1966, respectively.<sup>7, 8</sup>

The WB recognized the fact that economic and structural problems existed in the Japanese economy in the form of short-run balance-of-payments oscillations and longer term growth prospects. Concerning the balance-of-payments, volatile trade accounts, structural deficit on transportation accounts and expanding external commitment on long-term capital outflows created occasional balance-of-payments crises. As for the growth prospects, with proper steps taken on the labor market as well as the small-scale industry, and the expansion of infrastructure and housing, the WB believed that Japan was capable of achieving high economic growth. The principal conclusions of all three reports were that:

1. Rapid growth of the economy, though slower than the past, was expected to continue for some time, but the balance-of-payments problems would continue to create cyclical pattern for the economy every now and then. Probably slower growth rates of say, 6 or 7% would be better to maintain greater stability in the economy and smaller balance-of-payments adjustments.
2. Monetary policy was the chief reliable policy instrument to cope with the balance-of-payments difficulties caused by increased imports. The policy mechanism was to change discount rates of the Bank of Japan to control the amount commercial banks could lend in effect influencing the amount of investment by the private sector.
3. Extra investments from the private sector would be needed more than before in order to continue to modernize and expand the manufacturing sector, which would maintain competitiveness particularly in the context of exports expansion. Concomitantly large investment of the public sector would be needed to strengthen transport, and communications operations in order to facilitate smooth economic growth and this could be facilitated by foreign borrowing for

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<sup>5</sup> Japan, Economic Planning Agency, Annual Report on National Income Statistics, 1967.

<sup>6</sup> They are: "Current Economic Position and Prospects of Japan" dated September 13, 1963; "Current Economic Position and Prospects of Japan," dated September 23, 1964; and, "The Current Economic Situation and Prospects of Japan," dated November 23, 1965. Please note that the September 1963 report was published after about two and half years of absence of the economic report on Japan.

<sup>7</sup> All economic reports are posted on the external home page of the WB. In the Archives, there is no document concerning discussions on the terms of reference of each economic mission, the basis for selecting particular economists for economic mission assignments, the process of finalizing the draft of each report within WB and the records of discussions between Japan and WB. Thus it is impossible to judge the degree of usefulness of the economic analysis done by the WB for policy makers in Japan.

<sup>8</sup> At IMF external home page, available are, besides the Board Documents, the Staff Report on Japan-Annual Consultations, "Background Material for Consultations with Japan from 1962 to 1966" prepared by the Asian Department and the Exchange Restriction Department, IMF. The background material, annually prepared, contains detail information and analysis on the Japanese economy and economic policies.

public investment.

4. Japan would be amply creditworthy for additional foreign borrowing.
5. Japan was becoming an important country in the Asian region, as a market for exports for developing countries and as an important source of foreign aid.

The purpose of **the September 1963 report** was to check how the government coped with the balance-of-payments crisis in 1961 and the effectiveness of its economic policies to restrain the heated economy.<sup>9</sup> The report also sought to check if Japan should receive WB lending. Together with the analysis of the balance-of-payments, the structural changes in the manufacturing sector and the status of rapid changes in the labor market, the report discussed specific economic conditions of Japan that would require the import of long-term capital including WB's funding. The main points were:

1. Japan's balance-of-payments position would be the key in the stability of her economic growth. While export expansion would continue, the growth of imports would be essential for her economic growth. With the implementation of trade and exchange liberalization, Japan would be more exposed to more trade and foreign exchange transactions. To have extra foreign exchange resources was considered as an important government policy objective. One of the most important resources would definitely be the import of long-term capital.
2. A large capital transfer from the private to the public sector would be needed to expand the capacity of infrastructure facilities to avoid bottlenecks in the running of the economic system. Given the tight fiscal situation, the choice was to develop the domestic capital market but it would take a couple of years to make institutional improvements. In the meantime, with a view to keeping interest rates low, without disturbing the domestic capital market, the import of long-term capital was considered the appropriate strategy.
3. The private sector would also need large capital investments in heavy machinery and chemical products to continue improving its export competitiveness and thereby increasing exports.

The report explained the slow speed of improving Japan's credit standing in the New York and other foreign markets resulting in no increase in the frequency and size of bond flotations. It is worth mentioning that the report further stated that:

“From the point of view of the global use of investment resources, the net transfer of funds to Japan can be justified by the overwhelming proof of that country's ability to convert investment funds in increased productive capacity. Probably there are very few countries in the world where an addition in the total availability of investable funds will so surely result in an increase in productive capacity. . . .” (Ibid., p. 34)

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<sup>9</sup> A senior staff of the WB who was a member of the economic mission to Japan wrote an interesting memorandum before his departure on how to make the case for WB lending to Japan. He started his note by saying that “Since the case for the suspension of loan operations to Japan two years ago does not seem to have been particularly persuasive, one would not expect to find, in the interim developments, particularly strong arguments for the resumption of lending. . . .” Memorandum, O. J. McDiarmid to Files, The Case for the Japanese Loan, June 27, 1963, Japan, General Folder # 1857459, WB Archives.

**The September 1964 report**, published 11 months after the issuance of the last report, confirmed the conclusions of the last report on Japan's need of long-term capital, making a case for WB lending to Japan.<sup>10</sup> In order to deal with a large balance-of-payments deficit in 1961, the Japanese authorities had applied monetary restraints for about a year and in October 1962, this policy was reversed to restore monetary easing in the first half of 1963. The economy started its expansion phase with an increase in money supply, and the current account deficit amounted to \$780 million by the end of 1963 (Ibid., Table 2 in p. 4). Another restrictive monetary policy was applied initially in December 1963 to be followed by additional measures during the first half of 1964. The WB was critical of Japan's policy action taken in late 1962 and early 1963 to ease credit restrictions, as they came too early. As a result, there was rapid deterioration in the current account in 1963 which led to the Bank of Japan taking a tight monetary policy only after six months of credit easing action taken (Ibid., pp. 10–12).

To finance the large deficit in the current account, net capital imports were necessary, amounting to about US\$700 million. The concern of the WB was the composition of this large amount of net capital imports. It was estimated short-term (not long-term) borrowing by private banks, financed more than half of the current account deficit. This was due partly to the interest equalization tax (IET)<sup>11</sup> of the US that was not applicable to bank loans and to bonds of less than three years' maturity (Ibid., pp. 14–15). The report continued to say that since IET became effective, no floatation of bonds was made in the New York market, but about \$200 million in long-term bonds were to be floated in the European market from August 1963.

There was also an interesting analysis on the development and structural change in the manufacturing sector in Japan between the 1950s and early 1960s.<sup>12</sup> According to the analysis, the manufacturing sector was the leading sector in the Japanese economic growth story. Production had increased 15.7% per year during the period average for 1953–55 and 1960–62, a pace much higher than that of any western industrialized country. The share of the manufacturing sector in the national income rose from about 25% in the mid-fifties to more than 30% in the early sixties. The industrial sector absorbed about half of the total fixed capital formation during 1957–61, and employment in the sector increased at a rate of 3.5% per year during the period average for 1953–55 and 1960–62. Within the sector, the manufacturing of durable and capital goods expanded most and the relative importance of small-scale industry in the sector was much more than in other western countries.

It was estimated that Japan would need about \$700 million per year in the form of long-term capital inflows in the following years. However even if IET, which blocked part of the US's supply of long-term capital, would not exist, the WB thought that Japan could not obtain more than \$400–500 million

<sup>10</sup> Japan formally assumed Article VIII status in the IMF and joined the Organization for Economic Cooperation and Development (OECD) in April 1964. It hosted in Tokyo the annual meeting of the IMF and the WB in September and the Summer Olympic Games in October 1964. The operation of the New Tokaido rail services started also in October 1964. As such, Japan started to feel being a member of the industrialized countries.

<sup>11</sup> The US policy on IET will be discussed later on.

<sup>12</sup> Appendix 1, Structural Change in Japanese Manufacturing, Current Economic Position and Prospects of Japan, September 23, 1964, the World Bank, pp. 39–44.

per year from the private markets and through direct investments in Japan. This left a gap of about \$200 million, which could not be financed through foreign direct investments or private credits on appropriate terms. There were no prospects that this situation would change within the near future (Ibid., pp. 14–16). In addition, the importance of Japan was mentioned, as a market for exports for developing countries and as an important source of foreign aid, implying that the promotion of economic growth in Japan, through further WB lending would let Japan perform the role of one of the developed countries (Ibid., p. 37).

**The November 1965 report** was prepared when the Japanese per capita GNP reached \$720, a level similar to that of Italy but far less than in other more advanced Western Europe and North American countries (Ibid., p. i). Though monetary relaxation policies continued till the end of 1964, the Japanese economy uncharacteristically did not respond and continued to be in recession. The reason for this unexpected longer than usual slowdown of the economy was due to the existence of surplus capacity in many industries, the deficiencies of the capital market and resultant lower profitability of enterprises, and the emerging rigidity of the labor market. The new government was changing the course of economic growth from “income doubling” to “stable growth.” The government perceived the economy to be facing structural issues and did not consider further monetary action necessary to stimulate the economy. Instead the fiscal policy actions were taken in July 1964 in the form of early disbursement of authorized budgets and increased expenditures in public works. The WB also considered these fiscal measures as sufficient to improving the Japanese economy.

On the structural issues, the report suggested the need for the government to prepare long range policies aiming at the promotion of a direct flow of savings in the form of share capital to business enterprises, the establishment of a bond market for long-term industrial loan capital, the reduction of the interest rate structure and the fiscal burden on business and a sufficient reduction of the rigidities of the labor market to prevent a serious cost-push on prices. (Ibid., p. 26)

The report again confirmed Japan’s need for long-term capital import, making a case for WB lending to Japan in 1966. Though the estimated figures in the balance-of-payments in 1966 on the current account surplus/deficit, short-term capital import, out-flow of capital (in the form of foreign aid) and Japan’s debt amortization were not clearly shown, it was estimated that a total inflow of about \$600 million a year in the form of long-term capital would be needed for the next several years, starting from 1966. As the world capital market would not be able to supply this amount of long-term capital, a substantial financing gap was expected. Its conclusion was very clear, indicating that further borrowing from the WB would be needed. (Ibid., pp. 27–28)

### **3. The World Bank’s Lending to Japan: 1963–1966**

#### **3.1 Overview**

The key events covered in this paper chronologically state the restarting of WB’s lending in September 1963 of about US\$100 million annually, over the four-year period. The total lending (in terms of

commitment) to Japan during this period amounted to US\$375 million with seven loans, as Table 3 below outlines. Except for one loan to finance EPDC's hydroelectric dam project, the remaining six loans supported the expressway construction program, which were part of the government's fiscal expenditures. After the first lending was made to Japan in September 1963, the WB was to determine annually if it should continue its lending to Japan, on the basis of reviewing Japan's economic situation, specifically, the extent of the extra-need for long-term capital and the marketability of Japanese bonds in the international capital markets. As part of WB's efforts to justify its policy to continue providing loans to more developed countries such as Italy, Japan and Norway, an additional interest charge of about 1% was applied to loans to those countries from 1965. In fact, such a high interest rate was applied to the last three loans made to Japan, including the final loan made in July 1966.

The main venue for discussions on the lending program of the WB to the Japanese government was in the annual meetings of the WB and IMF, augmented by frequent contacts between the WB and the Japanese Embassy staff. The contents and the quality of the dialogue between the WB and Japan were influenced by the US policy such as the introduction of the interest equalization tax (IET) effective from July 1963 with a view to reducing her balance-of-payments deficit by discouraging investment in foreign securities and encouraging investment in domestic securities. IET made it more difficult for Japan to issue long-term bonds in the New York market than before and influenced WB's approach on its fund raising in the capital markets and resultant lending policy. Also, Japan's overall increase in assertion in the international environment influenced behavior of the Japanese government. There was a clear sign of Japan becoming an industrialized country, as Japan assumed Article VIII status in the IMF in April 1964 implying less restrictions on current international transactions without the approval of the IMF, and it joined the OECD in April 1964 implying more open policy for direct investment towards Japan, participated in Aid Consortiums for India and Pakistan and started the preparation of establishing the Asian Development Bank.

## **3.2 Lending to Japan**

### **3.2.1 Restart of Lending**

A sudden shift in the WB's position from one of non-lending in November 1961 to one of restarting lending in December 1962 was a surprise, as the review of available documents in the Archives does not reveal any outright reason for such a shift. On the contrary, when the Japanese delegation met with the WB during the annual meeting in September 1962, the WB made it very clear during the preliminary meeting, that the temporary balance-of-payments difficulty and the adjustments caused by the government's tight monetary policy in 1962, would not be considered as a change in the overall economic situation sufficient to justify a resumption of lending. At the same time, the WB offered help to Japanese private companies to access the financial markets with the WB providing co-financing arrangements. The Japanese delegation's position was that it was the public sector that really needed the



**Table 3** Loans to Japan, 1963–1966

Date of Agreement	Borrower	Project Contents	Loan Amount (US\$ million)/ Terms/Interest Rate	Total Project Cost (US\$ million)
09/27/1963	Nihon Doro Kodan III	Expressway Construction: Shizuoka–Tokyo, 161 km	75/26 yrs/5.5%	628
04/22/1964	Nihon Doro Kodan IV	Expressway Construction: Toyokawa–Komaki, 78 km	50/25 yrs/5.5%	202
12/23/1964	Metropolitan Highway Corporation	Urban Expressway Construction: Haneda–Yokohama, 12.8 km	25/24 yrs/5.5%	86
01/13/1965	Electric Power Development Corporation	Construction of 220 Mw station with a rockfill dam and a reservoir and a 54 Mw station along Kuzuryu River	25/25 yrs/5.5%	93
05/26/1965	Nihon Doro Kodan V	Expressway Construction: Shizuoka–Toyokawa, 106 km	75/25 yrs/6.5%	322
09/10/1965	Hanshin Highway Public Corporation	Urban Expressway Construction: Tsukimiyama–Iwayaminamimachi in the city of Kobe, 12.5 km	25/24 yrs/6.5%	84
07/29/1966	Nihon Doro Kodan VI	Additional financing for expressway construction; Shizuoka–Tokyo, 161 km	100/15 yrs/6–5/8%	640
Total (US\$ million)			375	2055

Sources: Respective Annual Report, Appraisal Report and Legal Agreement, the World Bank.

additional long-term loans from the WB.<sup>13</sup> During the main meeting between the President of the WB and Japanese Minister of Finance, Minister Tanaka there was no point raised on the resumption of lending.<sup>14</sup>

Three months later, on the occasion of the Minister's visit to Washington D.C. in December 1962 for the Japan-US Joint Committee on Trade Economic Affairs, the Minister met Mr. Black<sup>15</sup> and requested a WB loan of \$100 million to Doro Kodan (Japan Public Road Corporation—Kodan). This request was to finance in 1963, one third of the cost of the proposed expressway construction between Tokyo and Shizuoka and was to be used for the further development of the expressway construction between Kobe and Tokyo. The justification for the Minister's request was that the expanded budget allocation for the road construction program had exceeded the amount the government could allocate domestically and internationally.

