

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

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この小稿は日本が世界銀行の借り手であった時代の経験を記録しておくのを目的とした調査研究の最初の研究結果である。ブレトンウッズ条約をもとに設立されたIMF／世銀へ日本が加盟申請をした1951年を始めとして、1953年の最初の借款から1966年の最後の借款迄の13年間に合計31件の案件を通して合計863億ドルの外貨を借り入れた話である。この小稿は日本が条約に加盟申請した時から、世銀からの最初の借款がなされた時迄の記録である。

阿部義章

## 1. Introduction

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

This paper is the first installment of the entire series that is periodically organized in the following order:

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

This work, the first of the series will address the first two themes mentioned above. It will cover the overview of Japan's borrowing from the WB and Japan's initial association with the WB between 1951 and 1953.

The entire series is being prepared on the basis of the reviewing various Reports and documents available at the WB. The list, first of all includes the Annual Reports of the WB, that serves as a

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useful document to learn about the Bank's history and in particular it provides a detailed account of the financial transformation of the WB and changes in its lending policies. Secondly, there are 11 Economic Reports, and these present the macroeconomic position of Japan almost on an annual basis. The first of these Economic Reports, dated June 1953, has been the key for setting the tone of the relationship between Japan and the WB, as a new member and a new borrower. There are also two Sector Reports on agriculture and steel production. Thirdly, the President's Reports as well as the Appraisal Reports and/or Technical Reports on all projects associated with the 31 loans to Japan, have been used as the basic sources of information to understand the structure of loans, components and justification for the project lending and the conditions attached. Finally, the files available at the IMF and the WB's Archives have been important sources of information and their review has been vital in constructing a comprehensive record of Japan's experiences as a borrower from the WB. Annex 1 provides a list of all the Economic Reports including the two Sector Reports; the Annex 2, a list of all the loans with their details including information such as the amount, time frame, the beneficiary, and the financed items; and, the Annex 3, a summary of the first WB loans.

## 2. Overview

In August 1951, Japan applied for membership to the Bretton Woods institutions, namely the WB and IMF. Japan then, was not an independent country but an occupied territory. It was only after the Peace Treaty was ratified in April 1952 that Japan could return to the international arena as an independent country. Japan became a member of the WB/IMF soon afterward on August 13, 1952. West Germany also became a member on the next day. While Japan never borrowed funds from the IMF,<sup>1</sup> she became an active borrower from the WB. However, Japan's history as a WB borrower was short and dramatic. She borrowed a total of US\$863 million spread out as 31 loans between 1953 and 1966. Tables 1 and 2 below provide the general trends. As Table 1 shows, during the initial 4 years of being a borrower (1953–1957) the total borrowings amounted to US\$84.9 million with an average of US\$10.6 million per loan. This compares starkly with the last 4 years (1963–1966) where the figures rose to US\$ 375 million and US\$53.6 million, respectively. It is ironic to note that Japan was more in need of financial assistance during the first period rather than the latter period, as the Japanese economy had grown substantially by the end of the latter period. Table 2 indicates that the main sectors that received the WB funds were transport (59% of the total borrowing), power (21%), and industry, mainly going to steel (19%). Among the total 31 loans, 13 are to the public sector corporations and 18, to the private companies; and, among the total lending of US\$863 million, about 64% lent to the public sector corporations and about 36% to the private sector companies.

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<sup>1</sup> According to IMF Annual Reports of 1954, 1958 and 1962, Japan did make drawings on the IMF in 1953 and 1957, each amounting to about US\$125 million, which were cancelled through repurchases in 1955 and 1958, respectively. In addition, in January 1962, Japan entered into a stand-by arrangement of US\$ 305 million with the IMF but Japan did not use that facility as her foreign exchange position improved in the meantime.

**Table 1.** Lending to Japan by Calendar Year (US\$ million)

Year	Total Amounts	# of Loans	Average Amounts	Year	Total Amounts	# of Loans	Average Amounts
1953	40.2	3	16.9	1960	65.0	4	16.3
1954	*	*	*	1961	120.0	2	60.0
1955	5.3	1	5.3	1962	*	*	*
1956	32.4	3	10.8	1963	75.0	1	75.0
1957	7.0	1	7.0	1964	75.0	2	37.5
1958	164.0	7	23.7	1965	125.0	3	41.7
1959	54.0	3	18.0	1966	100.0	1	100.0

Source: Author's tabulation on the basis of information available in ANNEX 2.

**Table 2.** Lending to Japan by Sector

Sector	# of Loans	Total Amount (US\$ million)
Public		
Transport-Roads	8	430
Transport-Rail	1	80
Power	2	35
Agriculture	2	11
Subtotal	13	556
Private		
Power	7	143
Industry	11	163
Subtotal	18	306
Grandtotal	31	863

Sources: Author's tabulation on the basis of information available in Annex 2

Note: The total amount may not add up to the total. Of lending to the industrial sector, about 97% was for the steel industry.

The first economic mission of the WB visited Japan in October 1952 for two months in order to study the overall nature of the Japanese economy and its financial problems. The Economic Report published in June 1953 contains the analysis of the economic situation, the prospects and investment requirements. Apart from that the Report also highlighted the problems in power, coal and steel, food production and transportation sectors.<sup>2</sup> The tone of the report was very cautious, due to the uncertainties in the macroeconomic management capabilities of the Japanese Government in general, the future of exports and imports, the possible reduction of dollar income from American military expenditures after the Korean War, and the political unrest in Japan. This led to the lending policy decision of the WB to Japan, that it would initially lend for financing the foreign expenditures of about US\$100 million, over the following few years.

<sup>2</sup> Economic Situation and Prospects, Report # A.S.10-1, June 30, 1953, The World Bank.

The first lending to Japan was based on financing their needs priority, which were of high importance and urgency, went to the imports for thermal plants of three private power companies. This was entirely different from what the Japanese Government expected, as it had planned to finance equipment imports through the Export Import Bank of the US and hydro-dam construction programs through the WB. This implied that the Government sought to get possible local cost financing in addition to financing of the foreign expenditures from the WB. Japan was also surprised to see the WB getting into policy discussions on such subjects as macro-economic issues, electricity rates and the financial status of the power companies. Though both sides learned from each other greatly as time passed by, the WB continued to maintain its original conservative position for some time. Though the amount of the first loan was surprisingly large, about US\$ 40 million, the subsequent loans were generally much smaller, although the basic lending structure remained the same. The lending was structured in such a way where Japan Development Bank (JDB) was the borrower through which the loans were re-lent to the final beneficiary of funds, which were the companies in the private sector including power and steel companies. The exceptions were two loans made directly to the Government agencies in the agriculture sector that dealt with the development of irrigation and land reclamation projects in 1956 and 1957. The Japanese Government guaranteed all loans. However, there was a lot of criticism in Japan by the end users of the WB funds, as they were subject to higher cost of borrowing and the laborious and lengthy process of acquiring WB's funds even for getting small loans.

The WB finally changed its lending policy towards Japan in 1957, after it had achieved high rates of economic growth. The concluding remark of The Economic Report of July 1957 indicates that "Considering the future growth of the economy and exports, the present and prospective volume of external indebtedness and Japan's excellent debt record, and assuming that serious inflation is avoided, Japan would be justified in borrowing substantial sums over the next year or two in order to relieve the strain resulting from the need to increase essential investments in a number of fields."<sup>3</sup> The WB started local cost financing from 1958 and at the same time the size of each loan became larger than the ones provided during the initial period as can be observed in Table 1. As Japan was being greatly praised for its economic performance, the WB further assisted Japan in getting into the New York financial market between the end of 1958 and early 1959. Using the Board's presentation for a power loan, for US\$10 million to a public sector agency called the Electric Power Development Corporation (EPDC) the WB announced that Japan would be raising US\$30 million in the New York market through public offerings.<sup>4</sup> This operation was quite successful and similar efforts were made later on to synchronize WB lending and public bond offering in the New York financial market.

