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**Department/
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**Series/
Subseries:** Ivar Rooth Papers/sous-fonds/1951-1956
-----OMD Country Files/series/1951-1956

Box number: A2530-004

File number: 45

**ADLIB ref.
number:** 6266

File title & dates: Japan/file/1953-1955

**Doc. title &
dates:** **Publication:** New York Times
Date of Publication: November 7, 1955
Title of Article: Japanese Trade Debated By Gatt
Author of Article: Michael L. Hoffman
Number of Pages: 1
Language: English

Reviewed: March 2021



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**ADLIB ref.
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**Doc. title &
dates:** **Publication:** New York Times
Date of Publication: unknown
Title of Article: Exports By Japan at Post-War High
Author of Article: unknown
Number of Pages: 1
Language: English

Does not contain whole article

Reviewed: March 2021

To my Jap files

Japanese Consultations.

Part II.

1. In the summary on page 7 you ought to add:

a) to the end of the first paragraph and

b) to the end of the third paragraph

the amounts of various types of US aids in 1955 and the corresponding figures for 1953 and 1954.

At the end of paragraph 3 it may perhaps be enough with the reference to what is said at the end of the first paragraph.

2. Page 8. Are the retention quotas tied to certain goods or to the trade of certain countries? If so, give a short explanation in parentheses or in a footnote.

3. Page 8. Is it really an "export" rights system? Is it not rather an import rights system combined with the export of certain goods or anything to Indonesia and Turkey?

4. In the summary there ought to be a reference to the economic effect of

- a) rearmament
- b) the reduced U.S. forces

Part I.

Page 5. Are you speaking of the overall budget or of the current budget?

Page 6. The question is how will the money be raised that is not provided for in the budget? What can be borrowed in the capital market? Has the Bank of Japan to provide some money and if so, to what extent?

How are the deficits of the local government covered?

Page 8. I would be interested to get a summary of the liquidity rules for the Japanese banks. It need not be written in Part I. But I think it ought to be mentioned in Part II.

Page 10. Is ship-building not competitive? Are the prices too high? Does Japan get its orders only because the delivery dates are shorter than in other countries?

Page 12. If you have any idea of to what extent the existing stocks are reduced, it ought to be mentioned both here and when you speak of the holdings and the increase of the foreign reserves of Japan.

At the end of Page 12, you ought to mention the amounts of United States aid.

Page 13. You ought to mention what Japan gets from U.S. forces over and above procurements.

Page 14. It must be indicated why this year the receipts have been doubled.

Mention the reparations agreement with Burma and the negotiations going on with Indonesia and the Philippines.

Page 15. With a few words, refer to the increased trade with the United States.

Page 23. We must add something to the effect that the liquidation of the trade arrears by Indonesia are expected to disappear when the agreement on reparations is made. As it now stands, one is inclined to believe that Indonesia will soon increase its export to Japan.

Page 30. Point 2. Indicate that there is also much hidden unemployment.

It is not the budgetary deficits that give any reason for worry. It is only when it is covered in an inflationary way that we should be concerned. The subject has to be elaborated upon.

October 31, 1955



Office Memorandum

R

TO : Mr. Ivar Rooth

DATE: Aug. 29, 1955

FROM : T. Yumoto *Ty*

SUBJECT: Bank of Japan - New Official Rates

In view of the attention being drawn to the recent raise of official interest rates by the Bank of Japan, I send you herewith a section of the "Fortnightly Letter" of the Bank of Japan dealing with the change in the official interest rates, which, I believe, will interest you for the purpose of such change.

"The Bank of Japan revised its rates on discounts and loans on August 9th, effective the following day. Along with this, the Bank decided on an overall revision of its 'higher rates application system' (progressive rates on discounts and loans), effective August 17th.

Revised Rates on Discounts and Loans (% p.a.)
() = Former Rates

Discount on Commercial Bills	7.30	(5.84)
" " Export Advance Bills	5.84	(5.84)
Loans Secured by Export Advance Bills	6.21	(6.21)
" " " Import Settlement Bills,	7.30	(6.21)
Import Freight Bills		
" " " Gov't Bonds, Designated	7.67	(6.21)
Local Gov't Bonds, Designated		
Corporate Bonds and other		
Securities, Agri. Bills		
Other Secured Loans	8.03	(6.57)
Overdrafts	8.40	(7.67)

The aim of the current measure is to normalize the Bank of Japan money rate structure and to apply official rates as the principal instrument in credit controls instead of the former progressive rates. As credit extensions from the Bank of Japan reached enormous amounts to meet abnormal post-war conditions, credit controls by the Central Bank were effected by the imposition of higher-than-official rates on borrowings in excess of the basic credit lines. More recently, however, the trend has been toward financial normalcy, and borrowings from the Bank of Japan have dwindled sharply. Hence, the credit control mechanism was regularized by raising the rates on discounts and loans and imposing penalty rates only in exceptional cases. Consequently, the Bank of Japan effective rate has remained unchanged.