Mr. Black told Mr. Tanaka that he understood that the Government was doing its best to borrow externally and to mobilize resources internally, but nevertheless Japan needed additional funds. He was prepared to recommend to the Board that the WB make a loan to the Kodan for \$75 million on the following conditions: i) the Government would issue bonds in the financial market for \$25 million simultaneously with the WB loan for the same expressway project; ii) the government would make every effort possible during 1963 to issue public bonds, say, \$50 million, in financial market to finance other projects; and, iii) the WB would send an economic mission in early 1963 to report on Japan's need of a

<sup>13</sup> Memorandum, Gordon M. Street to Files, Meeting of Officials of Japanese Delegation with Mr. Cargill, September 18, 1962 at 4:00 p.m., September 20, 1962, Japan-General, Folder # 1857459, WB Archives.

<sup>14</sup> Memorandum, Gordon M. Street to Files, Meeting of the Japanese Delegation with Mr. Black on September 20, 1962, September 24, 1962, Japan-General, Folder # 1857459, WB Archives.

<sup>15</sup> Eugene Black was to retire from President of the WB in end December 1962. His presidency lasted thirteen years.

WB loan and an appraisal mission to evaluate the proposed expressway project.<sup>16</sup>

In order to make it certain for smooth restarting of lending to Japan, Mr. Black met six Executive Directors from the US and European countries' in December 1962, and explained the request made by the Japanese government and steps the WB was taking towards restarting lending, and heard their views on the need for further lending to Japan. The Executive Directors were supportive of the idea of restarting lending to Japan.<sup>17</sup> These chain of events implied that the Japanese request to borrow further for the construction of expressway and the initial decision by the WB to restart lending to Japan was made before the new US policy, so called IET was being implemented. The WB might have thought then this particular lending was only a one-time operation.

Accordingly, Japan made extra efforts to issue public bonds in the form of straight government bonds and public corporation bonds guaranteed by the government. In fact, by the end of June 1963, the total public bonds issued in the investment markets in New York, USA and Germany amounted to \$75 million, and the government was planning to issue another \$45 million including a \$25 million government issue for September 1963 for the expressway project.<sup>18</sup> While the WB was sending an economic mission and a technical mission to check the feasibility of the expressway project, the US Government started its discussion on IET to improve U.S. balance-of-payments situation.<sup>19</sup> Both the WB and Japanese government were not certain of how IET would be applied once enacted.

Part of the group of officials who discussed the IET issues with the US Government met in early August 1963 with Mr. Knapp, Vice President of WB, to explain Japanese Government's understanding of the issues caused by the proposed IET. Out of many problems, one issue mentioned first was that the issuance of Japanese bonds would become increasingly difficult in the NY market, even though the additional cost of issuance would not be prohibitive. This unfavorable development in the market forced the Japanese to request the WB to drop the requirement of bond issuance of \$25 million in the capital market to finance the proposed expressway project on top of the WB loan of \$75 million. In addition, they mentioned that the Minister of Finance would discuss during the annual meeting in Washington,

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<sup>16</sup> Memorandum, Gordon M. Street to Files, JAPAN—Meeting of the Minister of Finance with Mr. Black on December 4, 1962, December 4, 1962, Japan-General Folder # 1857459, WB Archives.

<sup>17</sup> According to the memorandum on the meeting, main questions raised by some of Executive Directors concerned over financing local currency vis-à-vis only foreign exchange expenditures, the issue on international competitive bidding, and the extent of retroactive financing. Vide Memorandum, William M. Gilmartin to Files, Lending in Japan, December 10, 1962, Japan-Expressway Project (03), Folder # 1878895, WB Archives.

<sup>18</sup> Memorandum, Michael L. Lejeune to Mr. George Woods, JAPAN—Notes for the Meeting with Japanese Ambassador, Mr. Ryuji Takeuchi, June 25, 1963, Japan-General Folder # 1857459. During 1963, the borrowing activities of the Japanese Government and its agencies were: Japan Development Bank \$22.5 in January; Osaka Prefecture and City \$25 million equivalent in Germany in March; Government of Japan for power development \$27.5 million in May. The Government further plan was: Nippon Telegraph and Telephone Co. \$20 million in July and Government of Japan \$25 million for the expressway project in September or October.

<sup>19</sup> IET originally enacted in September 1964 as a 'temporary' measure by US to reduce the balance-of-payments deficit and the law was extended many times until it was abolished in 1977. The tax was imposed on each acquisition by an American of stock of a foreign issuer or a debt obligation of a foreign obligator made after July 18, 1963.

the possibility of the WB to continue its lending to Japan in 1964.<sup>20</sup> Mr. Knapp's answer on the first point was that since there were many unanswered questions, such as the possibility of US providing an exemption from the tax, at least for the bond issue associated with the proposed expressway project and the possibility of raising money in the markets other than New York, the WB and Japan should review the issue further. On the second matter, on further WB lending, Knapp proposed to wait until its annual meeting in September 1963, by when conclusions of the economic report would be available.

A senior staff of the WB discussed the above two points with US and four European Executive Directors to seek their reactions on possible departure from the understanding reached in end 1962 that the WB would make a loan of \$75 million for the proposed expressway project at about same time as a simultaneous New York bond issue by the Japanese Government. All supported the WB loan for the proposed project without the simultaneous bond issue.<sup>21</sup> Subsequently the WB let the Japanese government know that the WB would proceed with the proposed loan without the government's concurrent issue.

Within the WB, the report of the economic mission was discussed in August 1963 including the question of justification for WB lending to Japan. Essentially the report stated that Japan would need considerable inflow of long-term capital, given the already high domestic savings, in order to finance the required investment in the public and private sector, for maintaining a high rate of economic growth. In addition, the report stated that: WB lending to Japan would not diminish the ability of the WB to lend to other countries; Japan is still a relatively poor country; and continuing rapid economic growth in Japan would lead to an increase of Japan's import demand.<sup>22</sup> The appraisal report on the proposed expressway project was prepared and the whole project set-up followed the two past Kodan expressway projects between Kobe and Nagoya. The loan negotiations began in August 1963, with the representatives of the government and the Kodan, and completed in September without any problem. As to the need for the government to float another \$50 million in financial markets for the other projects, the WB was satisfied with Japanese Government's efforts in making as much use of the private market as they could. In the end, the Board formally approved the proposed loan for Tokyo–Shizuoka expressway project in September 1963 as a well prepared and justified project.

### 3.2.2 Lending in 1964

As the time for the annual meeting in September 1963 was approaching, the WB prepared a strategy for its lending to Japan in 1964. On the basis of the need for capital imports by Japan, supplemented by the effects of IET, leading to Japan's inability to raise funds in New York, the recommendation was that

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<sup>20</sup> Memorandum, I.P.M. Cargill to Mr. J. Burke Knapp, JAPAN—Proposed Third Doro Kodan Loan for the Tokyo–Shizuoka Expressway, July 31, 1963, Japan-Expressway Project (03), Folder # 1878895, World Bank Archives and Memorandum, I.P.M. Cargill to Files, JAPAN—Proposed Third Doro Kodan Loan, August 6, 1963, Japan-General, Folder # 1857459, WB Archives.

<sup>21</sup> Vide Memorandum, Gordon M. Street to Files, JAPAN—Proposed Third Doro Kodan Project, August 12, 1963, Japan-Expressway Project (03) Folder # 1878895, World Bank Archives.

<sup>22</sup> Memorandum, Shamsher Singh to Staff Economic Committee, Current Economic Position and Prospects of Japan (Meeting of August 7, 1963), August 23, 1963, Japan-General, Folder # 1857459, WB Archives.

the WB should consider lending up to \$100 million in 1964 without commitment beyond 1964.<sup>23, 24</sup> After the signing ceremony of the third expressway loan to Kodan, Minister Tanaka during the annual meeting requested a further \$100 million per year over the next few years from the WB, for public sector projects including the Shizuoka–Nagoya section of the Tokyo–Kobe expressway. Mr. Woods, President of the WB, replied that he would recommend this to the Executive Directors that the WB lend \$100 million to Japan in 1964, provided satisfactory projects could be found. He also later informed Mr. Tanaka that he had so informed the Executive Directors and that he did not think there would be any problem with the Executive Directors accepting the request. He further stated that additional loans beyond 1964 depended upon Japan's greater efforts to raise additional capital in Europe. On the effect of IET by the US, he mentioned that while IET had upset the market, Japan should continue to raise funds in the US at a little higher rate than before. On lending operations after 1964, he wanted to review the situation on a year to year basis with an open mind.<sup>25</sup>

Out of many possible projects suggested by the Government, the WB was ready to finance part of the expressway project between Shizuoka and Nagoya as an extension of the third expressway project, i.e. the Tokyo–Shizuoka section. In addition, the Government presented its priority projects for WB financing: the Electric Power Development Company's (EPDC's) hydroelectric project on the Kuzuryu River, Port of Tokyo–Reclamation project, Haneda–Yokohama expressway project, and Osaka expressway route 1 project.<sup>26</sup> After its review of available information and based on the conclusions of a mission to Japan to review transport projects in late November 1963, the WB accepted Kodan's proposal to divide Shizuoka–Nagoya expressway. Only the Toyokawa–Komaki section was being considered for WB financing, as planning for this section was being done nearly one year ahead of the Toyokawa–Shizuoka section. The Haneda–Yokohama expressway project was another suitable project for WB financing. But the Osaka expressway and Tokyo port did not appear to be suitable on the basis of preliminary information provided.<sup>27</sup> Loans for the fourth Kodan's expressway project for the Toyokawa–Komaki section and the Haneda–Yokohama expressway project were processed as scheduled, but it

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<sup>23</sup> Memoranda, SLC/O/63-37, Department of Operations—Far East to Staff Loan Committee, Prospective Lending to Japan, September 4, 1963 and SLC/M/63-23, Staff Loan Committee, Minutes of Meeting of Staff Loan Committee held on Wednesday, September 11, 1963, October 15, 1963, Japan-General, Folder # 1857459, WB Archives. The first memorandum explains the Government's efforts to issue public bonds in foreign markets amounting to \$40 million in 1961, \$61 million in 1962 and \$95 million in 1963 up to end August and the private sector's similar efforts, amounting to \$61 million in 1960, \$ 225 million in 1961 and \$439 million in 1962. But these efforts were not sufficient to finance all the needs.

<sup>24</sup> The WB expected that if the WB continue to lend to Japan, the WB should get increased pressure from European countries, e.g. Norway, Denmark, and Austria for further lending. Vide Memorandum, G. M. Wilson to Mr. George D. Woods, Your Talk with Mr. Dillon on Japan, September 12, 1963, Japan-General, Folder # 1857459, WB Archives.

<sup>25</sup> Memorandum, Gordon M. Street to Files, JAPAN—"Meeting of the Delegation with Mr. Woods on September 27," October 16, 1963, Japan-General, Folder # 1857459, WB Archives.

<sup>26</sup> Letter, Gordon M. Street to Mr. Yoshio Katagiri, Financial Commissioner, Ministry of Finance, November 20, 1963, Japan-General, Folder # 1857459, WB Archives.

<sup>27</sup> Memorandum, Hans A. Adler to Files, Transport Projects in Japan, December 6, 1963, Japan-Expressway Project (4), Folder # 1878929, WB Archives.

took a long time to prepare necessary information for appraisal on the EPDC's Kuzuryu project.<sup>28</sup>

Eventually a \$50 million loan for the fourth Kodan expressway project for the Toyokawa–Komaki section was approved by the Board in April 1964, a \$25 million loan for the Haneda–Yokohama expressway project, in December 1964, and a \$25 million loan for the Kuzuryu hydroelectric project, in January 1965 after much discussions on domestic competitive bidding procedures of EPDC for the procurement of civil works. Since the loan for the fourth Kodan's Toyokawa–Komaki expressway project was the first project as part of the 1964 lending to Japan, the President's Report for the loan provided a justification for the continuation of lending to Japan.<sup>29</sup>

### 3.2.3 Lending in 1965

The WB prepared for further lending to Japan in 1965 as it considered the extra need for capital to support Japan's economic growth and due to the difficulties the country faced in raising capital especially because of the IET. The conclusions of the economic mission to Japan in June/July 1964 was that after taking account the total amount of foreign capital necessary to maintain the desirable rate of economic growth, and the ability to raise foreign capital, a gap of about \$200 million would remain for several years. The other point was that WB lending to Japan would not impair WB's ability to finance loans in the developing countries. In fact, WB lending to Japan would widen the international markets for raw materials and foodstuffs from the developing countries as a result of the promotion of Japan's economic growth.<sup>30</sup> These conclusions definitely supported the decision for further WB lending to Japan in 1965.

During the annual meeting in September 1964, the Minister requested Mr. Woods to approve loans amounting to \$100 million for 1965, for the expressway construction and another \$50 million for a Tokyo Water Supply project. On these requests, the WB stated that the WB was prepared to consider a maximum lending of up to \$150 million in 1965 if an agreement could be reached on satisfactory projects, and provided Japan continued to make every effort to raise the maximum amount possible in the capital markets of Europe and the US. Minister Tanaka agreed that if Japan could borrow substantially more in the private market than anticipated, the amount to be borrowed from the WB would be reduced. They also discussed a new policy on the interest rate of WB loans. The WB decided to charge extra interest rates for loans to market eligible countries that were able to borrow abroad on their own credibility. The reaction of the delegation was to accept the interest rates for market eligible countries

<sup>28</sup> Memorandum, SLC/O/64-8, Department of Operations—Far East to Staff Loan Committee, Japan-Bank operations, March 17, 1964, Japan-Expressway Project (4) Folder # 1878929, WB Archives.

<sup>29</sup> "[...] All but small part of Japan's investment needs can be covered from domestic savings, private and public, but it is extremely doubtful whether Japan can improve on its present very high rate of savings. Although the proportion of the investment needs which must be covered by imported capital is small, it is critical; and, Japan, despite her best efforts, is finding it increasingly difficult to raise enough capital from private sources to meet her needs for external finance. [...]" Vide para. 3 of Report and Recommendations of the President to the Executive Directors on a Proposed Loan to Nihon Doro Kodan for the Toyokawa–Komaki Expressway, April 13, 1964, the World Bank.