As Japan's economic growth continued, the tone of the Economic Report became more optimistic

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<sup>3</sup> Development and Prospects of the Economy, Report # FE-2a, dated July 25, 1957, the World Bank.

<sup>4</sup> Supplemental Report and Recommendation of the President to the Executive Directors on a Proposed Loan to the Japan Development Bank for the Miboro Hydroelectric Project of the Electric Power Development Company, Japan dated February 9, 1959, the World Bank.

than before. The Economic Report of April 1961 described Japanese economy as: “In the past two years the economy of Japan has expanded on a scale which is surprisingly large even by Japanese standards. [...] As to the longer run, it seems reasonable to expect relatively high rates of growth to continue on the average for some time. Official sights have been set on the target of doubling the national income by 1970. This objective may not be un-realistic, judging by past performance and the demonstrated forces and capacities within Japan for economic expansion. [...]”. Japan quickly became one of the market eligible countries and as a result its graduation from Bank borrowing was hinted in early 1961 as stated in the WB President’s Report of November 1961 in connection with a loan to Nihon Doro Kodan (Japan Highway Public Corporation).<sup>5</sup> After that loan was made, the WB stopped its lending to Japan.

After one and half year of non-lending to Japan, lending to Japan resumed in September 1963 because of Japan’s need for extra foreign exchange. This was caused by insufficient external capital available in the private markets, and partly by the US announcement of their proposal to introduce an Interest Equalization Tax.<sup>6</sup> Most of the lending after resumption was made to highway construction. However, the WB was becoming discomfit soon after resuming its lending to Japan, as Japan continued to grow at very high rates. The WB was recommending in early 1965 a system of charging extra interest rates for lending to market eligible countries, including Japan. The WB then applied this new policy by adding an extra 1% to the interest rate of a highway loan to Japan presented to the Board in May 1965.<sup>7</sup> A clear and strong message was sent to Japan that she should be getting foreign exchange resources not from the WB but from the international markets. The last Economic Report of November 23, 1965 states in its summary: “Past high economic growth resulted in the per capita income of US\$ 720 in 1964 which increased from a very low level after the war to the Italian level. Japan’s creditworthiness is ample for substantial additional borrowing of foreign capital on conventional terms.” And finally the sixth highway project was presented to the Board in July 1966 and this became the last loan to Japan.<sup>8</sup>

### 3. 1951–1952 Applying for Membership and Becoming a Member

Japan applied to become a member of the Bretton Woods Institutions, IMF and WB in August

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<sup>5</sup> Report and Recommendation of the President to the Executive Directors on a Proposed Loan to Nihon Doro Kodan for the Kobe-Nagoya Expressway Second Project dated November 21, 1961, the World Bank.

<sup>6</sup> Report and Recommendation of the President to the Executive Directors on a Proposed Loan to Nihon Doro Kodan for the Tokyo-Shizuoka Expressway Project dated September 16, 1963, the World Bank.

<sup>7</sup> Report and Recommendation of the President to the Executive Directors on a Proposed Loan to Nihon Doro Kodan for the Shizuoka Toyokawa Expressway, dated may 14, 1965, the World Bank

<sup>8</sup> Report and Recommendation of the President to the Executive Directors on a Proposed Loan to Nihon Doro Kodan, Japan dated July 19, 1966, the World Bank.

<sup>9</sup> The basic documents related to the Japan’s application to the IMF/WB are publicly available only in IMF Archives. But since the process of application to the IMF is done in parallel to that to the WB, there is no major discrepancy between the two. After all, unless the country becomes a member of the IMF, she cannot become a member of the WB; vide IBRD Articles of Agreement, Article II, Section 1. Membership.

1951.<sup>9</sup> She was still under occupation, and the Peace Treaty between Japan and the Allied Powers was being drafted. Japan's economy then was in the process of being rehabilitated from a war-damaged economy. The principle elements of the economic policies being implemented were:

1. Balancing a consolidated national budget in order to reduce the inflationary pressures;
2. Terminating the activities of the Reconstruction Finance Bank, whose loans were uneconomical;
3. Decreasing the scope of government intervention in the economy, especially in the form of subsidies, and price controls;
4. Establishing an exchange rate of Y360 to \$1; and,
5. Restarting international trade through private channels instead of through government trading agencies.

Due to the implementation of the economic policies in accordance with the above principle elements, inflation was slowly being tamed and exports were increasing and imports were decreasing. Japan was gaining confidence in being able to efficiently manage its macro-economic situation and was also trying to get back into the international arena through applying for membership in international organizations including the International Labor Organization and GATT.

When the Japanese Government was preparing its application for the IMF/WB membership, the US Government, including Supreme Commander for the Allied Powers (SCAP), the State Department and the Treasury Department, did consider potential problems with the IMF on the status of Japan being an occupied territory. From the point of view of the IMF, the minimum essential consideration would be that countries joining the IMF should be in a position to carry out independently all their obligations under the IMF Agreement and are free to collaborate independently with the IMF. The obvious question was if Japan, being an occupied territory, could satisfy the minimum essential consideration, without being overtly controlled by the US and the Allied Powers.

There was one principle concern. This was the Far Eastern Commission's (FEC) policy decision on "Basic Post-Surrender Policy for Japan" of June 19, 1947. This policy decision was that "Control is to be maintained over all imports and exports of goods and foreign exchange and financial transactions." This control was exercised by SCAP, subject to further formulation of policies by FEC. Within the State Department, discussions were being made on:

- Whether SCAP could delegate control over the Japanese Government on matters regarding foreign exchange and international financial transactions;
- If the Japanese Government could undertake and adhere to the Articles of the IMF which require the elimination of exchange controls on current international transactions as soon as the international financial position of Japan permits; and
- If Japan could freely discuss and consult with the IMF as to the above policies, once Japan became a member.

The conclusion to these discussions within the US Government evolved around the FEC policy

decisions on Japan. The understanding was also that the FEC's policy would not be determined without the concurrence of both the US and the UK which were supporting Japan's application to IMF membership suggesting that there were no problems in considering Japan being able to fulfill her functions in and obligations to the IMF.<sup>10</sup> On this basis, SCAP's letter to IMF was prepared and part of the letter stated that: "[...] The Commander not only has no objection to the assumption of such obligations by the Japanese Government, but heartily endorses and is fully sympathetic with the aspirations of the Japanese people and Government to participate in IMF. [...] It is the duty of the Supreme Commander to maintain general surveillance over the activities of the Japanese Government until a treaty of peace become effective." The Application Letter was transmitted to the IMF in August 1951 signed by Prime Minister Yoshida.<sup>11</sup>

A month later after the receipt of the application from Japan, the IMF Board established the Committee on Membership for Japan. The first job of the Committee was to review the Memorandum entitled "Calculation of the Quota for Japan" prepared by the Far Eastern Division dated October 4, 1951.<sup>12</sup> The basic formula used for the calculation was the original Bretton Woods formula, as shown below, with the major variables being national income, gold and foreign exchange reserves and exports as well as imports:

The Original Bretton Woods formula was denoted in symbols as:

$$QC = (0.02Y + 0.05R + 0.010M + 0.10V) (1 + X/Y)$$

Where QC = Calculated quota

Y = National income, 1940

R = Gold and foreign exchange reserves as of July 1, 1943

X = Average annual exports (five-year average), 1934–38

M = Average annual imports (five-year average), 1934–38

V = Maximum fluctuation in exports defined as the difference between the highest and lowest value of exports in 1934–38.

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<sup>10</sup> Memorandum, L. D. Stinebower, Department of State to Frank A. Southard, IMF July 10, 1951, Japanese Membership in the IMF with three attachments: 1. Copy SCAP Statement. It is interesting to note that The Stinebower's memo supports Japan's entrance to IMF/IBRD by mentioning positive political results in Japan and increased foreign exchange availability required for development efforts including hydroelectric field; 2. Memorandum to Mr. Snow 6/28/51; and 3. Memorandum from Mr. Snow 7/2/51, Japan—Application for Membership, Box # 7 File # 2, IMF Archives. Also Memorandum, Andre. van Campenhout to Frank A. Southard, Executive Director, IMF July 17, 1951, Japan—Application for Membership, Box # 7 File # 2, IMF Archives.