The rate on export advance bills (heretofore exempted from the higher rates) was left unchanged. The former effective rates on import settlement and freight bills were applied as official rates.

Direct effects of this financial normalizing measure on bank rates are believed negligible, although a gradual decline in call money rates is envisaged (call rates were strongly affected by the former 'higher rates application system'). Moreover, it is hoped that a further normalization in bank rates will follow." (Fortnightly Letter dated August 16, 1955.)

August 31, 1955

My dear Yumoto:

Thank you for sending me a copy of the pamphlet
"Major Foreign Policy Speeches" by Mr. Shigemitsu, issued
on the occasion of his official visit to Washington. It
was very thoughtful of you.

Sincerely,

Ivar Rooth
Managing Director

Mr. T. Yumoto,
Executive Director for Japan,
International Monetary Fund.

Pamphlet sent to Mr. Day.

AUG 17 1955

Dear Sirs:

I am writing in reply to the Embassy's note of August 1, 1955 with regard to certain aspects of the Convention on the Privileges and Immunities of the Specialized Agencies.

The note sets forth the understanding of the Government of Japan as to the application of certain provisions of the Convention and requests the Fund's views thereon. The provisions in question are: Section 7, Article III, dealing with freedom from restrictions, and Sections 9(b) and 10 of the same Article dealing with exemptions from taxes, duties and restrictions on imports and exports.

As you know, the Fund's Articles of Agreement, unlike the United Nations' Charter and the constituent instruments of most other international organizations, provide for specific privileges, immunities and exemptions. Annex V to the Convention provides that in its application to the Fund the Convention shall operate subject to the provisions of the Annex, and Paragraph 3 of the Annex provides:

"The provisions of the Convention (including this annex) do not modify or amend or require the modification or amendment of the Articles of Agreement of the Fund or impair or limit any of the rights, immunities, privileges or exemptions conferred upon the Fund or any of its members, Governors, Executive Directors, alternates, officers or employees by the Articles of Agreement of the Fund, or by any statute, law or regulation of any member of the Fund or any political subdivision of any such member, or otherwise."

Article IX of the Articles of Agreement of the Fund contains provisions granting the Fund immunities, privileges and exemptions in respect of restrictions (Section 6) and taxation (Section 9). You will understand that these privileges, immunities and exemptions are not impaired or limited in any way by the provisions of the Convention and cannot be impaired or limited by any understandings announced or reservations made by parties acceding to the Convention. I should also note that any

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Yumoto
LEG
UN Rep.
SEC

question of interpretation of the above-quoted provisions of the Articles of Agreement of the Fund would have to be resolved pursuant to Article XVIII of those Articles. The non-applicability of Section 32 of the Convention to such questions of interpretation is expressly recognized by Paragraph 2 of the Annex.

The provisions of the Convention affect the Fund's position only to the extent that they accord to it privileges, immunities and exemptions additional to those accorded to the Fund by its Articles of Agreement. Sections 7, 9(b) and 10 of Article III of the Convention do not in substance appear to accord to the Fund any privilege, immunity or exemption which is not already accorded by the Fund's Articles of Agreement. I deem it desirable to state that in our view the application of the quoted sections as proposed in the Embassy's note would be inconsistent with the provisions of the Fund's Articles of Agreement on the subjects covered by said sections and would not constitute full compliance with the Fund's Articles of Agreement. However, since no application of the provisions of the Convention could impair or limit the Fund's rights under Article VII of its Articles of Agreement, I prefer not to express an opinion as to the proposed application of said sections.

The Embassy's note also requests information on the category of officials which the Fund has specified under Section 18 of Article VI of the Convention. Pursuant to said Section 18 the Fund has decided that the provisions of Articles VI and VIII shall apply to its Executive Directors, Alternate Executive Directors, officers and employees. The names of the persons included in this category are transmitted from time to time to the governments of all states which have acceded to the Convention in respect of the Fund.

The Embassy's note finally refers to the accession to the Convention by certain countries subject to reservations which have been objected to by one or more states parties to the Convention. The Fund is aware of the complex legal problems which have been raised by these accessions subject to reservations and has the matter under study. The Fund maintains regular contact with the Secretary-General of the United Nations who is the depository for the Convention but has not yet announced its position on the problems which have arisen in connection with these accessions, except that, as noted earlier in this letter, it is the Fund's position that such reservations cannot affect the privileges, immunities and exemptions accorded to the Fund by its Articles of Agreement.

Sincerely yours,

Ivar Roeth
Managing Director

Embassy of Japan
Washington, D.C.

R. GREENBERG:rd
8/17/55



Office Memorandum

9

TO : The Managing Director

FROM : Richard B. Brenner *RB*

SUBJECT : Privileges & Immunities - Japan

DATE: August 16, 1955

Attached is a reply to a note from the Japanese Embassy forwarded to the Fund by Mr. Yumoto on August 3. The inquiry relates to certain provisions under the Convention on Privileges and Immunities of the Specialized Agencies. It has been our policy in the past to stress with members that the Fund has its own set of privileges and immunities conferred by the Articles of Agreement and, since our interest in the Specialized Agencies Convention is so small, to avoid getting into questions of interpretation of it.