<sup>30</sup> Memorandum, Otto Maiss to Staff Economic Committee, The Economy of Japan (Meeting of August 21, 1964), August 31, 1964, Japan-General Folder # 1857460, WB Archives and Economic Report, "Current Economic Position and Prospects of Japan," September 23, 1964.

but Mr. Tanaka felt that there should be only one rate for all the eligible countries.<sup>31</sup>

During the second meeting between Mr. Woods and Mr. Tanaka, Mr. Woods reemphasized that the WB lending was to meet the special circumstances arising from the fact that Japan felt it had been effectively cut off from the New York market. However, as soon as the market was again open to Japan, it should meet the requirements for capital through commercial channels. Mr. Woods informed the Executive Directors the conclusion of these discussions in the Executive Directors' meeting on October 1, 1964. There was no objection from the Executive Directors.<sup>32</sup>

The Japanese Government suggested several projects for the WB to consider for possible financing. The initial list consisted of:

1. The Tokyo–Nagoya expressway—the Shizuoka–Toyokawa section;
2. The Kobe expressway;
3. The Tokyo subway line between Ayase and Yoyogiuehara;
4. The Tokyo expressway—the Jonan line;
5. Japan National Railways—the Tokyo By-Pass; and,
6. Expansion of the Tone River Water works for the Tokyo Water System.

Among the above, the government's initial priority as of October 1964 were items 1 and 2 mentioned above, followed by items 3 and 6. By the end of November and early December, more information was sent to the WB and the government's plans were getting firmer. Finally, on the basis of the review of available information in January 1965, the WB was ready to consider loans of \$75 million for item 1 mentioned above, \$25 million for item 2, and \$50 million for item 6.<sup>33</sup>

While the preparation for the execution of the lending program for 1965 was being made by the WB and Japan, the US decided in February 1965 that \$100 million of Japanese government and government guaranteed issues will be exempted from IET. After analyzing the possible effects of the new sanction, the WB and the Japanese government reached the conclusion that the negative effects of IET on bank credit of one to three years' duration and the voluntary restraint on all other bank credit and corporate investment would offset the \$100 million exemption. Though precise prediction of all possi-

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<sup>31</sup> Memoranda, Gordon M. Street to Files, JAPAN—Future Lending, August 19, 1964; I.P.M. Cargill to Mr. George Woods, Japan—Your Discussions with finance Minister, September 3, 1954; and, author unknown, Japan: Minutes of Meeting with Finance Minister, 3 p.m. September 4 at the Ministry of Finance, Japan-General Folder # 1857460, WB Archives. The first memorandum is on the initial discussion between the WB and Japan on matters to be discussed during the annual meeting; and the second, on Mr. Cargill's meeting with staff of the Ministry of Finance preparing for the meeting between WB president and the Japanese Minister of Finance.

<sup>32</sup> Memorandum, Gordon M. Street to Files, Japan—1965 Lending Program, October 9, 1964, Japan-General, Folder # 1857460, WB Archives.

<sup>33</sup> On the initial proposal, please refer to Memorandum, Gordon M. Street to Mr. Warren Baum, Japan—1965 Lending Program, October 27, 1964; on the process of reaching towards the conclusion on the lending program, vide Memoranda, Gordon M. Street to Files, Japan—1965 Lending Program, November 30, 1964, Gordon M. Street to Files, Japan—Number of Projects to be Included in Lending Program for 1965, December 24, 1964, M.T. Baig to Files, Japan—1965 Lending Program—Allocation of \$150 million, January 12, 1965, and M.T. Baig to Files, Japan—1965 Allocation of \$150 Million, January 18, 1965; and, on the finalized lending program, vide Letter, I.P.M. Cargill, the World Bank to Mr. Yoshio Katagiri, Financial Commissioner, January 22, 1965. All documents referred here are from Japan-General, Folder # 1857460, WB Archives.

ble transaction was impossible, it was quite clear that the overall effects on the Japanese balance of payments would be unfavorable. Therefore, the WB decided to keep its intention of lending up to \$150 million in 1965.<sup>34</sup>

In May 1965, a \$75 million loan was made to Kodan for the Shizuoka–Toyokawa expressway project, the final link in the Tokyo–Kobe expressway. As this loan was the first loan in the 1965 lending program, the President Report explained the justification for WB's \$150 million lending program and the interest applied to the loan, which was set at 6.5% per annum instead of 5.5%, the regular lending rate, because Japan was considered as one of the market eligible countries.<sup>35</sup> In September 1965, a \$25 million loan was made to the Hanshin Expressway Public Corporation for the urban-expressway in Kobe City. For this loan, the interest rate was also set at 6.5%.

The last remaining loan of \$50 million, was for the Tokyo water project appraised in May 1965. The project was designed to relieve the water shortage in Tokyo, which existed for some years, as well as to meet the future need of the city considering the increasing population and increase in per capita consumption. This was to be carried out by installing facilities to intake raw water and to provide transmission, treatment, storage and distribution services, at an estimated cost of \$338 million. From the point of view of the WB, the project was sound, but the financial condition of the Water Bureau needed improvement and substantial rate increases were necessary.<sup>36</sup>

The Tokyo Metropolitan Government and its Water Bureau agreed that rates should be increased in order to put the Bureau on a sound financial footing. In fact, a bill to increase the water rates by 65% was put before the Tokyo Assembly in March 1965. But the Assembly did not act on the proposal as the Assembly was forced to dissolve. New elections changed the political power structure of the Assembly and the conservative Liberal Democratic Party lost control to the Socialists. In October 1965 a new proposal for a 55% increase was put before the Assembly, as the Bureau intended to augment its revenues by the sale of excess property. The Assembly rejected the proposal. The rate increase bill with 55% was retried in the middle of December. If this 55% increase was not approved by the Assembly, the WB's plan was to drop this project and switch to other alternatives. Loan negotiations started in mid-December 1965 to only be broken off in mid-January 1966, when the Tokyo Assembly had passed a 35% rate increase instead of the 55% increase.<sup>37</sup>

#### **3.2.4 Lending in 1966**

By this time the WB on one hand was feeling increasingly uncomfortable to continue lending to Japan. On the other hand, the economic mission sent to Japan in June 1965 reported in its summary: “[...] Past high economic growth resulted in the per capita income of US\$ 720 in 1964, which in-

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<sup>34</sup> Memorandum, I.P.M. Cargill to Mr. George D. Woods, JAPAN—Lending in 1965, February 12, 1965, Japan-General Folder # 1857460, WB Archives.

<sup>35</sup> Vide the following section in this paper for discussion on the interest rate for the market eligible countries.

<sup>36</sup> Appraisal Report, Tokyo Water Supply Project, December 7, 1965, the World Bank.

<sup>37</sup> Memorandum, R.J. Goodman to Mr. J. Burke Knapp, JAPAN—Visit of Mr. Azuma, Governor of Tokyo, November 1, 1965, Japan-General Folder # 1857461, WB Archives.

creased from a very low level after the war to the Italian level, still far less than in the more advanced countries of Western Europe and North America. [...] Japan's creditworthiness is ample for substantial additional borrowing of foreign capital on conventional terms" (Ibid., Summary and Conclusions). The Economic Committee which reviewed its draft Report went on further on Japan's credit worthiness, by saying that Japan should be considered creditworthy for substantial Bank lending on market terms during 1966.<sup>38</sup> The WB's Japan desk staff felt the need to return to their position with the WB in 1961 when the WB stopped lending to Japan. After all, Japan had a three-year period enough to adjust to the system of securing long term capital needed for sustaining the high growth rate of her economy.

When a preliminary meeting to the annual meeting, between the WB and the Japanese government was held in September 1965, the Japanese side brought up the Finance Minister's request of \$100–150 million in the 1966 lending program. The reasons being:

1. Though the balance-of-payments position was favorable with a large surplus in the currents account offset by substantial capital outflow, the surplus would not be sufficient for sustaining favorable position in future; and,
2. Japan needed capital for its development. Extra efforts were made to raise capital in the financial market in US and Europe and resulted in some success but the prospects were very poor, as the short term capital resulted in a net outflow.

Against Japan's request, the WB clearly indicated that the WB's main business was to work with the poor countries for their development and that the WB should not be in the position of lending to countries like Japan and others at a similar stage of economic development. On the contrary, the WB recognized the fact that the Minister of Finance was a newly appointed Minister and that he should not get embarrassed by the WB decision to cease lending, as the previous Minister obtained loans totaling \$250 million during his tenure.<sup>39</sup> In the meeting between WB President and Minister of Finance in September 1965, Minister Fukuda requested Mr. Woods to consider lending \$100 million on the basis of the economic situation, the balance of payments position and the difficulties in raising funds in the capital market in Europe and US.

In response, Mr. Woods was very clear in saying that Japan had not been doing enough efforts to obtain capital from the private markets. He thought that Japan could raise more in the form of debt than she had before and could raise more in the form of equity also if the restrictions against equity investments were relaxed. However, given the Minister's first request, he proposed that discussion should continue at staff level in order to try to find some modest arrangement for the 1966 lending. He stated that his decision on the WB lending for Japan would be made by end October 1965 and that this par-

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<sup>38</sup> Memorandum, Economic Committee, EC/M/65-30, Conclusions and Recommendations on Japan's Creditworthiness, September 10, 1965, Japan-General Folder # 1857460, WB Archives.

<sup>39</sup> Memoranda, Author Unknown, Japan—Minutes of Meeting between IBRD and the Japanese Delegation of September 23 at 11:00, September 24, 1965 and Japan—Minutes of Meeting between the Far East Department, Mr. Kashiwagi and Mr. Horie on September 25, 1965 at 3 p.m. in the Sheraton Park Hotel, September 28, 1965, Japan-General Folder # 1857460, WB Archives.



ticular lending in 1966 would be the last lending to Japan.<sup>40</sup>

In the end, Mr. Woods stated in the meeting with Executive Director of Japan his decision to limit its lending program to \$50 million rather than the \$100 million Mr. Fukuda had requested. Japanese Executive Director protested that Mr. Wood's decision would come as a severe disappointment to Japan and would put the Minister in a very difficult position. To Mr. Wood, his position was quite clear that: "[...] There was really no justification for further lending to Japan and that the offer of a further \$50 million for 1966 therefore represented a considerable concession, made on 'sentimental grounds' [...]."<sup>41</sup>

The WB, on the basis of its decision to lend \$50 million and the broken negotiation of the \$50 million loan for the Tokyo Water Supply Project, had to find a suitable project for a loan of \$100 million. Initially the WB reviewed the list of projects proposed by the government in September 1965 for possible financing: the Tokyo–Kawagoe expressway; Sanyo Rail Line (extension of the New Tokaido Line from Osaka to Okayama); and, Tokyo Railroad by-pass. In addition, the Project Department suggested that the WB could apply the \$100 million for 1966 to financing the overall construction program of the Kodan for the next three years or to the Tokyo–Shizuoka section of the Tokyo–Kobe Expressway being financed by the third loan for Kodan. The most attractive alternative was the extension of the New Tokaido Line subject to examination of the financial situation of JNR to be followed by the Tokyo–Shizuoka Expressway Project subject to examination of the feasibility of lending further to existing loans to the Kodan.<sup>42</sup>

The WB wanted to end lending to Japan as soon as possible within 1966, without many mission visits to Japan and getting into and complicated financial problems, and so therefore chose the Tokyo–Shizuoka expressway project.<sup>43</sup> On the other hand, the Japanese preference was to get the loan for the Tokyo–Kawagoe expressway project, for a loan of \$15 million and some other new projects.<sup>44</sup> In the end, the government requested that the WB lend the entire remaining \$100 million for the existing Tokyo–Shizuoka project. The Embassy staff was told that the proposed loan would have a fifteen-year term with a 6-5/8% interest rate in accordance with the lending to "the market eligible countries."<sup>45</sup> The sixth expressway loan amounting to US\$100 million to supplement the financing of the construc-

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<sup>40</sup> Memoranda, Author Unknown, Japan—Minutes of Mr. Woods' Meeting with the Minister of Finance on September 26, 1965; and Gordon M. Street to Files, JAPAN, October 1, 1965 recording of the second meeting between Mr. Woods and Minister Fukuda, Japan-General Folder # 1857460, WB Archives.

<sup>41</sup> Memorandum, Raymond J. Goodman to Files, Amount of Loans to Japan in 1966, October 27, 1965, Japan-General Folder # 1857460, WB Archives.

<sup>42</sup> Memorandum, Gordon Street to Files, JAPAN—Transportation Projects for 1966 Lending, January 13, 1966, Japan-General Folder # 1857461, WB Archives.

<sup>43</sup> Memoranda, Raymond J. Goodman to Mr. J. Burke Knapp, JAPAN—Lending Program for Calendar 1966, January 17, and Gordon M. Street to Files, JAPAN—1966 Lending including Substitute for \$50 million Water Works Project, January 17, 1966, Japan-General Folder # 1857461, WB Archives.

<sup>44</sup> Memoranda, Gordon M. Street to Files, Japan, January 19, and January 20, 1966, Japan-General Folder # 1857461, WB Archives.

<sup>45</sup> Memorandum, Gordon M. Street to Files, Japan, January 24, 1966, Japan-General Folder # 1857461, WB Archives. Embassy staff was unhappy when they heard these terms but the WB indicated these nonnegotiable.

tion of the expressway between Tokyo and Shizuoka, through a loan in 1963 was approved by the Board in July 1966. This became the last loan to Japan.

Two months later, the WB met with Japanese delegation at the annual meeting in September 1966. The main topic of discussions in the meeting were on the establishment of the Asian Development Bank (ADB), and the apparent need for Japan to increase her contribution for replenishment of funds for International Development Association (IDA) in order to free-up more resources for the development the poorer developing countries. These two points were all associated with the issues faced by one of an industrialized country. The contrast in the contents of discussions between being a borrower and becoming a creditor to the WB was indeed impressive.<sup>46</sup>

### 3.3 Noteworthy Lending Issues

The main factors that influenced the management of lending to Japan were IET enacted by the US in 1963 and resultant difficulties in floating Japanese public bonds in the US market and WB's establishing a higher lending rate than the regular rate for market eligible countries including Japan. A separate issue often questioned by the Board members regarding Japan, was the lack of contract awards to international contractors in connection with the implementation of international competitive bidding (ICB) in the various projects.