<sup>11</sup> Executive Board Document No. 953, Japan-Application for Membership and two attachments: 1. Prime Minister Yoshida, Letter of Application for the Membership in IMF, August 9, 1951; and, 2. Lieutenant General Doyle O. Hickey, Office of the Chief of Staff of Supreme Commander for the Allied Powers Transmitting the Application of the Japanese Government for Membership in IMF, August 14, 1951, August 21, 1951, Box # 7 File # 1, IMF Archives.

<sup>12</sup> Committee on Membership—Japan Document No.1, The Secretary to Members of the Committee on Membership—Japan October 9, 1951, Preliminary Calculation of the Quota for Japan according to the Pre-Bretton Woods Quota, Box # 7 File # 1, IMF Archives

There were fundamental issues on Japan's application on the basis of the above formula, especially in determining Japanese Quota: "In view of the significant changes in the Japanese economy between the prewar and the postwar period, it is necessary to examine the question whether the years of reference used in the components of the Bretton Woods formula can be appropriately applied to Japan". (Ibid., p. 1) In other words, there were good reasons to adjust the value of those variables as there were territorial changes and abnormal economic activities associated with the war activities carried out by Japan.

On the 1940 national income, the Memorandum argued that the Japanese figure for 1940 was inappropriate as the case of Germany. Apparently when German application for IMF membership was considered, her national income for 1940 was based not on the figure for 1940 but ones for 1936–1937. For it was thought that 1940 was not a representative year neither were 1939 and 1938, because the German economy in those years was greatly affected by armament production and the occupation of foreign territories. Japan's case was also considered in a similar manner. The Memorandum compared the then available time series of national income estimates made by Japanese including seven series which were quoted in J. B. Cohn: *Japanese Economy in War and Reconstruction*, Institute of Pacific Relations, 1949 and one series from the US State Department. Comparing Japanese and State Department figures, the Memorandum concluded that there was substantial agreement in the trend and that since State Department figures are the only continuous series, their figures will be used as the basis for calculations. It was decided that the figures for national income specific for the year 1940 would be used for the formula. But after the trend in national income statistics was compared with the trend of employment statistics of Japan in comparison with ones of the US and the UK, it was finally decided to use the figures for 1935 from the US State Department series for the national income of 1940.

In the case of gold and foreign exchange reserves for July 1, 1943, the Memorandum used the figure provided by the Ministry of Finance of Japan as of July 1, 1943, and it was equivalent to about US\$173 million. In the case of exports and imports figures (five-year average) 1934–38 was used. As the Memorandum simply stated that it was difficult to select an alternative, more appropriate period and therefore three separate calculations were made: the figures for 1934–38, 1934–38 reduced to allow for territorial changes and 1930–34. The first figure implies no adjustment made to exports and imports. The second figure implies adjustment made to trade figures by subtracting from the total trade figures with Korea, Taiwan and Manchuria. But since the total subtracting is inappropriate, as some of the trade will be replaced with trade with other areas, a calculation was made on the basis of 50% of reduction of that trade. The third figure implies that the figures 1930–34 seemed to represent better the latter years as they were less influenced by territorial expansion and armament activities.

The Japanese quotas calculated on the basis of adjusted original Bretton Woods's formula as above are: (1935 national income and July 1, 1943 gold and dollar holdings are used in all three cases):



## Calculated Quota

1934–38 Trade Figures	US\$ 262.9 million
1934–38 Trade Figures With 50% Reduction For Territorial Changes	US\$ 225.6 million
1930–34 Trade Figures	US\$ 221.1 million

The Quota without adjustment to the original Bretton Woods's formula was also calculated amounting to US\$ 300 million, reflecting a larger national income and much higher trade figures during the war period.

The remaining issue after the Quota calculations was that Japan was still not an independent country, but was still held under occupation. The Legal Department of the IMF prepared a Memorandum dated October 12, 1951 and it was circulated to the Members of the Committee on Membership—Japan on October 15, 1951 as Document No. 2.<sup>13</sup> The Memorandum consisted of two parts: one, the legal capacity of Japan to be accepted as a member and two, Japan's ability to carry out its obligations under the Fund Agreement. The analysis was consistent with one made, as above, at the time of the preparation of the supporting letter by SCAP, to the application letter sent by Japan in August 1951. The tone of the analysis was stronger than before in support of Japan's application as the Peace Treaty was signed on September 8, 1951 (signed but not yet ratified until April 28, 1952). It discussed the legal points on Japan's limited capacity to conduct economic policies and international relations as these were under the control of SCAP, FEC and the Allied Council for Japan. Its conclusion was that accepting the supervision and active intervention of SCAP "there is no reason to assume that the surveillance on the part of SCAP will be exercised in a way which would disqualify Japan as a prospective member". (Ibid., p. 2) Even before the ratification of the Peace Treaty, the IMF was clearly affirmative about Japan's legal capacity to seek membership. Similarly, the IMF Memorandum stated that "there is no reason to question Japan's ability and preparedness to adjust its legal and administrative system in a way that would enable it to abide by its obligations under the Fund Agreement, and the standard membership resolution." (Ibid., p. 5)

In October 1951, the Committee on Membership for Japan met to discuss Document No. 1, Preliminary Calculation of the Quota for Japan according to the pre-Bretton Woods Quota, and Document No. 2, Japan Admission to Membership. The Committee members were satisfied that there was no longer any legal obstacle for Japan in becoming a member and moved to the address the next question on quota. Mr. Southard, US Executive Director, supported by Mr. Paranagua, argued for a quota of around US\$ 265–270 million, while Mr. Stamp supported by Mr. Melville argued for a lower quota, while the UK suggested US\$ 200 million or less.<sup>14</sup> Though there was no record of the next

<sup>13</sup> Committee on Membership—Japan Document No.2, The Secretary to Members of the Committee on Membership—Japan, Japan's Admission to Membership, October 15, 1951, Japan—Application for Membership Documentation, Box # 7 File 1, IMF Archives.

meeting in the Archives, the concluding quota became US\$ 250 million.<sup>15</sup> The Committee prepared a Memorandum in order to explain the IMF position to the representatives of the Japanese Government (Ambassador Takeuchi et al.) on the following points:

1. Whether the quota of US\$ 250 million is acceptable to Japan?
2. Whether Japan was prepared to pay on subscription account US\$ 62.5 million in gold on or before the date on which the Articles of Agreement are signed and the remainder, equivalent to \$187 million in yen after a par value has been agreed?
3. On a suitable period during which the offer of membership should remain open?
4. The basics once agreed upon, would result in the drafting of a resolution on its membership that would be sent by hand and a positive response from the Government would be awaited.
5. WB's representative would explain the conditions of membership to the WB.

On January 23, 1952, Mr. Beyen, Chairman of the Committee on the Membership for Japan, with Mr. Horne, Mr. Basyn and Mr. Mendels (for WB) met Ambassador et al. The Japanese representatives asked many questions on the quota of US\$250 million, specifically questions concerning how the particular number was arrived at, and explained that the Government had hoped for a higher quota. But the Japanese side appeared to be convinced that no good purpose could be served by asking the Committee to reconsider. On the 25% deposit in gold, US\$ 62.5 million equivalent, Japanese representative said that the Diet recently appropriated about US\$ 45 million for the purpose and if required additional legislation could be passed.<sup>16</sup>

On the basis of the resolution of April 30, 1952, adopting recommendations of the Committee on Membership for Japan, all member countries of the IMF were requested to vote for Japan's membership during the period 8 through 28 May, 1952. The result of voting was that out of the total number of 51 countries, 39 countries (representing 88,385 votes out of total of 94,285 or 93.7%) cast in favor; 10 countries (Bolivia, Burma, Costa Rica, Finland, Guatemala, Iraq, Panama, Paraguay, Philippine Republic and Venezuela) did not vote; Chile abstained; and, Czechoslovakia cast against.<sup>17</sup> Japan had time until August 15, 1952 to take actions on "Payment of Subscription", "Notification of the par value of its currency", and others. All these conditions were met and the Agreement with IMF was signed on August 13, 1952. The Agreement with WB was signed on the same day as well.

The Annual Report of the WB for 1952–1953 simply reports "Japan, with a subscription of \$250 million, the Federal Republic of Germany, with a subscription of \$330 million, and Jordan, with a

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<sup>14</sup> Committee on Membership—Japan Minutes of Meeting 1 October 19, 1951, Japan—Application for Membership Documentation Box # 7 File 1, IMF Archives.

<sup>15</sup> Memorandum, Roman L. Horne, Secretary of Committee on Membership—Japan, to J. W. Beyen, Appointment with Japanese Representatives, January 23, 1952, Japan—Application for Membership, Box # 7 File # 2, IMF Archives.

<sup>16</sup> Memorandum, Roman L. Horne, Secretary of Committee on Membership—Japan, to Files, Meeting with Japanese Representatives, January 23, 1952, Japan—Application for Membership, Box # 7 File # 2, IMF Archives.

<sup>17</sup> EBD/52/90, The Secretary to Members of the Executive Board, Application for Membership—Japan, May 29, 1952, Japan—Application for Membership Documentation, Box # 7 File # 1, IMF Archives.

subscription of \$3 million, became members of the Bank on August 13, 14 and 29, 1952, respectively. Bank membership was thus raised to 54, and its total subscribed capital to \$9,036,500,000.”<sup>18</sup>

### 3. Receiving the First Loan

Joining the WB for Japan meant that it would have more choices than before in getting extra foreign exchange resources. In fact, Japan first approached the Export–Import Bank of the US for the financing of its thermal power plants on order from the US by the three private companies (Chubu, Kyushu and Kansai Power Companies). According to a meeting between the WB and the Export–Import Bank of the US in October 1952, the plants orders were already placed with Westinghouse and General Electric with a total amount of financing adding up to US\$25 million.<sup>19</sup> For Japan, it was soon to discover a different WB, especially that of her expectations. For Japan, her understanding on the role of the WB was that it finances large public investment projects including local cost financing, and the role of the Export-Imports Bank of the US was that it finances private companies’ equipment imports manufactured by US companies. But this was all about to change.

As part of its first business with Japan, the WB sent the economic mission consisting of two economists to Japan for a stay of about three months, between October and December 1952. The main purpose of the economic mission was to investigate the overall aspects of Japan’s economic and financial problems. As the mission only composed of two economists, it meant that the WB did not send sector specialists and thus it did not take any responsibility to identify specific projects for possible lending to Japan. The Terms of Reference for the economic mission was a standard one covering such topics as “Production and Investment Requirements”, “Availability of Resources for Financing Reconstruction and Development, “Foreign Trade and the Balance of Payments”.<sup>20</sup> During this mission the Vice President of the WB made a short visit to Japan to get an overall impression of the country.

Japan welcomed the mission enthusiastically and on its arrival the Government presented a document entitled “Projects for Which Loans from the International Bank for Reconstruction and Development are desired”.<sup>21</sup> The total investment, both foreign and domestic cost, was estimated at about US\$863 million. It was prepared by an inter-ministerial committee listing out a number of urgent projects of which some could opt for WB financing. Looking at the document, it was clear that Japan was expecting local cost financing, as many projects had large investment requirements but with small foreign exchange components. The mission met a large number of key officials, bankers

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<sup>18</sup> Chapter V Miscellaneous, Membership and Subscription, p. 45, WB Eighth Annual Report 1952–1953.

<sup>19</sup> Memorandum, W. M. Gilmartin to Files, Consideration of Further Ex-Im Credit to Japan, October 15, 1952. Japan—General, Folder # 1857454 Box # 5, WB Archives.

<sup>20</sup> Mission to Japan—Terms of Reference, Joseph Rucinski to John C. de Wilde, October 14, 1952. Japan—General, Folder # 1857454 Box # 5, WB Archives.

<sup>21</sup> “Projects for Which Loans from the International Bank for Reconstruction and Development Are Desired”, Japanese Government, October 18, 1952, Japan—General, Folder # 1857454 Box # 5, WB Archives.

and industrialist groups, Ministers of Finance as well as Foreign Affairs and the Governor of the Bank of Japan. As Japan was expecting the mission to find suitable projects for WB financing, the two economists had a difficult time explaining the main purpose of their visit, which was to get acquainted with the overall economic situation of Japan.

The mission's main economic conclusions presented in the Report of June 18, 1953 were at best cautious as the economy was experiencing a deteriorating balance of payments position and a rapid increase in public expenditures in support of industries. It also observed a rapid recovery from the physical damages that were inflicted during the war, as there was a large resurgence in industrial and agricultural production levels. Although the balance of payments position improved somewhat with the foreign exchange reserves increasing to \$1 billion as of April 1953, the current account deficit in 1952 amounted to US\$750 million, which was more than what was covered by the US special procurements. This included payments on US government procurement contracts placed in Japan primarily to support the Korean War effort and expenditures of US personnel in Japan, amounting to US\$800 million in 1952. After the Korean War, it was only natural for the WB to be concerned about the possible reduction in this category of dollar earnings and the mission felt that Japan had to find alternative ways to earn foreign exchange. At best, the report estimated that by 1957 the deficit would amount to US\$ 400 million.

The Report suggested that in order to reduce her dependence on special dollar exchange earnings and reduce her trade deficit, a considerable volume of domestic investment would be necessary. The goal of greater self-support implied that it required much higher levels of industrial and agricultural production with the adoption of new technology, a corresponding expansion in transport and communications and in the generation and distribution of electric power. The Report clearly indicated its concern over the Japanese government's ability to finance future investment requirements without resorting to inflation. The renewed inflation would increase the demand for imports and at the same time seriously reduce Japanese exports some of which were already experiencing difficulty in competing in foreign markets. The current disequilibrium in the trade balance would thus be aggravated rather than improved.

To avoid inflation and ensure the volume of investment essential to greater self-support, it was most of all necessary to strike a close balance between investment requirements and capital resources. A careful husbanding of resources was considered essential. The Government was expected to institute a strict screening of future investment needs based upon appropriate fiscal and credit policies; encourage savings and essential investments while discouraging less urgent investments. In order to release more resources for investment the rise in consumption was to be restricted by tax policies and through curtailing consumption outlays within the government budget. The Japanese government was resolved to screen future investment requirements through determining appropriate priorities. Once these policies were implemented based on the set priorities, it was possible to avoid serious inflation and large-scale foreign exchange borrowing.<sup>22</sup>

As far as the investment needs were concerned, the Economic Report stated that “Undoubtedly a rapid expansion of electric power supply will have to take place, not only in view of the current shortage which have necessitated rationing and curtailment of loads during the low-water period in the winter, but especially in view of the considerable increase in industrial production contemplated over the next five years.” In the Chapter 5 of the Report, Investment Requirements and Problems, the first subject discussed was regarding the problems with electric power.<sup>23</sup> After describing the power sector, the Report continued listing the required investments. The main themes were: rationalizing industry in order to achieve a reduction in costs and improvement in quality, particularly in the iron, steel and coal mining industries; the need to increase domestic food production through improved irrigation and drainage to save on foreign exchange outlays on imported food; expansion of transport capacity through railway electrification and the expansion of the merchant marine; and investment in communications and housing.<sup>24</sup>

In view of the volatile nature of a considerable part of Japan’s foreign exchange income, the Report stated that it was necessary for Japan to maintain relatively large foreign exchange reserves. Some foreign borrowing would provide Japan with an extra foreign exchange cushion with which to meet the possible impact of additional investments on its foreign exchange position, in the years immediately ahead. Indirectly the Report explained the potential role of the WB at that juncture of the Japanese economy. The WB was cautious at best and took a safe approach of ‘wait and see’. In particular, it wanted to observe the political stability, the government’s ability to govern and control inflation. This was to be achieved through a clearer delineation of priority on public investments and the future of US policy towards Japan, in the context of the overall US policy in Asia.