#### 3.3.1 Interest Equalization Tax (IET), Japanese Public Bond issues, and WB's Lending Rate for Market Eligible Countries

Towards the end of 1950s and the beginning of 1960s, the WB was changing its role as an institution from lending primarily for post-war reconstruction by lending to previously industrialized countries, to becoming a multi-lateral development institution to help developing countries. The pressure to change its focus was getting stronger after the start of the IDA in 1960. Table 4 below indicates clearly the change in the role of the WB. By mid 1962, Japan was only second to India in terms of the cumulative lending figures, and France, Australia and Italy were in the list of top eight large borrowers; but, by mid 1967, although Japan was still second to India, only Italy among the industrialized countries was in the list of the top eight borrowers, and all other remaining six countries were developing nations.

Given the changing role of the WB, as can be observed in the table above, another important factor that influenced the WB lending policy to Japan and Japan's policy to find long-term capital to finance her development program was the introduction of IET by the US government. The US brought the IET into effect from July 1963 to defend her balance-of-payments, to increase pressure against capital outflows. As the main supplier of economic and military aid, the US had been accumulating a balance of payments deficits over many years. The US considered that if increasing demand for US dollars continued in the form of short-term capital outflows and a rising long-term borrowing in US, stability of

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<sup>46</sup> Memoranda, I.P.M. Cargill to Files, Meeting with Japanese Delegation, Sheraton Park Hotel, September 25: and, G.M. Street to Files, JAPAN—Meeting with Japanese Delegation, Sheraton Park Hotel, September 25 at 12 noon, October 4, 1966, Japan-General Folder # 1857462, WB Archives.

**Table 4** Cumulative Lending by the World Bank to Japan and Other Countries (US\$ Million)

June 30, 1954		June 30, 1962		June 30, 1967	
Japan	40	Japan	482	Japan	857
France	258	India	817	India	1,887
Australia	204	France	419	Pakistan	756
Brazil	194	Australia	418	Mexico	625
India	113	Mexico	387	Brazil	496
S.Africa	110	Italy	298	Colombia	475
		Brazil	267	Italy	398
		Pakistan	256	Iran	288
Total	1,875		6,002		12,136

Sources: World Bank Annual Reports, 1953/54, 1961/62, and 1966/67.

Notes: Cumulative lending figures are net of cancellations and principal repayments and Figures for India, Pakistan and Colombia for 1967 include IDA lending.

the dollar could be undermined. But for Japan, the introduction of IET threatened the very foundation of WB's lending strategy to Japan as bond issues by Japan became costlier than before in the New York market and as a result imports of long-term capital would become more difficult. This meant that because of IET, Japan had a good reason to seek WB's lending. A problem for the WB was that while its lending was exempted from IET, as the WB was an institution to support economic development in developing countries, the WB could not give the impression of getting around IET by lending to other industrialized countries such as Japan, which already had their credibility in accessing financial markets.

One major impact of IET on Japan was that the Japanese government had to find different markets other than the New York market, e.g. European markets in Germany and Eurodollar, for imports of long-term capital. The public bond issuance during 1963–1966 (Vide Table 5 in p. 20) indicates that: Europe became an important market, particularly in 1964. While there was none issued in New York, almost \$130 million worth of bonds were sold in Europe, even larger than the total amount raised in 1963. In 1965, the smaller total was disappointing to the Japanese government, but because of the \$100 million exemption of Japanese government and government guaranteed issue from IET, three public corporations issued their bonds in the New York market amounting to \$62.5 million. In Europe, bonds amounting to only \$25 million were issued and the total amount raised in 1965 was considerably less than in 1963 and 1964.

In 1966, Japan did not issue any public bonds. During the annual meetings in 1964, Mr. Woods, President of the WB commented on the government's plan on bond issues by saying to Mr. Tanaka, Minister of Finance, that "[...] as a matter of principle Japan should try to raise as much foreign exchange as possible from commercial sources on reasonable terms and to the extent that borrowing from the

**Table 5** Japan's Public Long Term Security Issues in US and Europe (US\$ million)

Year	New York	Europe	Total
1963	70.0	39.0	109.0
1964	0	128.9	128.9
1965	62.5	25.0	87.5
1966	0	0	0

Sources: WB's Economic Reports and various issues of IBRD Estimates of External Public Debt.

private market did not meet Japan's needs for capital the Bank should step into the picture. [...]”<sup>47</sup> and in 1965, Mr. Woods told the new Finance Minister, Mr. Fukuda, that “[...] Given the basic soundness of the Japanese economy, I could not understand why Japan could not borrow more. [...] Either Japan was not willing to pay sufficiently high rate of interest or that Japan's bankers were not properly performing their functions. [...]”<sup>48</sup> Yet the WB continued to lend \$125 million in 1965 and \$100 million in 1966. Even if Japan's access to the international market for long-term debt was not trouble free, the time was ripe for Japan to graduate from the WB lending.

One of the reaction of the WB to IET pressure was to let the industrialized countries make extra efforts to finance their own needs without the WB's help. One specific concrete action of the WB starting from 1965 was to establish a new lending rate, about 1% higher than the regular rate, applicable to the loans for the industrialized countries. Formally it was called the interest rate for market eligible countries.

The Japanese Government heard for the first time a new policy of WB lending to developed countries in August 1964, in a meeting between WB and Embassy staff to prepare possible agenda for the 1964 annual meeting.<sup>49</sup> The WB staff explained the preliminary idea of setting up a new interest rate for countries that were able to borrow abroad on their own credibility, e.g. Italy, Japan and Norway. The purpose of this proposal was to avoid criticism of the WB on the ground that these countries had established their credit worthiness in the market and could meet their needs for external capital without recourse to the WB.

On the new rate, the Japanese side was told that the terms would be different depending on the borrowing country and market conditions. During the annual meeting in September 1964, the President of the WB explained to the Japanese Minister of Finance that the new two interest rate policy was under consideration and a formal proposal would be presented to the Executive Directors for approval within 1964. Mr. Woods mentioned that the possible interest rate applicable to Japan would be higher than the prevailing rate of 5.5% and that it would possibly be 6.5%. Mr. Tanaka agreed on the principle of WB having two rates but he thought that there should be one rate for lending to all applicable countries. Mr. Woods explained that a decision had not been reached as yet within the WB as to

<sup>47</sup> Ibid., p. 2 of Minutes of Meeting with Finance Minister, 4 p.m. Friday, September 4 at the Ministry of Finance, undated, 1964.

<sup>48</sup> Ibid., pp. 2-3 of Minutes of Meeting between IBRD and the Japanese Delegation, September 24, 1965.

<sup>49</sup> Memorandum, Gordon M. Street to Files, JAPAN—Future Lending, August 19, 1964, Japan-General #1857460, WB Archives.

**Table 6** Loans to Market Eligible Countries with Higher Interest Rates<sup>52</sup>

Date of Loan Agreement	Country	Project/Loan	Amount of Loan	Terms	Interest Rate
05/26/1965	Japan	Fifth Expressway Project	\$75 million	25 years	6.5%
06/28/1965	Italy	Southern Italy Industrial Financing Project	\$100 million	15 years	6.25%
09/10/1965	Japan	Hanshin Expressway Project	\$25 million	24 years	6.5%
12/17/1965	New Zealand	Railway Project	\$42 million	15 years	6.25%
12/17/1965	New Zealand	Marsden Point Power Project	\$20.5 million	15 years	6.25%
07/18/1966	South Africa	Camden Thermal Power Project	\$20 million	10 years	6.25%
07/29/1966	Japan	Sixth Expressway Project	\$100 million	15 years	6–5/8%

Sources: Respected Project's Document, WB Archives.

whether a uniform rate should be applied to all the developed countries.<sup>50</sup>

The President Report on the project/loan to Japan explained the basis for determining one per cent higher than the regular rate of 5.5%.<sup>51</sup> The practice of charging additional interest rate was applied to the remaining two loans to Japan and other eligible countries, such as Italy, New Zealand and South Africa, the total number of loans being seven (Vide Table 6 above). As in the case of loans to Japan, the respected President Report had a paragraph explaining the basis for determining a particular rate. The main determinants were the actual market rates and the period of the loan.

The last loan in this category was made in July 1966 for a 15-year loan of \$100 million for the sixth expressway project in Japan at an interest rate of 6–5/8%. It should be noted that the terms of the loan being 15-year was about 10 years shorter than those of all other expressway loans to Japan. It is interesting also to note that the Board presentation of this particular loan was postponed by a month from end June to end July in order to avoid simultaneous WB borrowing in the NY market and a WB's loan

<sup>50</sup> Memorandum, Unknown Author, JAPAN: Minutes of Meeting with Finance Minister, 3 p.m. Friday, September 4, at the Ministry of Finance, Japan-General # 1857460, WB Archives.

<sup>51</sup> ...In my memorandum on Market Eligible Loans date January 25, 1965 (R 65-9), Japan was mentioned as a country falling in the category of "market eligible countries." The major part of Japan's inflow of external capital in recent years has come from market sources. In addition to Government and Government-guaranteed bonds mentioned above, Japanese corporations sold bonds abroad totaling about \$70 million in 1965. The total inflow of medium and long term capital from market sources during 1964 amounted to about \$550 million.

The decision of the EDs regarding interest rates on market eligible loans provided that these rates would take into account the cost of the money being raised by the borrower in the market "where a loan coincided with a substantial market issue by the borrower." (R 65-23). In this case, there is not expected to be a simultaneous issue in the market, but it may be of interest to note that the NTT issued \$22.5 million Government-guaranteed 5.75% 15-year bonds in the New York market on April 8 at a price to yield the purchasers 6.03%. After deducting issuing costs, and not considering recurrent charges for payment of principle and interest, the cost of NTT was about 6.4%. In these circumstances, and since the Bank loan would be for period of 25 years, I see no basis for recommending an interest rate of less than 6.5%." Report and Recommendation of the President to the Executive Directors on a Proposed Loan to the Nihon Doro Kodan for the Shizuoka Toyokawa Expressway, May 14, 1965 p. 2

<sup>52</sup> WB's standard lending rate was 5.5% until June 13, 1966 and it was raised to 6% on June 14, 1966.

to Japan.<sup>53</sup> There is no information found in the folders in the WB Archives explaining the reason why the application of the lending rates to the market eligible countries was discontinued after that loan.<sup>54</sup> By the end of 1966, however, no major industrialized country such as Italy and Japan remained on the list of WB borrowers.<sup>55</sup>

### 3.3.2 Procurement Issues in the Execution of WB's Financing Projects

The WB continued to press Japan to apply international competitive bidding (ICB) for procurement operations for WB financed goods, following the case of the two expressway projects for Kobe–Nagoya section and New Tokaido Railway Projects.<sup>56</sup> The WB knew the efficiency and high standards of the Japanese construction industry, but the WB thought that the threat of ICB would work for preventing any possible price fixing among Japanese contractors, and the Kodan agreed to continue to invite foreign bids. While Japanese authorities accepted the principle and the purpose of ICB, the WB found some Japanese bidding procedures contrary to the generally accepted principles of competitive bidding. Also the general impression of international suppliers and contractors in the Japanese market was the existence of a united front on the part of the Japanese to make it difficult for foreign bidders. In the case of the EPDC project, the WB had to exclude one but important component of the EPDC project from financing after finding EPDC's domestic bidding procedures unacceptable. Concerning expressway projects, only few contractors and suppliers were prequalified; only two submitted their bids; and only one bidder got a civil work contract.

There were two particularly interesting examples: one incident in connection with the domestic bidding procedures of the EPDC's Kuzuryu project, and another incident associated with the only contract won by an American contractor and its failure in the execution of the construction contract for the Kodan's third expressway project for Tokyo–Shizuoka section. Experiences of international contractors for the urban Haneda–Yokohama expressway project are described in the Notes in ANNEX 2.

### EPDC's Kuzuryu Project

In early October 1964, when the appraisal report on Kuzuryu project was being prepared, the WB

<sup>53</sup> The WB explained to the Japanese Government in June 1966 that the WB had been criticized for lending to the more developed countries and since the imposition of IET, members of the US Congress were inclined to believe that WB lending to Japan was a method of getting around the US measures to improve its balance-of-payments. The WB therefore wanted to avoid WB borrowing and a loan to Japan to occur at the same time. The WB requested the Japanese Government to delay about a month Board presentation of the expressway loan. Vide Memorandum, Gordon M. Street to Files, JAPAN—Sixth Expressway Project, June 10, 1966, Japan-Expressway Project (03), Folder # 1879056, WB Archives.

<sup>54</sup> Last reference made on the "the loans to the market eligible countries" was in the World Bank Annual Report 1966–1967, p. 19. "The lending rate in the less developed countries at the 6% rate adopted in February 1966, though the question of interest rate in this period of rising cost of new borrowings. The lending rates to borrowers better able to raise external capital from market sources—the so-called "market eligible" countries—also remained unchanged, the highest rate for this category of borrowers continuing at 7%."

<sup>55</sup> Among the industrialize countries being the borrower of WB lending, the respected last loan was made to Netherland and Belgium in 1957, Australia and Austria in 1962, Denmark and Norway in 1963, Italy in 1965 and Japan in 1966. Sources: Respected Project's Document.

<sup>56</sup> Introduction of WB's procurement policy in Japanese projects was explained in the last third paper, Japan and the World Bank: Japan as a Borrower (3), December 15, 2015, pp. 204–206.

learned that irregular bidding procedures were being used for the two domestic competitive bidding, which resulted in the highest bidders winning the contracts for the two civil work of the dam and the power house of the Nagano power station. A team of high level staff of EPDC came to Washington in order to explain the procedures used without finalizing the contract awards. According to the memorandum on the meeting in October 1964, the EPDC explained that:

1. For the two works, five contractors were selected for each work on the basis of previous knowledge, without going through formal prequalification of bidders;
2. The ten contractors were briefed on the work to be done and were told the date of submission of bids was on September 24;
3. They were also told that the EPDC would establish a lower bid limit, below which no bid would be accepted;
4. The estimated cost for the two works were determined by EPDC on September 17 and the EPDC decided 91.5% of the estimated costs be the lower limit, i.e. ¥4,490 million for the dam and ¥2,544 million for the power house;
5. The EPDC announced on October 1 the result of the review of all technical reports: one bidder for the dam and two for the power house were disqualified without detailed explanation; and,
6. The sealed bid prices were opened and only one bid for each work was the qualified bid being higher than 91.5% of the estimated cost. In effect the qualified bids were the highest bid for each work.<sup>57</sup>

In further meetings with the WB, the EPDC explained that it used a minimum cut-off point in order to avoid unreasonably low bids and this was not an uncommon practice in Japan. Also EPDC stressed that the procedures were ethical, fair and impartial to managing the bidding under the highly competitive contracting business in Japan.<sup>58</sup>

From the WB's point of view, the whole procedures of bidding and evaluation of bids looked foreign compared to generally accepted principles of competitive bidding and against the WB guidelines. The central issue was that the bids were prepared not on the basis of the estimates of the actual work to be done but on guessing EPDC's cut-off price. Concerning the disqualification of the three bids, the WB was not certain if this could be justified. At the working party level, if the Nagano works were to be included as items for WB financing, the whole process would have to be redone, i.e. calling for new bids, from all the contractors, evaluating the bids without a cut-off point, and awarding contracts to the lowest evaluated bid.<sup>59</sup>

The WB was very clear after hearing the procedures adopted by the EPDC that they were unaccept-

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<sup>57</sup> Memorandum, M.T. Baig to Files, JAPAN—Kuzuryu Project, Bidding on Civil Works, October 28, 1964, Japan-Kuzuryu Project, Folder # 1878964, WB Archives.

<sup>58</sup> Memorandum, M.T. Baig to Files, JAPAN—Kuzuryu Project, Procedures on Bidding for Civil Works, November 2, 1964, Japan-Kuzuryu Project, Folder # 1878964, WB Archives.

<sup>59</sup> Memorandum, M.T. Baig to Files, JAPAN—Kuzuryu Project, Work Party Meeting, October 28, October 30, 1964, Japan-Kuzuryu Project, Folder # 1878964, WB Archives.

able to the WB. Therefore, the WB proposed that the EPDC should call for new bids for the two contracts and could withdraw its application for this proposed loan (Ibid.). The government and EPDC were also very clear that the procedures adopted were correct and fair. The Minister of Finance by cable, and the Ambassador of Japan in person had advised Mr. Woods that calling for new bids or dropping the proposed loan would lead to grave difficulties and embarrassment for the government. Eventually, the WB decided to resume consideration of the loan on the understanding that the WB loan would not finance the two civil works contracts.<sup>60</sup> Since the compromised position of the WB still involved acquiescing to the use of unsatisfactory bidding procedures, the WB was unhappy but accepted the compromise by separating the WB loan from the two contracts awarded on the basis of the faulty procedures.

### **Kodan's Third Expressway Project (Tokyo–Shizuoka section)**

The WB knew well that there was no case for ICB for works such as constructing bridges, viaducts and tunnels included in the expressway projects because of the competence and efficiency of Japanese contractors. But the WB insisted that heavy earthworks and paving contracts for the third expressway project should be subject to ICB. The major works of heavy earthworks and paving contracts were apportioned into contracts having the value of about \$3.0 million. In the case of an international bidding on 3.2 km expressway construction work contract in the city of Shizuoka for the project, an American firm, R.B. Potashnick (PK), was awarded the contract for \$2.7 million in September 1965.<sup>61</sup> Both the WB and the Kodan were pleased to see a foreign contractor as the successful bidder. In fact, in the letter from the Kodan to the WB on the contractor stated that:

“[...] The success of the contract award by R. B. Potashnick (PK) in this section, which is the first foreign contractor through repeated international bidding procedures in expressway construction, caused me both hopeful expectations and some anxiety about what method and procedure PK might take and how the work would be executed in actual operations. The hopeful expectation was that the American contractor and control to the Japanese contractors and the anxiety was how many and what degree of construction engineers, technicians and equipment might be sent to Japan from the United States. [...]” (Ibid.).

Unfortunately, the PK did not perform as the main contractor for the contract and let its Japanese subcontractor, Nitta Construction Company (Nitta), execute expressway construction works. Against the contract, the PK sent only three engineers, out of whom two stayed only for a few months, and the company did not send any major equipment to Japan. In spite of the Kodan's strong intervention to let

<sup>60</sup> Memorandum, Gordon M. Street to Files, JAPAN—Kuzuryu Hydroelectric Project, November 17, 1964, Japan-Kuzuryu Project, Folder # 1878964, WB Archives.

<sup>61</sup> Letter, Nobutaka Katahira, Director, Shizuoka Construction Bureau of Tokyo–Nagoya Expressway, Nihon Doro Kodan to Mr. S. C. Hardy, the World Bank. June 1, 1966, Japan-Expressway Project (03), Folder # 1878898, WB Archives.



the PK follow the contract, PK's performance did not improve and PK continued to let the Nitta execute the work only with the advice of PK's chief engineer and job-site agent. As Nitta learned the construction work, by the end of June 1966, the delay in construction work was reduced to about 2% against the work plan.

However, by then, due to Nitta's financial trouble, its work was nearing to halt. In the end, at the request of PK, the whole contract was transferred in August 1966 to the Sato Construction Company, one of major construction companies for expressway construction, in order to complete the remaining work. At the time of the contract transfer, the completed work was estimated at about 39% with 8% delay against the work schedule. The Sato Construction Company completed the remaining work satisfactorily on schedule. The PK had received 6% of the total contract amount. The WB was disappointed with the Kodan's experience with the first foreign contractor under international competitive bidding.<sup>62</sup>

#### 4. Concluding Remarks

The WB lending during the period, 1963–1966, continued to help Japan fund her public expenditures. Japan welcomed the resumption of WB lending in 1963, initially as almost emergency assistance, to finance part of the expressway construction program, an extension of the Kobe–Nagoya section. The lending amount was not large for the total outlays for Japan's overall road construction program, but the value of having WB involved was considered high as the WB certified Japanese economic performance through publishing economic reports, and this was important for securing favorable long-term funds in the financial market especially backed by the quality of the expressway construction program, from an engineering, economic and financial point of view.

After U.S. IET became effective in July 1963, the WB and Japan had to work together in a narrow space within the boundaries of, on one hand, Japan's balance-of-payments status, need of long-term capital imports, and Japan's capability of issuing long-term securities in the financial market. On the other hand, the WB's institutional objective of moving towards becoming a true development bank for the developing countries and WB's relationship with US Government in terms of how to deal with the real wish of the US government in connection with the implementation of IET and difficult negotiations for the second IDA replenishment.

Since the intention of the US Government policy was not clearly understood initially, the WB positively responded to Japan's need for the provision of the long-term resources in 1963 and 1964. In the meantime, because of IET, Japan diversified the source of long-term capital imports expanding it beyond the New York market to the European market. By this time the WB also established a system of charging an extra interest rate for lending to 'market eligible countries,' e.g., Japan, Italy and Norway.

<sup>62</sup> Letter, Nobutaka Kanaya, Director, Nohon Doro Kodan to Mr. Warren C. Baum, Assistant Director of the Project Department, the WB, "J" Project (Shizuoka Project) of Tokyo–Nagoya Expressway, October 31, 1966 and Memorandum, S. C. Hardy to Mr. Warren C. Baum, Expressway Projects: Loans 357, 374, 398, 413, 423 and 460-JA Back-to Office and Final Report, January 16, 1967, pp. 1–2, Japan-Expressway Project (03), Folder # 1878899, WB Archives.

The last three loans for Japan, namely, for the fourth expressway project, Kobe–Osaka Urban expressway project and the supplementary to the third expressway project had interest rates of about 1% higher than the regular lending rate. In the end, the WB stopped lending to Japan in 1966. Japan was the last country graduating from being a borrower, as one of the industrialized countries in that period.

On the project front, most of WB's loans financed the expressway construction program connecting Tokyo and Nagoya and the two urban elevated expressways. It was impressive that all expressway projects were completed in a timely manner, within the estimated cost, and with quality engineering. To concentrate its lending program to the expressway projects was a convenient and efficient way for the WB, from the point of view of saving its operating cost. Staff were familiar with the organization of Kodan and project details, and staff of the Kodan were familiar with WB's approach and loan procedures. It should be noted that the WB was flexible enough to apply the supplemental financing mechanism to form the last loan to the Kodan for the third expressway project by increasing WB's participation. The WB could take a sector approach making the whole or part of expressway construction program as a project. However, no report was found in the Archives even reviewing the WB experiences of the whole process starting from the initial review of the plan for Tokyo–Kobe expressway construction program, ending with the opening of the traffic in the Tokyo–Shizuoka section of the Tokyo–Nagoya expressway.

On procurement, EPDC's domestic bidding procedures looked very strange to the WB, as the highest bidders got the contracts. In spite of the negative conclusion on the procurement issue, the WB did not drop the project but continued to process the loan. Through many ICBs, only three foreign bidders participated in the bidding, and one was awarded a contract. It was unfortunate that the successful bidder in the case of the third expressway project could not complete the construction contract, as the award of the contract to an American firm was the only one successful international bidder. The general impression was that ICB did not fare well with the then existing Japanese system and practice of procurement.

## **5. Final Remarks on “Japan and the World Bank, 1951–1966: Japan as a Borrower”**

The initial role of US at the time of Japan's application to join the IMF and the WB under the Bretton Woods Treaty must not be ignored. When the application letter signed by Prime Minister Yoshida was sent by the office of the Supreme Commander for the Allied Powers in Tokyo in August 1951, the US Treasury and IMF were ready to support Japan's application even before Japan was an independent country, i.e. prior to the ratification of the Peace Treaty. In the end, Japan joined the IMF and the WB formally, in August 1952, four months after the ratification of the Peace Treaty in April 1952.

The framework of the WB's financial assistance to Japan's economic development changed dramatically over these 13 years, as Japan's economic development progressed. Initially the WB was a supplier of foreign exchange sources for imports for development of electric power, steel and manufacturing in-

dustries and it tried to help in the agricultural development, but the lending program had a low ceiling and the WB's processes were very slow. The relationship between the WB and Japan was far from cordial.

With a visit to Japan by the President of the WB in 1957, the WB's lending strategy was changed dramatically to not only financing foreign exchange but also local cost expenditures, when local cost financing was only applicable under exceptional circumstances.<sup>63</sup> The WB made all efforts to improve lending procedures in 1957–1958 and consequently the lending amount increased greatly and higher level of disbursement followed. Under the new expanded lending framework, the WB continued support the steel and electric power sectors up to 1960 and began to support development of the transport sector in 1960 through financing of the initial expressway construction program. After two transport loans for the New Tokaido Line and the second expressway projects were made in 1961, the WB stopped lending to Japan as Japanese economy reached such a level that it was inappropriate for the WB to continue lending to Japan. But in the end, it was only temporary. After one year and ten months of non-lending to Japan, the WB restarted lending to Japan in 1963 to finance mainly the expressway construction program, including the construction of the Tokyo–Kobe expressway, part of the public expenditures of Japan. The WB continued lending to Japan up to 1966 when it was at last, finally stopped.

The financial contribution of the WB to Japan reached a total of \$863 million over 13 years. This amount was not that large in comparison with the total amount of investments in the steel and electric power and transport sectors. But the intangible and important contributions made by the WB should not be underestimated. They were for WB to:

1. Explain internationally the process of Japanese economic development and to certify the credit worthiness of Japan by issuing economic reports;
2. Work on specific projects one after the other involving Japanese civil servants and technical staff concerning project choice, design, preparation, and implementation;
3. Give specific technical assistance to Japanese Government on getting access to the New York market including the floatation of the first government bonds in 1959 after the Second World War and on the preparation of the first expressway project followed by many subsequent expressway projects; and,
4. Flexibly apply the terms of packaging loans, e.g. the use of JDB, co-financing arrangement, local cost financing, and supplemental financing.

Regarding the first point on the economic reports, since Japan was not well known internationally in the late 1950s, the WB reports prepared by professional economists were helpful for many governments and financial institutions dealing with Japan. These report particularly helped other specialist

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<sup>63</sup> Exceptional circumstances are explained as: when the borrowing country's imports include so few capital goods of the type required for projects; and, there is no reasonable expectation that the required funds can be raised locally without undesirable consequences. Vide Operational Memorandum 1.22, December 4, 1953, the World Bank.

learn about how Japan was managing her economy. During the 1960s, the reports supported Japan's role as an importer of raw materials from, and a supplier of foreign aid to the countries regionally in Asia.

Concerning the second point on project lending, the WB's lending met resistance initially from Japan's borrowers such as the electric power and steel companies as they were considered too intrusive because of the financial conditionality imposed and investment limits, but eventually it became an effective vehicle for knowledge as well as capital transfer to Japan. One of key issues the WB continued to try to persuade the government and borrowing agencies was to make the procurement system in the public sector more open, but the WB was not successful.

Regarding the third point on WB's specific advices, the most impressive one was Mr. Black's personal intervention concerning the first issuance of Japan's government bonds in the New York market in 1958 and early 1959. His knowledge of the market was fully appreciated by the Japanese Government. The review of the initial study on the Tokyo-Kobe expressway program by the WB and giving advice on project preparation for WB financing were an eye opener to Japan and the WB did continue to assist Japan in completing the construction of the Tokyo-Kobe expressway in a timely manner and within the original cost estimates.

The fourth aspect of WB's contribution that started with initial hesitation, was its partnership with the JDB for financial transactions from 1958 for making loans to private sector companies. The introduction of local cost financing in the project lending in 1958 and applied up to the last project was a good fit for the WB and Japan. For Japan's import needs of capital goods were declining but the WB wanted to influence the design and the implementation of the projects. Finally, the application of supplemental financing to the third expressway, the Tokyo Shizuoka section as the sixth expressway was a surprise to the Japanese government expecting a new project. It was convenient for the WB and Japan to prepare the last project in this way as the WB and the Kodan were familiar with the content of the project.

There are many questions that remain on the relationship between the WB and Japan as a borrower. Only four are mentioned herewith requiring further study and discussion. First of all, the WB was impressively flexible in dealing with Japan, and there was good communication between the two, which was helpful in achieving good results, at the political level during the annual meetings and at technical level during the preparation, appraisal as well as implementation of projects and loan negotiations. Apart from these there was frequent contact between WB and Japanese embassy staff, which was essential in managing at times, complicated problems faced by the two. After all, the WB knew of the cultural differences and different working habits of the two, yet somehow both continued to work together in creating positive results. How did the WB institutionalize these experiences in the management of the varying borrower's needs with sensitivity in cultural differences?

Secondly, Japan was considered as a good borrower as Japan implemented projects efficiently and she paid back all debts on time. There has been no study made on how Japan institutionalized its

working experiences with the WB in both its public and private sector, in terms of rigorous preparation, appraisal and implementation of projects, culminating in the preparation of medium term investment programs, including the introduction of competitive procurement system? Starting from the participation of technical specialists in the field of engineering, finance and economics in the project work and the introduction of international and domestic competitive procurement system were the principle elements of the WB's lending work. An analysis of their relevancy to the current situation in Japan will definitely add value to understanding Japan's institutions and procedures.