While the WB was finalizing the Economic Report, there were two separate but important events that determined the lending strategy of the WB towards Japan. One was related to Japan’s request for WB loans worth US\$122 million for financing three major electric power projects over 1952–1957, two by the Electric Power Development Company, and another by the Kyushu electric Power Company—one of the nine private power companies. The proposal was part of the projects list document that the economic mission received on its arrival in Japan.<sup>25</sup> Since the WB knew of Japan’s request to the Export–Import Bank of the US, seeking to borrow for the power sector and the new request for Bank financing, the WB had to decide how to react to the two and to decide the final tone of the Economic Report. It particularly had to respond to the “Prospects”, of which specific contents were strongly influenced by US’s policies in Asia. The WB did check with US Government on its policy towards Japan. According to information available in the Archives, the WB requested for a

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<sup>22</sup> Economic Report, Japan: Economic Situation and Prospects, July 18, 1953, pp. i–vi, the World Bank.

<sup>23</sup> *Ibid.*, pp. 72–74.

<sup>24</sup> *Ibid.*, pp. 75–81.

<sup>25</sup> Memorandum, J. C. de Wilde to Files, Japanese Requests for IBRD Loans, April 10, 1953, Japan—General, Folder # 1857454 Box # 5, WB Archives.

formal meeting with US Government to comprehend US's thinking on:

1. Prioritizing investment towards improving the balance of payments position or whether to enhance the self-help measures that were to be implemented by Japan
2. Desirability of WB lending and the amount
3. The importance of one single institution that should lend to Japan and
4. The future support of the US Government to the Japanese economy.<sup>26</sup>

The meeting between the WB and US Government took place on May 14, 1953 and it eventually set the basis for WB lending policy towards Japan. The meeting was between President Black of WB and US Government representatives including Mr. Robertson, Assistant Secretary of State for Far Eastern Affairs, Mr. Linder, Acting Assistant Secretary of State for Economic Affairs, Mr. Overby, Assistant secretary of the Treasury, and Messrs. Corbett and Young of the State Department. According to the Memorandum of June 4, 1953, Mr. Black opened the meeting by expressing his strong view on the role of the WB as the sole lender in the case of Japan, which had already been explained to the Japanese Ambassador and his staff. The US side did not disagree on this point, as a matter of principle that there should only be one institution that should provide the necessary development financing. It felt however, that there might be certain special circumstances or cases, justifying an exception to this general principle. For example one case where the discussions between Export-Import Bank of the US and Japan on loans for thermal power projects had reached such an advanced stage that it was difficult to abandon the proposed transaction. The US emphasized that there were urgent political and economic reasons for proceeding swiftly with the financing of the Japanese power projects. On the contrary, a decision by the US not to proceed at this stage with the loans for the thermal power plants would have an adverse effect on US's relations with Japan, which in some respects were already critical. Under these circumstances, the only way out of this dilemma was that the WB takeover the financing responsibilities of these power projects. Mr. Black agreed and felt that this appeared to be the most appropriate solution.

The delegation then provided Mr. Black with an oral explanation of US policies relating to Japan in response to the questions, which had been raised in the Bank's memorandum. The general tenor of these explanations was that:

- a. Japan would continue to earn considerable dollar income from the maintenance of US forces in Japan, although a concrete figure was not decided upon;
- b. The US was expected to ask for repayment of the Government and Relief in Occupied Areas (GARIOA) debt, only to the extent that the repayment amount would not impose a significant burden;
- c. US wanted to observe how: Japan was going to manage the Bank's lending, especially in managing

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<sup>26</sup> Memorandum, J. C. de Wilde to Garner, Conversation with U.S. officials on Japan with the attachment, "IBRD Lending to Japan", March 6, 1953, and Memorandum, J. C. de Wilde to Files, Conversation on Japan between Mr. Black and a Delegation on May 14, 1953, June 4, 1953, Japan—General, Folder # 1857454 Box # 5, WB Archives.

foreign exchange reserves to finance long-term development; the Bank's lending would also have favorable political psychological effects; and the Bank loan could influence Japanese policies in the right direction;

- d. On the possible collaboration between the WB and Japan with a view to letting Japan adopt all necessary policies for self-help measures in the economic and financial fields. The US also stated that they are prepared to consult with the Bank on general economic objectives; and,
- e. On the development of non-dollar supplies of food and raw materials, the US agreed that every effort would have to be made to develop non-dollar supplies of food and raw materials for Japan, and that it was prepared to exchange views with the Bank on any project which would promote this general objective.

On the basis of the above mentioned discussions and conclusions of the meeting between WB and the US Government, Mr. Black had an internal meeting on May 15, 1953 to decide what to do on the loans originally proposed by Export–Import Bank of the US. Mr. Black thought that the WB could be the financier of the loans if the proposed loans were sound, self-sporting and technically feasible. The Departments concerned were instructed in the meeting to investigate all available data and materials on the proposed loans, to evaluate the technical feasibility and to justify going ahead without an international competitive bidding on the plants apparently, already ordered.<sup>27</sup>

Responding to the instructions, the WB sent several staff to New York City to check on the existing situation of the proposed loans totaling US\$40 million, by the Export–Import Bank of the US. They met representatives of Westinghouse and International General Electric and consultants from Gilbert Associates (assigned to work on the two 75,000 KW units for Kansai Power company) and Ebasco (assigned to work on the 75,000 KW unit for Kyushu Power company). The main points covered in the meeting were: 1) The competitiveness of American equipment manufacturers in comparison with the European manufacturers; 2) The licensing arrangements to manufacture plants in Japan in the future; 3) Status of orders for equipment; 4) possible participation in financing by the manufacturers; and, 5) electric power rates in Japan.

On point 1 the WB was told by both International General Electric and Westinghouse that they were far ahead of the other countries in manufacturing on time high-pressure, high-temperature, thermal equipment that Japan wished to procure. They also explained that Japanese companies shopped around for this equipment. On point 2 the two explained that though there is no integral relation between the proposed contracts for equipment and the licensing arrangements, the Japanese Government attaches great importance to potential licensing agreements. Such agreements would allow for thermal equipments to be manufactured in Japan in the future, as well as generating foreign exchange savings. On point 3, the manufacturers indicated that virtually all arrangements

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<sup>27</sup> Memorandum, F. D. Grehg to Files, Loans from ExImbank and the World Bank to Japan, May 19, 1953, Japan—General, Folder # 1857454 Box # 5, WB Archives.

for production including those with subcontractors have been completed. Contracts were ready to be signed as soon as financing was assured. On point 4, though the manufacturers committed to the Export-Import Bank of the US to participate in up to 25 % with the understanding that they would take earlier maturities, but with the WB, they indicated they would have to consult with the respective companies. On point 5, the two consultants were of the opinion that there was some assurance that rates would go up as they had indicated in their projections, but the WB staff were more doubtful of any easy rate increase in the future, given Japan's economic situation.<sup>28</sup> On the basis of these findings in New York and with further scrutiny the WB was prepared to justify the WB's financing of the negotiated contracts for thermal power equipment, required by Japan.<sup>29</sup>

After ascertaining US policy towards Japan and the status of the negotiated contracts for thermal power plants originally to be financed by the Export-Import Bank of the US, the WB explained to the Japanese government its approach on financing in Japan. On June 2, 1953, the WB management met Japanese Ambassador Araki et al. Mr. Garner, Vice President of the WB, explained several key points pertinent to WB's lending to Japan. First of all, it was the principle of the WB operations that consisted of not only selecting and financing good project to lend to, but it was the purpose of the WB to also establish a good working relationship to assist Japan in solving its economic problems and in achieving economic development.