Thirdly, why did the WB agree to restart lending to Japan in December 1962? During the annual meeting in September 1962, the Japanese delegation enquired about the possibility of restarting lending but the reaction of the WB was clearly negative. But three months later, at the time of a visit by the Minister Tanaka to the WB in December 1962, Mr. Black was ready to provide a loan to an expressway project at Mr. Tanaka's request. No discussion had yet been made on IET in US at that time and the Japanese economy then was essentially similar to the situation in 1961 when the lending was stopped.

Fourthly, for two years 1965 and 1966, the WB lending had two interest rates, one for countries that were able to borrow abroad on their own credibility and the other, the regular rate, for all other developing countries. On the interest rate applied to the market eligible countries, there are no documents available explaining how the rate was calculated. The policy of higher rates requires further analysis, particularly on the structure of the rate and the discussion on the rate application in the possible influence on the international financial markets.

## ANNEX 1. World Bank Lending to Japan: List of Loans

Date of Loan Agreement (mm/dd/yyyy)	Borrower and/or Implementing Agency	Principle Project Components	Loan Amount (US\$ mil.)	Terms of Loan (Years)	Interest Rate (%)	Total project cost (US\$ mil.)
10/15/1953	Japan Development Bank (JDB)/Kansai Power	Equipment for two thermal generators with 75,000 Kw each	21.5	20	5%	31
	JDB/Kyushu Power	Equipment for thermal generator with 75,000 Kw	11.2	20	5%	17
	JDB/Chubu Power	Equipment for thermal generator with 66,000 Kw	7.5	20	5%	14
10/25/1955	JDB/Yawata Steel	Installation of a single modern four plate mill in the city of Yawata replacing three old plate mills	5.3	15	4% %	15.6
02/21/1956	JDB/Nippon Kokan, Toyota Motor, Ishikawajima Heavy Industries and Mitsubishi Shipbuilding	Modernization of various plants by four companies: Nippon Kokan constructing new seamless tube mill; Toyota Motor installing equipment for manufacturing components for cars and trucks; Ishikawajima and Mitsubishi installing equipment to produce turbochargers and heavy components for marine engines	8.1	15	4% %	25.4
12/19/1956	JDB/Kawasaki Steel	Construction of an integrated production facility at the Chiba steel plant including the installation of a semi-continuous hot strip mill with annual 400,000 tons capacity and a cold strip mill with annual 300,000 tons capacity, and provision of all ancillary works necessary for the installation and operation of both mills	20.0	15	5%	45
12/19/1956	Agricultural Land Development Machinery Public Corporation	Introduction of rapid and low cost land reclamation through pilot operations in Shikotsu and Kosen in Hokkaido and Kamikita of Aomiri in the northern main island and support of the development of mixed farming. The loan financed heavy construction equipment and the cattle imports for breeding	4.3	15	5%	8.7
08/09/1957	Aichi Irrigation Public Corporation	Irrigation of 17,000 hectares of paddy fields and 16,000 hectares of upland country in central Japan; supply of water to municipalities including Nagoya city; and, supply of additional electricity to the regional power system	7	20	5% %	100
01/29/1958	JDB/Kawasaki Steel (II)	Construction of a new blast furnace, coke ovens and related facilities to expand pig iron facilities at Chiba plant with the production capacity of 684,000 tons per year	8	14	5% %	20
06/13/1958	JDB/Kansai Power (II)	Construction of the Kurobegawa IV hydroelectric development with generating capacity of 258 Mw in western Japan including a construction of a double curvature arch dam, 188 meters in height, a 10 km tunnel connecting between the reservoir and the generating station, and an underground power station with three 86,000 Kw generating sets	37	25	5% %	118
06/27/1958	JDB/Hokuriku Power	Construction of the Joganjigawa, its tributaries and Arimine hydro-electric development system with generating capacity of 261 Mw in western Japan including construction of Arimine reservoir about one km above sea level and five new power stations successively lower elevations along Joganjigawa	25	25	5% %	92
07/11/1958	JDB/Sumitomo Metal	Installation and operation of a blast furnace & blooming mill at Wakayama including land procurement and reclamation, construction of harbor facilities, unloading and transportation equipment, raw material yard, coke plant, blast furnace with a daily capacity of 1,000 tons, power plant, steel making plant with the annual capacity of 636,000 tons, blooming mill and auxiliary facilities	33	15	5% %	83
08/18/1958	JDB/Kobe Steel	Installation and operation of a blast furnace and related facilities at Nadahama and Wakinoama in the city of Kobe to provide Kobe Steel with its own source of pig iron (288,000 tons per year) and to increase its annual productive capacity to about 700,000 tons of ingot steel and about 600,000 tons of saleable products	10	15	5% %	36
09/10/1958	JDB/Chubu Power (II)	Construction of Hatanagi Hydroelectric development along Ooigawa in central Japan consisting of a hollow concrete gravity dam with 107 million cubic meters of water to be connected at the foot of the dam with Hatanagai No. 1 power station. Installation of Hatanagai No. 2 power station further down stream. Each station having 85,000 Kw capacity	29	25	5% %	73

## Japan and the World Bank, 1951–1966: Japan as a Borrower (4)

## ANNEX 1. Continued

Date of Loan Agreement (mm/dd/yyyy)	Borrower and/or Implementing Agency	Principle Project Components	Loan Amount (US\$ mil.)	Terms of Loan (Years)	Interest Rate (%)	Total project cost (US\$ mil.)
09/10/1958	JDB/Nippon Kokan Steel	Construction of a steel plant, slabbing mill, hot rolling mill, old rolling mill and related facilities such as power facilities, water supply and transportation and the expansion of a seamless tube mill including the installation of a medium size upsetter and an X-ray wall thickness measuring gauge at Mizue in the city of Kawasaki.	22	15	5¼%	67
02/17/1959	JDB/Electric Power Development Corporation	Construction of Miboro rockfill dam about 130 m high, capable of impounding about 330 million cubic meters of water storage, an under ground power station at the same site comprising two generating units having 215 Mw capacity on the Shoriver in Toyama/Gifu in western Honshu	10	25	5¼%	103
11/12/1959	JDB/Fuji Steel	Construction of a steel plant and of the expansion of a seamless tube mill at Hirohata, Hyogo Prefecture including construction and installation of blast furnace, sintering plant, coke oven plant, slabbing mill and related facilities	24	15	6%	73
11/12/1959	JDB/Yawata Steel	Construction and installation of two blast furnaces, a sintering plant, two coke oven and coal washing plants, three converters, a slabbing mill, and related facilities at Tobata in Kyushu	20	15	6%	167
03/17/1960	Nihon Doro Kodan	Construction of 72 km four lane, divided, limited access expressway from Amagasaki to Ritto, linking the Osaka metropolitan area with that of Kyoto in central Japan	40	23	6¼%	110
12/20/1960	JDB/Kawasaki Steel (III)	Installation of a plate mill with annual capacity of 600,000 tons and all necessary auxiliary facilities in Chiba plant	6	15	5¼%	20.3
12/20/1960	JDB/Sumitomo Metal (II)	Installation of a semi-continuous combined hot strip and plate mill, a medium size electric resistance welded pipe mill and the expansion of blooming facilities and power, water as well as transportation services	7	15	5¼%	47.3
03/16/1961	JDB/Kyushu Power (II)	Construction of the first stage of Shinkokura thermal power plant at Kokura in northern Kyushu with an installed capacity of 156 Mw, with a boiler designed to use the low-grade coal available in Kyushu	12	20	5¼%	27.7
05/02/1961	Japan National Railways	Construction and equipping of a new double track, standard gauge, electric line, called the New Tokaido Railway Line (Shinkansen) traversing the industrial heart of Japan, connecting Tokyo, Yokohama, Nagoya, Kyoto and Osaka	80	20	5¼%	548
11/29/1961	Nihon Doro Kodan (II)	Construction of 111 km four lane, divided, limited access expressway between Ichinomiya-Ritto (104 km) and Amagasaki and Nishinomiya (7 km) following the first expressway project to complete the connection between Kobe and Nagoya	40	23	5¼%	212
09/27/1963	Nihon Doro Kodan (III)	Construction of 161 km, a part four lane, part six lane, divided, limited access expressway between Tokyo and Shizuoka, following the first and second expressway projects connecting Kobe and Nagoya	75	26	5½%	628
04/22/1964	Nihon Doro Kodan (IV)	Construction of 78 km four lane, divided, limited access expressway between Toyokawa (nearby Toyohashi) and Komaki (nearby Nagoya) following the first as well as second expressway projects connecting Kobe and Nagoya and the third expressway project connecting Tokyo and Shizuoka	50	25	5½%	202
12/23/1964	Tokyo Expressway Public Corporation	Construction of four lane, divided, urban-toll expressway, elevated for most of 12.8 km, connecting Haneda International Airport with Yokohama city	25	24	5½%	86
01/13/1965	Electric Power Development Corporation	Construction of two new power stations having 274 Mw capacity on the Kuzuryu River in Fukui in western Honshu to cater to the customers of Hokuriku Electric Power including construction of a rockhill dam and a smaller dam	25	25	5½%	93
05/26/1965	Nihon Doro Kodan (V)	Construction of 106 km a four lane, divided, limited access expressway between Shizuoka and Toyokawa (nearby Toyohashi), the final section of the Tokyo-Kobe expressway	75	25	6½%	322

**ANNEX 1.** Continued

Date of Loan Agreement (mm/dd/yyyy)	Borrower and/or Implementing Agency	Principle Project Components	Loan Amount (US\$ mil.)	Terms of Loan (Years)	Interest Rate (%)	Total project cost (US\$ mil.)
09/10/1965	Hanshin Expressway Public Corporation	Construction of a four-lane divided urban-toll expressway, elevated for most of 12.5 km, connecting Tsukimiyama ramp in the western outskirts of Kobe city with Iwayaminamimachi ramp in the eastern section of the same city	25	24	6½%	84
07/29/1966	Nihon Doro Kodan (VI)	Additional financing for the third expressway project connecting Tokyo with Shizuoka	100	15	6½%	640

Sources: Various Annual, President and Appraisal Reports by the World Bank.

**ANNEX 2.****Basic Structure of the WB Projects and Loans**

This Annex summarizes the contents and characteristics of each project/loan based on information in the respective President, Appraisal Report, Loan Agreement and other documents available in WB Archives. The projects and loans are being presented chronologically. In the end of each project/loan expose, noteworthy interactions among WB and Japanese Government as well as final beneficiaries on sector-wide and project issues are presented in the form of “Notes” on the basis of the review of each project folder. Most of the projects were well executed in a timely manner within small deviation from original cost estimates. But a few had problems and they are described in the “Notes” below.

**Nihon Road Kodan Tokyo–Shizuoka Expressway Third Project**

1. Borrower: Nihon Doro Kodan (Japan Highway Public Corporation (Kodan))
2. Guarantor: Government of Japan
3. Loan Amount: US\$75 million
4. Date of Loan: September 27, 1963
5. Terms of Loan: 26 years
6. Interest Rate: 5½%
7. Project Description: The third expressway project was for the expressway construction of 161 km, part four-lane, part six-lane, divided, limited access expressway between Tokyo–Shizuoka. It followed the first and second expressway projects connecting Kobe and Nagoya. The project included the construction of service areas, bus stops, and inter-changes and also buildings and other permanent facilities for the maintenance and operation of this expressway after its completion. It would take five and half years to complete the project. Its total cost was estimated at about \$628 million and the WB’s loan would provide about 12% of the total expected project cost. The loan would finance payments for acquisition of right of way, services of construction contractors, materials to be supplied by the Kodan to contractors and special equipment to be purchased by the Kodan for use of contractors.
8. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between



the WB and the Nihon Doro Kodan (Kodan), and the Guarantee Agreement between the WB and Japan. The Loan Agreement provided that the Kodan would employ suitable consultants to get advice on design, location and other related questions on the expressway and on soil problems, construction specification and construction procedures. The Guarantee Agreement conformed with the normal pattern of the WB's guarantee agreements, and included the provision on the Government's furnishing with funds sufficient for the construction of the project and its maintenance. Also the Government was to secure the cooperation of local governments for the construction and maintenance of access roads connecting the expressway with surrounding local communities.

9. Justification: The affected area by the project was one of the most densely populated and heavily industrialized areas in Japan. The existing roads were of low standards and congested. The new expressway would lead to decrease in travel time and in transport costs, and to spreading of population and industry. The road user savings alone would represent an economic return of some 10–15% annually from the start of operation. Financially, the toll rates would bring a financial return of 8% on the investment during the its estimated useful life of about 30 years.
10. Procurement: International competitive bidding was used following the previous two expressway projects. Foreign contractors with experience in expressway construction were invited to bid for all major works of the project. The major works were apportioned into contracts having the value more than \$3.47 million.

**Notes:**

The Project was appraised in May 1963. Characteristics of the project in comparison with the first and second expressway projects were: (1) the cost of expressway including construction, right of way, engineering and supervision, was \$3.2 million per km, compared with \$1.7 million under the first project and \$1.8 million under the second, respectively; and, (2) land and compensation to landowners accounted for 24% compared with 20% and 18% respectively on previous projects.<sup>64</sup>

In the appraisal report, the transport sector issues in Japan were presented for the first time as part of the Background section (*Ibid.*, pp. 2–4). Main points were: (1) high rate of growth of transport demand of both passenger and freight; (2) the important role played by coastal shipping for freight; (3) the low rate of paved roads; and, (4) the lack of policy and institutional arrangements for designing and executing coordinated transport policy. In the section for 'Economic Justification' in the same report, there was an analysis on competition between the New Tokaido Rail Line and the new expressway between Tokyo–Kobe stating that: "[...] the probability of inadequate transport capacity in the Tokaido region by 1980 is considerably greater than that of excess capacity, unless new facilities are initiated in the meantime" (*Ibid.*, pp. 12–13).

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<sup>64</sup> Memorandum, S. Aldewereld to Mr. Geoffrey M. Wilson, Proposed Loan to Japan: Tokyo–Shizuoka Expressway, July 16, 1963, Japan–Expressway Project (3), Folder # 1878895, WB Archives.