Part of the WB's job was to assess how much foreign exchange Japan can borrow given its limited exports and reserves. Consistent with this particular point and with a view to suppressing the over expectation concerning the WB's lending to Japan, the lending amount was limited to US\$100 million as a total for the following few years. The WB carefully explained the other factors that led to determining the US\$100 million figure, which also included the uncertainty of dollar income in the future, and the possible repayment obligation of GARIOA debt as well as war reparation payments. WB also explained that the US\$100 million debt limit only applied to the Government and the public sector, and did not include lending to private entities.

On the economic management front, Mr. Garner emphasized that the Government had to set priorities for better resource allocation. On the differences between Japan's original request for financing three hydro-dam power projects and the thermal power projects, in accordance with WB's principle policy, he explained that the WB finances only direct foreign exchange expenditures on imported equipment and services required for project implementation. He made it clear that Japan should not expect the Bank to finance the dam construction projects as they involve local cost financing, as the construction cost did not involve large foreign exchange expenditures. The WB went on to explain that the local cost financing was done in the past under rather exceptional

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<sup>28</sup> Memorandum, J. C. de Wilde to Messrs. Gregh and Rucinski, Conversations with IGE and Westinghouse, May 22, 1953, Japan—Power Project, Folder # 1857615, Box # 13, WB Archives.

<sup>29</sup> Memorandum, J. C. de Wilde to Messrs. Gregh and Rucinski, Proposed Loan on Japanese Thermal Power Projects, May 22, 1953, Japan—Power Project, Folder # 1857615, Box #13, WB Archives.



circumstances.<sup>30</sup>

With the turn of events, it was clear that the WB did not make the usual analysis in choosing the power sector as the priority sector for its first lending operation to Japan, out of all the other important sectors. Information regarding the energy sector at large, before going on to analyze the issues with the power sector in Japan, was generally missing. This clearly suggested that the WB, for its first lending operation relied on the information provided by Export–Import Bank of the US and the suppliers' consultants, and interestingly the appraisal report (or the project evaluation report) was prepared without visiting Japan. But eventually the WB made the decision to go ahead with financing imports for the thermal power plants in Japan. Certainly some staff at the WB must have shown concern about the differences in Japan's original hydropower projects proposal and the thermal power projects that were identified to be financed by Export–Import Bank of the US. There were also apprehensions that there were more important sectors that required urgent financing, including irrigation projects and coal projects for rationalization of the coal sector, to directly support self-help projects. In other words, the WB was only ready to help finance part of the Japanese foreign exchange requirements. Japan was not offered reconstruction loans, similar to those that were offered to France, Netherland, Denmark and Luxembourg; to finance essential imports without specifying imported goods. Also Japan was not offered any program loans as well as local cost financing.

Upon this decision, the WB announced that Japan and WB would convene discussions on the general approach of the WB financing towards Japan's economic development. Three power projects for the Chubu, Kansai and Kyushu Electric Companies were mentioned as possible basis for the WB's initial investment in Japan. An unusual process was followed in making preparation for the power loans, as it was explained in the President's Report<sup>31</sup>: “[...]. Late 1952 these companies applied to Export–Import Bank of the US for loans totaling about \$40 million to pay for the foreign exchange cost of installing in three plants, modern high pressure, high temperature thermal generating equipment of U. S. manufactures. Discussion of these projects between representatives of this Bank and Export–Import Bank of the US led to the conclusion that this financing might most appropriately be considered by this Bank, and the Board was so advised by the Vice President in May 1953. Basic analysis and appraisal of the projects was carried out by the Bank staff from data supplied by technical consultants of the power companies. Supplemental information was obtained in discussion with technical and financial representatives of the power companies, the Japan Development Bank, and the Japanese government. [...]”. Internal memorandums indicated that the WB had checked the available data on the organization of the three power companies, their financial status, power demand forecasts and power rates and estimated costs of thermal power plants, including prices of similar to the plants

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<sup>30</sup> Memorandum, “Conversation with Japanese Ambassador on Bank Financing in Japan on June 2, 1953” transmitted to Embassy of Japan on June 5, 1953, Japan—General, Folder # 1857454 Box # 5, WB Archives.

<sup>31</sup> Report and Recommendation of the President to the Executive Directors concerning Three Proposed Loans to the Japan Development Bank for Thermal Power Projects, October 6, 1953, the World Bank.

to be imported by Japanese power companies manufactured in the US and Europe.

The Technical Report<sup>32</sup> and the President Report explain that the total power consumption in Japan would increase from about 41 billion KWh in 1952 to about 53 billion KWh in 1957. This estimate accounted for about a 28% increase in demand by industrial consumers during the same period. Against this increase, expansion plans of Japanese utility companies called for another net increase between 1952 and 1957 of 2.9 million KW in installed capacity, of which about 630,000 KW would be thermal and 2,260,000 KW hydro. In terms of effective capability, the increase in thermal capacity would be almost only 780,000 KW but it would be 1,865,000 KW for hydro at average water levels. The corresponding investment expenditures for the expansion were estimated at US\$1.8 billion by the nine private utility companies and US\$530 million for the other power companies, i.e., local governments, Japan Electric Power Resources Development Company and captive plants. The three private power companies' share of the total nine private companies installed capacity was 37% of the total and 42% of the nine power companies.

According to the Technical Report, the three companies,<sup>33</sup> of the total of nine power companies in Japan, were the most important power companies for the manufacturing sector, for exports. Moreover they were short of generating capacity and all of them had deferred replacements and maintenance after they faced difficulties during their wartime operations, mainly due to a lack of funds. Each system was operating at its optimum, maximizing the utilization of hydropower but even then the output of the hydro plants largely fluctuated and were unpredictable, mostly depending on the rainfall. The steam plants were then used to supplement the production of the hydro plants during the dry season. One striking feature of all the systems were the high-energy loss in transmission, transformation and distribution of power. These losses reflected in part the deferred maintenance as well as the need for new line capacity to relieve the overload conditions on the transmission and distribution network. These losses were particularly large for the Kansai system. It is interesting to note that the Report clearly stated that “[...] It may well prove to be more practical for the Japanese economy to live with shortages of power in some dry years or during part of the year in order to preserve the low power rates inherent in the existing hydro-steam capacity ratio rather than to embark upon expansion. [...]”

Total power demand for 1957 for the three power companies was estimated to increase by 30% in comparison with the 1952 levels, based on the growth of the industrial sector for the same period. Against this forecast, the expansion programs were prepared and they only included generating projects, which had already been undertaken and authorized by the Japanese Government. These programs were later referred to as the “committed programs”: Kansai's total investment for 1952–1957 would amount to Yen 83.7 billion (equivalent to US\$ 232 million); Kyushu's, Yen 61.3 billion

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<sup>32</sup> Technical Report on the Chubu, Kansai, and Kyushu Thermal Power Projects in Japan, October 7, 1953, the World Bank.

<sup>33</sup> They supply electricity with 60 cycles; and Tokyo and other northern electric power companies, with 50 cycles.

(equivalent to US\$ 170 million); and, Chubu's, Yen 75.5 billion (equivalent to US\$ 210 million). The important part of the investment was the proposed new thermal plants operating at high temperatures and pressures with low fuel consumption and a thermal efficiency well above any operating plant in Japan. Specifically, the total amount of three loans totaled US\$40.2 million of which: for Kansai Power US\$21.5 million to import of a complete 150,000 KW steam power plant with two generating units of 75,000 KW each; for Kyushu Power, US\$11.2 million to purchase a complete 75,000 KW steam power plant with a generating unit identical of the Kansai project; and for Chubu Power US\$ 7.5 million to obtain a complete 66,000 KW steam power plant with one generating unit after the installation thereof. The resulting savings on the first year of operation were estimated at a return on investment of 17% for Kansai, 20% for Kyushu and 6% for Chubu.

To cover costs, attain financial stability and raise adequate equity capital in appropriate ratio to debt financing, to finance investments, the power rates were to be increased substantially over the next few years. In view of the uncertainties regarding the main variables related to the power companies' financial forecasts, the WB minimized the investment and took an optimistic position on the improved operational efficiency through the implementation of "improvement programs", for the better utilization of existing facilities. The Report proposed the debt-equity ratio to be limited to a maximum of 2 to 1, with a view of providing a brake on overexpansion and guarding against an unbalanced capital structure.

The overall framework and the negotiating position of the WB were set on the basis of the Technical Report mentioned above. The actual discussion between Japanese government, three power companies' representatives and the WB started in June 29, 1953. If this date is considered as the start date for discussions on the first loan to Japan, and considering the loan approval day by the Board of WB as the end date, October 15, 1953; the negotiations took 3 and a half months. Such a long period only for negotiations simply implied that the discussions were difficult and protracted. Yet, such duration could also be adequately justified that this was the first of such agreements on the undertaking of projects between Japan and the WB. Moreover, this would naturally take a long time to reach, as Japan's knowledge of the WB and the WB's experience with Japan were still limited. But it is worthwhile to look into the reasons why it took such a long time.<sup>34</sup> A review of the set of "Minutes of the Meetings" between the Japanese delegation and WB indicates that key issues that were discussed: Whether the Japan Development Bank (JDB) should be the borrower as proposed by the Japanese Government?; Whether Project Agreements between WB and the power companies were required; The improvement in financial condition of power companies and whether the increase in power rates should be part of the lending conditions?; and, Whether security arrangements were essential among the WB, the Government of Japan, JDB and the power companies?<sup>35</sup>

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<sup>34</sup> A complete set of minutes of the meeting between Japanese delegation and WB is available in Japan—Power Project Folder # 1857615 Box # 13, WB Archives.

The WB was not comfortable with the idea of lending through the JDB, as it did not prefer an intermediary organization between itself and the Power Companies. Moreover the WB was not acquainted with the JDB's financial status and its institutional capability as a bank. The WB raised various questions regarding the degree of over lending, the volume of existing loans in arrears, and the extent of competition with other long-term credit banks in the country. The WB originally, was of the understanding that the borrower would be the three individual power companies or the Japanese government itself, and not the JDB. It was considered that a loan directly to the Government would be the least complicated, but since the Japanese government objected to undertaking a guarantee of direct loans to the specific power companies out of nine private power companies, the WB expected that the Government would similarly object to making direct loans to the power companies in local currency funds for the completion of these projects and other necessary investments. The WB even suggested to the Japanese delegation the possibility of making JDB as co-borrower with the Power Companies. In the end, Japanese government's intentions prevailed, and it was decided that the JDB was to become the borrower.

Based on this decision to allow the JDB to be the primary borrower, the WB did not have any other choice but to introduce the Project Agreements which would define directly the relationship between WB and each of the three power companies, in order to ensure the proper project execution by the power companies. The Japanese team initially had difficulties in understanding the need for Project Agreements, as the execution of the projects was to be ensured through JDB as the borrower. After all, the proposed loan to Kansai Power Company amounted to about 9% of its investment program for 1952–1957; to Kyushu, about 7%; and to Chubu, about 4%. But after being convinced by WB's explanation on the need to having the Project Agreements, the point of discussions shifted to the content of the Project Agreements.

The delegation questioned the real definition of “the Committed Programs” and “the Improvement Programs” in relation to the proposed projects and loans, as they made the actual implementation of daily business of each company look inflexible. The WB tried to explain that: the proposed projects were to install new equipment and loans, to finance the procurement of the equipment and that all projects were part of larger programs for power development in Japan. Since the financial and economic justification had been made on the basis of an overall plan for electric power development, the execution of the Programs were important. Apart from that, any major change in the Programs to which the projects were integrally related to, could conceivably, seriously affect the financial condition of the organizations executing the projects, and reduce the prospects of the prompt completion of the projects. In order to complete the projects, the power companies required substantial amounts of local funds, beyond the amount available to them and JDB's

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<sup>35</sup> SLC/M/444, Staff Loan Committee, Minutes of Meeting, Friday, July 23, Japan—Power Project Folder # 1857615 Box # 13, WB Archives.

funding remained essential. Thus, the various financial agreements were incorporated into the Loan Agreements to enable the JDB to provide necessary funds to complete the projects and programs.

The low power rates offered by the Power Companies were also an issue of discussion with the WB. As the WB was concerned over the low levels of power rates and the basis on which the power levels were being calculated. The WB thought that if the current levels were maintained, the power companies might not be able to service necessary debt and to carry out the necessary expansion programs. The WB tried to convince the Japanese delegation that the existing rates were extremely low in comparison with prices of other commodities and that they would have to be linked with the inflationary course of prices in Japan. The Agreements then incorporated this factor so that an adequate electric power rate structure would be established and maintained, in such a way that the integrity of the power development programs would be kept intact. Similarly, to protect the basic financial structure of the power companies, the Agreements included a requirement that each company limit its consolidated indebtedness to no more than twice its consolidated capital and surplus.

The most difficult issue was related to the security arrangements among the Government of Japan, the JDB, the power companies and the WB. The arrangement agreed that no lien or obligation could be established on the assets of each power company, which would rank prior to the general mortgage that exists or will be created in the future. Between the Government of Japan and the WB, the Government was asked to make the provisions of its negative pledge clause, effective upon political subdivisions and their agencies including the Bank of Japan. Between the three power companies and WB, a similar to the one between JDB and WB was covenanted. According to the WB's explanation, a negative pledge clause does not give the WB a preferred position. It does protect WB against being put in a subordinate position by giving it the right to participate ratably in any lien, which may be created by a member of its assets. Its inclusion in the Agreements is, therefore, standard practice from the WB's point of view.

The reason why the Bank of Japan was mentioned specifically was that the general legal structure of many central banks, allows for the assets to be automatically covered by such a negative pledge. Since in Japan's case, its assets of the Bank of Japan are not clearly covered, the loan document mentions the Bank of Japan. In order to ascertain the nature of mortgages under Japanese Law, the WB requested the help of an American lawyer, (from the legal firm of Messrs. McIvor, Kauffman and Yamamoto) who had been working in Japan for many years. His presence was particularly helpful in avoiding potentially uncomfortable confrontation between the Japanese representatives and the WB on belated disclosure of information by the Japanese that the three power companies had outstanding obligations to create liens in favor of Japans' commercial banks and negative pledge clauses in favor of such banks. Apparently the total amount was small and all were cancelled on time to make the loans become effective.

In the end, three formal agreements were prepared: A Loan Agreement between WB and JDB; A

Guarantee Agreement between Japan and the WB; and A Project Agreement between WB and each power company. The recorded information by negotiating officers were available in abundance at the Archives and the only lacking elements were the technical and financial discussions between the representatives of the three power companies and technical/financial staff of the WB. Still, the general picture emerged quite clearly. The WB became the major financier for Japan instead of the Export-Import Bank of the US, and Japan completed negotiations to receive the first loan from the WB on behalf of the three power companies. The three loans were approved by the Board of the WB on October 15, 1953. From then on, Japan began its relationship with the WB as a borrower.

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Japan—Application for Membership, Box # 7 File # 2. Memorandum, Roman L. Horne, Secretary of Committee on Membership—Japan, to Files, Meeting with Japanese Representatives, January 23, 1952.

**ANNEX 1****Economic/Sector Reports**

Date	Report's Title	Report's Number
06/30/1953	Economic Situation and Prospects (118 pages)	A.S. 10-a
May, 1954	Report of 1953 Mission (35)	A.S. 18-a
01/03/1955	Present Position and Prospects of Agriculture (48)	T.O. 71-a
10/14/1955	Recent Economic and Financial Developments (42)	A.S. 44-a
07/25/1957	Development and Prospects of the Economy (57)	FE-2a
01/15/1958	Recent Economic and Financial Developments (20)	FE-4a
06/24/1958	Japanese Steel Markets Prospects 1957-62 (10)	TO-178
12/22/1958	Economic Situation and Prospects (49)	FE- 9a
10/14/1959	Economic Position and Prospects (61)	FE-13a
04/13/1961	Recent Economic Situation (40)	FE-21a
09/13/1963	Current Economic Position and Prospects (71)	FE-31a
09/23/1964	Current Economic Position and Prospects (105)	FE-39a
11/23/1965	Economic Situation and Prospects (83)	FE-47c

Sources: World Bank's External Home Page.