There was a failure of a US contractor, R. B. Potashnick (Girado City, Mo), the first foreign contractor winning the contract through the ICB on 3.2 km expressway construction work in the city of Shizuoka. Please refer to pp. 24–25 in the main text. In spite of the failure of the contract, the construction of the expressway was completed on schedule with the cost lower than the original estimated cost and opened for traffic on February 1, 1969. The WB made a supplemental loan, \$100 million, for the Third Expressway Project in 1966 (Vide pp. 43–45 in this Annex). The last supervision on the project was made in 1969.<sup>65</sup>

### **Nihon Road Kodan Toyokawa–Komaki Expressway Fourth Project**

1. Borrower: Nihon Doro Kodan (Japan Highway Public Corporation (Kodan))
2. Guarantor: Government of Japan
3. Loan Amount: US\$50 million
4. Date of Loan: April 22, 1964
5. Terms of Loan: 25 years
6. Interest Rate: 5½ %
7. Project Description: The project was for the expressway construction of 78 km a four lane, divided, limited access expressway from Toyokawa (nearby Toyohashi) to Komaki (nearby Nagoya). It followed the first as well as second expressway projects connecting Kobe and Nagoya and the third expressway project connecting Tokyo and Shizuoka. The project included the construction of service areas, bus stops, and interchanges and approach roads. It also included the equipment, buildings and other permanent facilities for the maintenance and operation of this expressway after its completion. It would take five years to complete the project by April 1969. Its total cost was estimated at about \$202 million including \$11.2 million of general administration cost and interest during construction and the WB's loan would provide about 25% of the total expected expenditures. The loan would finance the items specified as in the third expressway loan.
8. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between the WB and the Kodan, and the Guarantee Agreement between the WB and Japan. The Loan Agreement provided that the Kodan would employ suitable consultants to get advice on design and construction of the expressway, and that Kodan would complete its road construction, 8.4 km, connecting Ichinomiya and Komaki interchanges, so that Kobe–Nagoya expressway and Nagoya–Toyohashi, eventually Tokyo expressway would be connected. The Guarantee Agreement conformed with the normal pattern of the WB's guarantee agreements, and included the provision on the Government's furnishing with funds sufficient for the construction of the project and its maintenance. Also the Government was to secure the cooperation of local governments for the construction and maintenance of access roads connecting the expressway with surrounding local

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<sup>65</sup> Memorandum, A. Bergan to Mr. S.C. Hardy, JAPAN—Tokyo–Nagoya Expressway Project, Loans 357, 374, 413 and 460-JA, Supervision Report, Full Report, July 1, 1969, Japan-Expressway Project (03), Folder # 1879059, WB Archives.

communities.

9. Justification: The Tokyo–Kobe expressway, of which the project was an integral part, was one of the most important highways built in Japan. It traversed the most densely populated and heavily industrialized areas in Japan and would link five of Japan’s six largest cities. The new expressway would relieve acute shortage of transportation capacity and lead to decrease in travel time and in transport costs of freight and passenger traffic. The rate of return of the project was estimated at about 17% from road user savings, timesaving and fewer accidents. Financially, the project was estimated to have a paying back period of about eighteen years for its economic life of about 30 years.
10. Procurement: International competitive bidding was used following the case of the three previous expressway projects. Foreign contractors with experience in expressway construction would be invited to bid for all major works of the project. The major works were apportioned into contracts having the value more than \$3.47 million.

#### Notes:

The WB preferred to have an expressway project connecting Komaki–Shizuoka as one project, some 185 km, for the remaining section of the Tokyo–Kobe expressway. On the other hand, the Kodan wanted to half it into the two sections, Toyokawa–Komaki, 77 km and Toyokawa–Shizuoka, 108 km. For the Toyokawa–Komaki section was more advanced than the other in terms of the execution of initial works, specifically route selection and procurement of right of way. Also the Toyokawa–Komaki section was the extension of the already completed Kobe–Nagoya expressway having an additional role of an arterial route for transportation in and out of Nagoya city as well as its vicinities, which were expanding rapidly.<sup>66</sup>

The project was prepared without sending an appraisal mission to Japan because the third project was just appraised in May 1963 including this section of the expressway. Its appraisal report is therefore a short one with only four pages.<sup>67</sup> Negotiations for the fourth expressway loan took place in March 1964 and approved by the Board in April 1964 without a major problem and the expressway was completed with the cost slightly lower than the original estimate and opened for traffic on February 1, 1969. Last supervision on the project was made in 1969.<sup>68</sup>

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<sup>66</sup> Letter, Yasuo Kameoka, Director, Nihon Doro Kodan to Mr. H. J. van Helden, Chief, Transportation Division, the World Bank, Proposed Fourth Expressway Loan, October 28, 1963, Japan-Expressway Project (4), Folder # 1878929, WB Archives.

<sup>67</sup> The appraisal report explains that: “[...] In view of the fact that the proposed project is an integral part of the Tokyo–Nagoya–Kobe Expressway for which three previous loans were made, since the project will again be carried out by Nihon Doro Kodan, and since the loan for the Third Project was submitted to the Executive Directors as recently as September 1963, this report is in the form of a supplement to the technical report on the Third Project. As such, it is limited to a brief description of the proposed project and its economic and financial justification [...]” Appraisal of A Fourth Expressway Project, Toyokawa–Komaki, (Supplement to Technical Report No. 384a), April 8, 1964, p. 1.

<sup>68</sup> Memorandum, A. Bergan to Mr. S.C. Hardy, JAPAN—Tokyo–Nagoya Expressway Project, Loans 357, 374, 413 and 460-JA, Supervision Report, Full Report, July 1, 1969, Japan-Expressway Project (03), Folder # 1879059, WB Archives.

**Haneda–Yokohama Expressway Project of Tokyo Expressway Public Corporation**

1. Borrower: Tokyo Expressway Public Corporation (TEPC)
2. Guarantor: Government of Japan
3. Loan Amount: US\$25 million
4. Date of Loan: December 23, 1964
5. Terms of Loan: 24 years
6. Interest Rate: 5½ %
7. Project Description: The project was the construction of a four-lane divided toll expressway, elevated for most of 12.8 km, connecting Haneda International Airport with Yokohama city. It would take three and half years to complete the project by mid-1968. Its total cost was estimated at about \$82.2 million and the WB's loan would provide about 30.4% of the total expected expenditures. The loan was to finance payments for acquisition of right of way, services of construction contractors, and materials to be supplied by the TEPC.
8. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between the WB and the Tokyo Expressway Public Corporation (TEPC), and the Guarantee Agreement between the WB and Japan. The Loan Agreement, in addition to the usual clauses, required that the TEPC would complete its road construction, 2 km section at the northern end of the expressway, connecting Ichinomiya and Komaki interchanges, so that Kobe–Nagoya expressway and Nagoya–Toyohashi, eventually Tokyo expressway would be connected and that the TEPC would improve the existing street over which the expressway would run to permit the free flow of traffic. The Guarantee Agreement conformed with the normal pattern of the WB's guarantee agreements, and included the provision on the Government's furnishing with funds sufficient for the construction of the project and its maintenance.
9. Justification: The Tokyo–Yokohama area was Japan's most important center of commerce and industry. Then existing streets were heavily congested. The proposed urban expressway project would ease traffic congestions and cater to the expected traffic growth. The rate of return of the project was estimated at about 18% from road user savings and if timesaving for passengers were included, the rate would increase to more than 25%.
10. Procurement: International competitive bidding would be used for contracts for the supply and erection of fabricated structural steelwork for piers and the super structure of bridges and viaducts. Such steel works were required to be grouped into contracts worth more than \$2.78 million. On domestic procurement, TPEC was required to follow the general procurement principles of the WB.

**Notes:**

The TEPC, a public entity, was established in 1959 to construct and operate toll roads in the Tokyo–Yokohama metropolitan area and was similar in its methods of operation and organization to the

Nihon Doro Kodan. Though new, the Corporation had built up a competent staff and demonstrated its ability to construct and operate toll roads.

Because of the urban area traversed, the expressway was elevated for its entire length using the Government controlled land such as streets, roads and rivers. The alignment had, in many cases, created difficult engineering problems which had generally been solved in such a way that the expressway harmonized with the surrounding environment. Design standards were kept to a minimum due to the high cost of construction and the right-of-way. The WB questioned the low construction standard for an urban elevated highway, specifically the adequacy of the geometrical design standards for urban expressway in Tokyo and the limited traffic capacity of the proposed expressway. The WB preferred to go for higher standards, and consultants were hired to check the design standard and the capacity. The review found the construction standard acceptable but suggested the space for emergency parking bays for disabled vehicles be reduced from 1,500 m to 750 m according to the appraisal report (Ibids., Appraisal Report, p. 7).

The work was executed by a large number of local contractors, large and small. Foreign contractors participated in a few tenders, but without success. The contractors, awarded on the basis of competitive bidding, completed their construction works within the original time schedule of four years. Workmanship was good. The final cost of the project including cost for construction and land acquisition was \$65 million equivalent as compared with the appraisal estimate of \$68 million. Toll revenues from the project started in July 1968, when the first section was opened to traffic to April 1969 increased from ¥11.4 million to ¥192.0 million as the number of vehicles increased from 111,362 to 1,242,000 during the same period. A charge of ¥150 and ¥300 respectively was applied for ordinary cars and for larger cars and trucks.<sup>69</sup> Compared with the traffic composition assumed in the appraisal report with the actual, actual number of cars and taxis, 75% was much higher than the assumed, 55% and actual number of trucks and buses, 25%, lower than the assumed, 45%. With the expected increase in the traffic, the WB understood that the TEPC would face with the congested traffic condition very soon.

On the question of international competitive bidding, the WB considered contracts for substructure works, involving such works as the relocation of utilities buried in the existing streets and the temporary diversion of traffic during construction, not suitable for international bidding. This type of work could be done by the local contractors following established practices. As regards contracts for super-structure, which involved the supply and erection of fabricated structural steelwork for piers and the superstructure of bridges and viaducts averaging \$3 million for each contract, the WB considered these suitable for international bidding.<sup>70</sup> During loan negotiations, Japanese and WB agreed to adopt

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<sup>69</sup> Memorandum, A. Bergan to Mr. S. C. Hardy, Japan—Tokyo Elevated Expressway Project, Loan 398-JA, Final Report, June 26, 1969, Japan-Haneda-Yokohama Expressway Project, Folder # 1878945, WB Archives.

<sup>70</sup> Memoranda, N.R. Chakravarti to Files, Japan-Haneda-Yokohama Expressway Project, August 26, 1964 and S.C. Hardy to Mr. van Helden, Japan: Haneda-Yokohama Expressway, International Competitive Bidding, August 27, 1964, Japan-Haneda-Yokohama Expressway Project, Folder # 1878942, WB Archives.

ICB on the supply and erection of about 35,000 tons of structural steel to be used in the project for super structure and some of the piers. This would amount to about 40% of the total cost of the project. The size of the contracts to go for international bids would be sufficiently large, about \$3 million, to attract foreign suppliers. The actual import duty on structural steel of 15% was to be added to the international bid for evaluation.<sup>71</sup> There was a bidding for the fabrication and erection of about 5,200 tons of structural steel works costing about \$3 million in which a German contractor participated in August 1965. There were seven Japanese firms participated in the bidding. The German bid was the fifth but the bid price included 15% tariff on the top of the CIF value of steelwork. It is worth mentioning that if tariff were not added, the German bid price would have been lower than the value of the winning bid.<sup>72</sup> For these structural steel works, a reputable Indian company well known internationally tried to participate in the bidding. In spite of the WB's intervention for the qualification of the Indian firm and urging to bid, it did not submit the bid citing difficulties in getting quotations from Japanese steel suppliers for the high tensile steel required and in finding a local subcontractor for the erection work.<sup>73</sup>

### **Kuzuryu Hydroelectric Project of the Electric Power Development Company**

1. Borrower: Electric Power Development Company (EPDC)
2. Guarantor: Government of Japan
3. Loan Amount: US\$25 million
4. Date of Loan: January 13, 1965
5. Terms of Loan: 25 years
6. Interest Rate: 5½ %
7. Project Description: The overall development plan for the Kuzuryu River consisted of three power stations: Nagano, Yugami and Nishikadohara No. 3. The project, first two stations, consisted of the construction of two new power stations having 274 Mw capacity on the Kuzuryu River in Fukui in western Honshu to cater to the customers of Hokuriku Electric Power. The project included: (1) Nagano pumped-storage station: the construction of a rockfill dam, about 128 m high, capable of impounding about 223 million cubic meters of water storage; an underground power station near the dam comprising the two 110 Mw generating reversible pump-turbine units; and, a system of dams and tunnels to divert water from the Itoshiro River to the Nagano reservoir and (2) Yugami station: the construction of a rockfill dam 44.5 m high, capable of impounding 5.6 million cubic meters of water storage; a 6 km pressure tunnel; and, a power station with one unit

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<sup>71</sup> Letter in connection with Section 3.01 of the Loan Agreement on procurement, President of Tokyo Expressway Public Corporation to WB, Loan No. 398-JA (Haneda-Yokohama Expressway Project), Procurement, December 23, 1964, Japan-Haneda-Yokohama Expressway Project, Folder # 1878943, WB Archives.

<sup>72</sup> Memorandum, S.C. Hardy/J.L. Gabriel to Files, Japan Expressway Projects—International Competitive Bidding, August 23, 1965, Japan-Haneda-Yokohama Expressway Project, Folder # 1878943, WB Archives.

<sup>73</sup> Letter, Sir Biren Mookerjee to I.P.M. Cargill, Director, Asian Department, the World Bank dated October 11, 1966 including a copy of letters on the subject of possible Indian contractor's bid, Japan-Haneda-Yokohama Expressway Project, Folder # 1878944, WB Archives.

of 54 Mw generating capacity. EPDC was committed to complete the Nagano and Yugami Stations in the fiscal year 1967/68, taking about three and a half years. The total cost of the project was estimated at about \$92.5 million. The WB loan would finance the major equipment for the two stations and a portion of the civil works expenditures for the Nagano diversion works and the Yugami Station. Because of WB's dissatisfaction with the bidding arrangements used for the award of contracts for the Nagano power station and Nagano dam, the loan would not finance the main civil works therefor. The loan would finance electrical equipment for Nagano and Yugami stations and mechanical as well as construction equipment and civil works for Itoshiro diversion and Yugami station.

8. Legal Instruments and Legal Authority: The legal instruments were Loan Agreement between the WB and the EPDC, and the Guarantee Agreement between Japan and the WB. The Loan Agreement contained, among others, the provision that the EPDC was required to set the selling prices of electricity at such levels as gross revenues at least covering operating costs and a reasonable return on the proper value of the total assets. The Guarantee Agreement conformed with the normal pattern of the WB's guarantee agreements, and included the provision that the Government was covenanted to provide to the EPDC on reasonable terms with any funds required to complete the project.
9. Justification: The project would provide much needed peaking capacity for the large interconnected system in the fastest growing industrial region of Japan, comprising important industrial areas like Osaka and Nagoya. In addition, it would provide seasonal regulation of the river for operation of downstream plants, and some additional storage capacity for flood control purposes in the area.
10. Procurement: All equipment would be procured on the basis of international competitive bidding. For bid evaluation of imported equipment, the prevailing import duties would be included in the evaluating prices. The duties were 15% or less, except for generators and transformers, on which the duty was 20%, and for wires and cables, on which the duty is 25%. Civil works contracts would be placed on the basis of domestic bidding.