## ANNEX 2

## Japan's Borrowing from the World Bank: List of Loans

Board Approved Date mm/dd/yyyy	Borrower and Beneficiaries	Sector	Main Project Components	Amount of Loan US \$ million
10/15/1953	Japan Development Bank Kansai Power Kyushu Power Chubu Power	Power Power Power	Equipment for thermal generators Equipment for thermal generator Equipment for thermal generator	21.5 11.2 7.5
10/25/1955	Japan Development Bank Yahata Steel	Steel	Modernization of a plate mill and others	5.3
02/21/1956	Japan Development Bank Nihon Kokan Toyota Motor Ishikawajima Heavy Industries Mitsubishi Shipbuilding	Steel Car and truck man. Ship building Ship building	Modernization of various plants	8.1
12/14/1956	Japan Development Bank Kawasaki Steel	Steel	Plant and equipment for strip mill	20
12/14/1956	Agricultural Land Development Machinery Public Corporation	Agriculture	Land reclamation and cattle imports	4.3
08/08/1957	Aichi Irrigation Public Corporation	Agriculture	Construction equipment and consultants	7
01/28/1958	Japan Development Bank Kawasaki Steel	Steel	Plant and equipment for blast furnace	8
06/12/1958	Japan Development Bank Kansai Power	Power	Construction of Kurobe hydro-dam	37
06/26/1958	Japan Development Bank Hokuriku Power	Power	Construction of Yuho hydro-dam	25
07/09/1958	Japan Development Bank  Sumitomo Metal	Steel	Plant and equipment for blast furnace & blooming mill	33
08/14/1958	Japan Development Bank Kobe Steel	Steel	Plant and equipment for blast furnace	10
09/09/1958	Japan Development Bank Chubu Power	Power	Construction of Hatanagi hydro-dams &	29
09/09/1958	Japan Development Bank Nippon Kokan Steel	Steel	Construction of hot/cold mill	22
02/16/1959	Electric Power Dev. Corp.	Power	Construction of Miboro hydro-dam	10
11/10/1959	Japan Development Bank Fuji Steel Yahata Steel	Steel	Expansion of steel making facilities Modernization of steel making facilities	24 20
03/15/1960	Japan Development Bank Kyushu Power	Power	Thermal power generator	12

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Board Approved Date mm/dd/yyyy	Borrower and Beneficiaries	Sector	Main Project Components	Amount of Loan US \$ million
03/15/1960	Nihon Doro Kodan	Expressway	Construction of 72 km expressway from Amagasaki to Ritto	40
12/16/1960	Japan Development Bank Kawasaki Steel Sumitomo Metal	Steel Steel	Plate mill construction Hot strip, plate mill, pipe mill, etc.	6 7
05/01/1961	Japan National Railways	Rail	New Tokaido Railway Line	80
11/28/1961	Nihon Doro Kodan	Expressway	Construction of 111 km expressway from Kobe to Nagoya	40
09/24/1963	Nihon Doro Kodan	Expressway	Construction of expressway from Tokyo and Shizuoka	75
04/21/1964	Nihon Doro Kodan	Expressway	Construction of expressway from Toyokawa and Komaki	50
12/22/1964	Metropolitan Highway Corporation	Expressway	Construction of expressway from Haneda to Yokohama	25
01/12/1965	Electric Power Dev. Corp.	Power	Kuzuryuu Hydro-dam	25
05/25/1965	Nihon Doro Kodan	Expressway	Construction of expressway from Shizuoka to Toyokawa	75
09/09/1965	Hanshin Expressway Corporation	Expressway	Construction of 12.5 km expressway in Kobe	25
07/28/1966	Nihon Doro Kodan	Expressway	Construction of expressway from Shizuoka to Toyokawa	100

Sources: World Bank's External Home Page.

### ANNEX 3

#### Basic Structure of the First WB Projects and Loans

1. Borrower: Japan Development Bank for each Loan
2. Guarantor: Japanese Government for each Loan
3. Total Amounts of Three Loans US\$40.2 million
 

of Which	Kansai Power	US\$21.5 million
	Kyushu Power	US\$11.2 million
	Chubu Power	US\$ 7.5 million
4. Date of Loans Signed: 10/15/1953 for each Loan
5. Effective Dates: 12/29/1953 for each Loan
6. Closing Dates: 12/31/1956 for each Loan
7. Terms of Loans: 20 years with 3 years grade period
8. Interest Rate: 5% for each Loan
9. Project Description: The power projects amounting to about US\$ 61 million equivalent are to assist the three power companies to install a steam power plant generating 60 cycle electricity in each company, and the Loans would finance the foreign exchange costs of the Project including interest during the construction period. The three projects are:
 

Kansai—A complete 150,000 kw steam power plant at Tanagawa on Osaka Bay with two generating units of 75,000 kw each designed to operate at high temperatures and pressures with the total cost amounting to about US\$31 million equivalent;

Kyushu—A complete 75,000 kw steam power plant at Karita on the northeast shore of Kyushu with a generating unit identical in design with those of the Kansai project, with the total cost amounting to US\$ 17 million equivalent; and,

Chubu—A complete 66,000 kw steam power plant at Mie in the Yokkaichi port area with one generating unit with the total cost amounting to about US\$14 million.
10. Security: each of the loans from the Japan Development Bank to the power companies would be secured by a “general mortgage” under the laws of Japan on the assets of the three power companies, and each such mortgage would be pledge to the WB as collateral security. A “general mortgage”, which is the type of security normally taken by the JDB, is in fact a preferential right to repayment and not a mortgage right on property in the ordinary sense. The Government of Japan has assured the WB that no lien superior to a “general mortgage”, or obligation to establish such a lien, exists or will be created by the JDB or the power companies, and covenants to the same effect by these organizations would be included in the Loan and Project Agreements.
11. Legal Instruments and Legal Authority
  - (a) A Loan Agreement between the WB and the Japan Development Bank—Main provisions are that the JDB will: cause the power company to perform its obligations under its Project

- Agreement; finance the local currency necessary to execute the projects; make financial means available for the execution of the improvement and committed programs of the power company; covenants that no lien on the assets of the power company which would rank prior to the General Mortgage now exists or will be created in the future; and, deliver punctually the security documents.
- (b) A Guarantee Agreement between Japan and the WB—Main provisions are that the Japanese government will; in addition to its guarantee of the JDB's financial obligations to the WB, provide to the JDB funds necessary to meet the JDB's financial obligations to the three power companies under the Loan Agreements; undertake to make the provisions of its negative pledge clause effective upon political subdivisions and their agencies including the Bank of Japan; and, maintain electricity rates at sufficient level for the power companies to finance facilities adequate to meet power requirements in the area.
  - (c) Projects Agreements between the WB and Each Power Company—Main provisions are that each power company will: complete the committed programs and formulate improvement programs for the better utilization of existing facilities including such items as reduction of system losses, improved feeder water treatment, additions to existing units and improved dispatching practices; consult with the WB for any major changes in the capital items covered in the Project Agreements; maintain a ratio of equity to debt of not less than 1 to 2, taking into account the present revaluation reserves as equity; and covenant that no lien on its assets which would rank prior to the General Mortgage now exists or will be created in the future.
12. Justification of the Project: Electric power production in Japan has increased markedly in the postwar period, but supply is still short of demand and shortage of power is retarding the growth of industrial production. A recent power survey indicates that the power demand would increase by 31% from 1952 to 1957. Substantial new investment is essential to meet this expanded demand. The thermal power plants being built by the three power companies with the Bank loans are part of this expansion program.
- The new thermal power plants would be more efficient than the existing plants and in addition, the three companies are taking measures to improve the efficiency of their existing systems through reducing power losses in transmission, transformation and distribution.

Source: Report and Recommendation of the President to the Executive Directors concerning Three Proposed Loans to the Japan Development Bank for Thermal Power Projects, October 6, 1953, the World Bank.