**Notes:**

The loan to the EPDC was one of the most troublesome projects to the WB due to EPDC's domestic competitive bidding procedures unacceptable to the WB. In the main text of this paper in pp. 22–24, the procurement issues are discussed.

WB planned three loans to Japan during 1964 and this loan was the last after loans for fourth expressway project approved in April 1964 and the Haneda–Yokohama expressway project, in December 1964. This loan to the EPDC, being the second WB loan, was made directly to EPDC after it was empowered to borrow from WB with the guarantee of Japan.<sup>74</sup> Initially WB's impression on the project

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<sup>74</sup> The first one, a \$10 million loan, was made in 1959 to JDB for relending to EPDC for the Miboro Hydro-electric Power Project.

was negative because of doubtful economic justification and superficial data presented to the WB in December 1963. In order to check its validity of project feasibility, the WB sent a mission to Japan and concluded that the project was worthy for consideration for possible WB financing. For the proposed project was for a peaking facility probably suitable complement to the existing system in view of its cost and of the large base load thermal additions being provided on the systems.<sup>75</sup>

Soon after the loan was approved, the WB received many protest letters from villages and villagers to be submerged from the construction of Nagano reservoir and Mr. Shoji Tanaka's request to postpone the effectiveness of the loan. The WB reviewed the case and after discussions with the Government and EPDC, the loan became effective and the project implementation started.<sup>76</sup>

The main items of Kuzuryu Project started their operations one by one: Yugami station on May 19, 1968; First Nagano Station on May 25, 1968; and, Second Nagano Station on June 27, 1968. Compared with the cost estimate at the time of appraisal, the final estimate prepared in June 1968 indicated that in the case of Yugami,  $-3.6\%$  and in the case of Nagano,  $+2.8\%$ . These deemed satisfactory.<sup>77</sup>

### **Nihon Road Kodan Shizuoka–Toyokawa Expressway Fifth Project**

1. Borrower: Nihon Doro Kodan (Japan Highway Public Corporation (Kodan))
2. Guarantor: Government of Japan
3. Loan Amount: US\$75 million
4. Date of Loan: May 26, 1965
5. Terms of Loan: 25 years
6. Interest Rate:  $6\frac{1}{2}\%$  (regular lending rate being  $5\frac{1}{2}\%$ )
7. Project Description: The project was for the expressway construction of 106 km a four lane, divided, limited access expressway from Shizuoka to Toyokawa (nearby Toyohashi), the final section of the Tokyo–Kobe expressway for which WB had made four previous loans totaling \$205 million. The project included the construction of service areas, bus stops, and interchanges and approach roads. It also included the equipment, buildings and other permanent facilities for the maintenance and operation of this expressway after its completion. It would take about four years to complete the project by April 1969. Its total cost was estimated at about \$322 million and the WB's loan would provide about 30% of the total expected expenditures. The loan would finance the items as in the third expressway loan.
8. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between

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<sup>75</sup> Memorandum, Mario Piccagli to Files, Japan-Kuzuryu Project, March 23 1964, Japan-Kuzuryu Project, Folder # 1878964, WB Archives.

<sup>76</sup> A good summary of protest and consultation between the WB and Japan can be found in Memorandum, Raymond J. Goodman to Mr. J. Burke Knapp, Japan—Loan No. 399-JA (Kuzuryu Hydroelectric Project), March 17, 1965, Japan-Kuzuryu Project, Folder # 1878965, WB Archives. Mr. Tanaka was a member of Diet and Chairman of the Standing Committee for Settlement of Account in the House of Representative.

<sup>77</sup> Letter, Zenji Hotta, Chief Finance Department of EPDC to Jochan Kraske, WB, Kuzuryu Project, Loan No. 399-JA, Revision of Total Investment Costs, July 6, 1968, Japan-Kuzuryu Project, Folder # 1878969, WB Archives.



the WB and the Kodan, and the Guarantee Agreement between the WB and Japan. The Loan Agreement provided that the Kodan would employ suitable consultants to get advice on design and construction of the expressway. The Guarantee Agreement conformed with the normal pattern of the WB's guarantee agreements, and included the provision on the Government's furnishing with funds sufficient for the construction of the project and its maintenance. Also the Government was to secure the cooperation of local governments for the construction and maintenance of access roads connecting the expressway with surrounding local communities.

9. Justification: The Tokyo–Kobe expressway, of which the project was an integral part, was one of the most important highways built in Japan. It traversed one of the most densely populated and heavily industrialized areas in Japan and would link five of Japan's six largest cities. The new expressway would relieve acute shortage of transportation capacity and lead to decrease in travel time and in transport costs of freight and passenger traffic. The rate of return of the project was estimated at about 13% from road user savings, and 20% if timesaving were added. Financially, toll revenues would pay back the total investment costs, including interest, in 20–23 years as compared with its probable economic life of 30 years.
10. Procurement: International competitive bidding was used following the case of the four previous expressway projects. Foreign contractors with experience in expressway construction were invited to bid for all major works of the project.

**Notes:**

This loan was the first loan of WB charging an interest rate on the basis of WB's new policy called 'lending rate applicable to the market eligible countries'. There were many discussions on how the rate was determined. The expressway construction was completed and opened for traffic on February 1, 1969 with the cost slightly lower than the original estimated cost.<sup>78</sup>

**Kobe Expressway Project of Hanshin Expressway Public Corporation**

1. Borrower: Hanshin Expressway Public Corporation (HEPC)
2. Guarantor: Government of Japan
3. Loan Amount: US\$25 million
4. Date of Loan: September 10, 1965
5. Terms of Loan: 24 years
6. Interest Rate: 6½% (regular lending rate being 5–½%)
7. Project Description: The project was the construction of a four-lane divided urban-toll expressway, elevated for most of 12.5 km, connecting Tsukimiyama ramp in the western outskirts of Kobe City with Iwayami Minamimachi ramp in the eastern section of the same city. Construction had

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<sup>78</sup> Memorandum, A. Bergan to Mr. S.C. Hardy, JAPAN—Tokyo–Nagoya Expressway Project, Loans 357, 374, 413 and 460-JA, Supervision Report, Full Report, July 1, 1969, Japan-Expressway Project (05), Folder # 1879050, WB Archives.

started early 1964 on a priority section and the project would be completed by April 1969. Its total cost was estimated at about \$84 million. The WB's loan would provide about 30% of the total expected expenditures. The loan was to finance payments for acquisition of right of way, and services of contractors.

8. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between the WB and the Hanshin Expressway Public Corporation (HEPC), and the Guarantee Agreement between WB and Japan. The Loan Agreement, in addition to the usual clauses, required that the HEPC should employ engineering consultants upon request of the WB in connection with design, construction and operations operation of the Expressway and that the HEPC would contribute its allocated share of the cost of construction or improvement in the two sections of directly related local streets. The Guarantee Agreement conformed with the normal pattern of the WB's guarantee agreements, and included the provision on the Government's furnishing with funds sufficient for the construction of the project and its maintenance.
9. Justification: The Kobe area was one of the most important centers of commerce and industry in Japan. The streets in the area were heavily congested. The proposed urban expressway project would ease traffic congestions and cater to the expected traffic growth. The rate of return of the project was estimated at about 10% from road user savings and if timesaving for passengers were included, the rate would increase to more than 25%. Financially, the project was estimated to have a paying back period of about 22–23 years, assuming the proposed toll charges and a limit of 80,000 vehicles per day.
10. Procurement: International competitive bidding was used for contracts for the supply and erection of about 16,500 tons of fabricated structural steelwork for piers and the super structure of bridges and viaducts. Such steel works were grouped into contracts worth more than \$2.78 million.

**Notes:**

The Hanshin Expressway Public Corporation (HEPC) was established in 1962 to construct, maintain, and administer toll expressways in the Hanshin region. The HEPC was relatively new and young in experience, but had competent staff and sound management. It learned from the experiences of Tokyo Expressway Public Corporation, the borrower of the loan for Haneda–Yokohama expressway project.

The project was appraised in April 1965; the loan was negotiated in August 1965; and, the WB Board approved the loan in September 1965. This loan was the second loan to Japan of WB charging an interest rate on the basis of WB's new policy called 'lending rate applicable to the market eligible countries'.

According to the final supervision report dated June 1969, the project was almost complete and expected to open to traffic by the end of July 1969. The work executed by local contractors and expected

to complete within the original time schedule was of high quality. Design standards were reduced to a minimum compatible with safety and operating speed, because of the high cost of the elevated structure and right-of-way. Total final cost was expected to be about \$4 million less than the estimate of \$84 million in the appraisal report. The first section opened to traffic in October 1966 and the last section to be open in July 1969. The actual average daily traffic for March 1969 was 24,200 vehicles, 92% cars/taxis and 8% trucks/buses as compared with the assumed average daily traffic in the appraisal report being 22,650 vehicles for the year 1969, 50% each for cars/taxis and trucks/buses. The expected toll income in 1969/70 would be similar to the income assumed in the appraisal report.<sup>79</sup>

### **Nihon Road Kodan Supplementary Tokyo–Shizuoka Third Expressway Project**

1. Borrower: Nihon Doro Kodan (Japan Highway Public Corporation (Kodan))
2. Guarantor: Government of Japan
3. Loan Amount: US\$100 million
4. Date of Loan: July 29, 1966
5. Terms of Loan: 15 years
6. Interest Rate: 6½% (regular rate being 6%)
7. Project Description: The project was for the expressway construction of 161 km, a part four lane, part six-lane, divided, limited access expressway between Tokyo and Shizuoka. It followed the first and second expressway projects connecting Kobe and Nagoya. The project included the construction of service areas, bus-stops, and inter-changes and also buildings and other permanent facilities for the maintenance and operation of this expressway after its completion. This sixth loan, an additional loan of \$100 million, was provided as a supplementary for the same project lending to the Kodan \$75 million loan in September 1963. Its total cost increased from originally estimated at about \$628 million to \$640 million and the WB's loan would provide about 27.3% of the updated total expected expenditures. It was expected that the project would be completed by April 1969.
8. Legal Instruments and Legal Authority: The legal instruments were the Loan Agreement between the WB and the Kodan, and the Guarantee Agreement between the WB and Japan. The Loan Agreement provided that the Kodan would employ suitable consultants to get advice on design and construction of the expressway, and that Kodan would complete its road construction, 8.4 km, connecting Ichinomiya and Komaki interchanges, so that Kobe–Nagoya expressway and Nagoya–Toyohashi, eventually Tokyo expressway would be connected. The Guarantee Agreement conformed with the normal pattern of the WB's guarantee agreements, and included the provision on the Government's furnishing with funds sufficient for the construction of the project and its maintenance. Also the Government was to secure the cooperation of local governments for the construction and maintenance of access roads connecting the expressway with surrounding local

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<sup>79</sup> Memorandum, A. Bergen to Mr. S.C. Hardy, JAPAN: Kobe Expressway Project (Loan 423-JA), Supervision Visit, Full Report, June 30, 1969, Japan-Kobe Expressway Project, Folder # 1879055, WB Archives.

communities.

9. Justification: The Tokyo–Kobe expressway, of which the project was an integral part, was one of the most important highways built in Japan. It traversed one of the most densely populated and heavily industrialized areas in Japan and would link five of Japan’s six largest cities. In re-appraising the economic justification of the project, two changes were taken into account on the basis of the actual experience gained on the 183 km portion of the Tokyo–Kobe expressway opened to traffic: (1) though the number of vehicles exceeded forecasts by about 40%, the average length of trips were less; and, (2) the utilization of the expressway by regular trucks was much less than originally forecasted. Taking account these new information, economic benefits were calculated and the result indicated that (1) while the savings in transport costs did not change much for most classes of vehicles, they were reduced sharply for trucks; and, (2) increased passenger traffic generated bigger benefits than before, as the estimated rate of return for the project was decreased from about 18% to about 15%. Financially, the project was estimated to have a paying back period of about 22–24 years instead of 18 years for its economic life of about 30 years (Ibids., Appraisal Report, pp. 7–9).
10. Procurement: International competitive bidding was used following the case of previous Kodan’s expressway projects. Foreign contractors with experience in expressway construction were invited to bid for all major works of the project.

**Notes:**

The WB increased by \$100 million its participation in the Third Expressway Project for which a loan of \$75 million had been made in April 1963. The total estimated cost of the Tokyo–Shizuoka project, including construction, land acquisition, engineering and interest during construction increased by about 2.5% from the original estimate of \$628 million to \$640 million. The additional \$100 million loan would raise the WB’s share in the financing of the total cost of the project from 12% to 27%. The supplemental loan had a term of 15 years, which was much shorter than ones of previous expressway loans, and an interest rate of 6½% in accordance with WB policy on loans to “market eligible” countries. During the loan negotiations, the Japanese delegation tried to increase the terms of the loan (15 years) and reduce the interest rate (6½%), but the WB indicated to the delegation that these were not negotiable.<sup>80</sup>

The Tokyo–Nagoya expressway project consisted of a 345 km long divided expressway with limited access. Shizuoka–Toyokawa and Toyokawa–Komaki sections opened for traffic on February 1, 1969 a few months earlier than the original plan on April 1969 and Tokyo–Shizuoka, on May 26, 1969, a few month delay compared with the original plan of April 1969. The work was executed by 75 local constructors over 4-year construction period. The contracts were awarded on the basis of international

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<sup>80</sup> Memorandum, M.T. Baig to Files, Japan—Third Expressway Project—Supplement. Loan Negotiations., July, 22, 1966, Japan-Expressway Project (03), Folder # 1879056, WB Archives.

competitive bidding and the work supervised by Kodan's staff. Workmanship was good. The final cost of the project has been kept within the original cost estimate of December 1963.<sup>81</sup>

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<sup>81</sup> Memorandum, A. Bergan to Mr. S.C. Hardy, JAPAN—Tokyo–Nagoya Expressway Project, Loans 357, 374, 413 and 460-JA, Supervision Report, Full Report, July 1, 1969, Japan-Expressway Project (03), Folder # 1879059, WB Archives.

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Author's Note: As the work on the all four papers progressed since 2010, the access to the project/loan documents at the WB Archives has improved. Initially, visits to the WB's Archives were necessary for actual review of specific memoranda and papers in the folder available in the Archives on all project/loan. By now all folders have been digitalized and some are indeed publically open for review without a visit. The folders on Country Discussions remain to be digitalized. As for the Transcripts of the Board Proceedings, the WB made public all remaining Transcripts in September 2016.