The reply has been prepared in consultation with the Bank, and I understand that the Bank will send an identical reply to the Japanese Embassy.

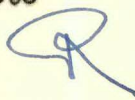
You may wish to show the reply to Mr. Yumoto before sending it.

Attached

*Mr. Rooth -
I have cleared the
attached with Mr. Yumoto.
RBH*

Mr. T. Yumoto

July 19, 1955

Ivar Rooth 

Japan - 1955 Consultations

I am designating the following to be the staff team for the
Article XIV consultations with Japan:

Irving S. Friedman, Chairman

H. L. Dey, Deputy Chairman

Henry C. Murphy, Asian Department

Edgar Jones, Exchange Restrictions Department

C. C. Liang, Asian Department

M. Kumashiro, Asian Department

Y. C. Wang, Exchange Restrictions Department

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**ADLIB ref.
number:** 6266

File title & dates: Japan/file/1953-1955

**Doc. title &
dates:** **Publication:** New York Times
Date of Publication: July 10, 1955
Title of Article: Japan Expecting Big Rice Harvest
Author of Article: Foster Hailey
Number of Pages: 1
Language: English

Reviewed: March 2021



Office Memorandum

TO : Mr. Ivar Rooth

DATE: September 9, 1954

FROM : H. L. Dey #22

SUBJECT : Japan--Annual Report (1953) of the Policy Board of the Bank
of Japan

I am forwarding for your signature the attached letter in reply to the covering letter dated August 16, 1954, addressed to you by Mr. Ichimada, Governor and Chairman of the Policy Board, Bank of Japan, enclosing a copy of the Annual Report, 1953, of the Policy Board.

Mr. Ichimada's letter and brochure are enclosed herewith for your perusal.

Attachments

May 27, 1954

Dear Mr. Kitamura,

Thank you for your letter of May 20 in which you advise me of Mr. Katsuro Ueda's appointment to the Embassy of Japan in Washington. I shall be very happy to meet Mr. Ueda and to offer him any assistance I can give when he arrives in Washington.

Yours very sincerely,

A handwritten signature in dark ink, consisting of a stylized capital letter 'R' with a small loop at the top and a tail that curves downwards and to the right.

Ivar Rooth

Mr. Kojiro Kitamura
Kangyo Bank Ltd.,
Tokyo, Japan.

Your ref: RSF:3459

CABLE ADDRESS
"KANGIN"

THE NIPPON
KANGYO BANK
LIMITED

HEAD OFFICE
HIBIYA TOKYO JAPAN

Established 1897

In reply please refer to RSF: 3459

Tokyo, May 20, 1954

VIA AIR MAIL

Mr. Ivar Rooth
Managing Director
International Monetary Fund
Washington D.C.

Dear Mr. Rooth:

You will find enclosed a copy of letter of introduction which I have addressed to you on behalf of my young friend:-

Mr. Katsuro Ueda,

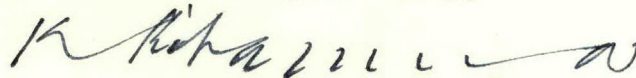
formerly Chief of Foreign Debt Section, Financial Bureau, Ministry of Finance, who will leave Tokyo in due course for the United State as the First Secretary of Embassy of Japan in Washington D.C.

Probably Mr. Ueda will have opportunity of being presented to you officially by Mr. Takeo Yumoto, Director of I.M.F., however, I wish to take liberty of introducing him to you rather informally as one of your old friend, as I believe this gentleman is, though still young, one of the most promising officer of Japanese Government. It will be of great advantage for him to have your personal influence not only during his stay in Washington D.C. but also all through his life.

I thank you in advance for any courtesy you may be good enough to render my friend.

I am always pleased to learn that you are actively working for international economy. I wish you many successes and good health.

Yours very sincerely,



Kojiro Kitamura
Advisor

CABLE ADDRESS

"KANGIN"

THE NIPPON
KANGYO BANK
LIMITED
Established 1897

HEAD OFFICE

HIBIYA TOKYO JAPAN

RSF: 3458

Tokyo, May 20, 1954

Mr. Ivar Rooth
International Monetary Fund
Washington D.C.

Dear Mr. Rooth:

Letter of Introduction

It is a great pleasure for me to introduce and commend to your courteous attention the bearer of this letter:-

Mr. Katsuro Ueda

formerly Chief of Foreign Debt Section, Financial Bureau, Ministry of Finance of Japanese Government, who has been appointed to the First Secretary of Embassy of Japan in Washington D.C.

I have known Mr. Ueda for years and estimated him highly as one of the most promising officer of Japanese Government and we expect he will show consummate tact in his new position. In any respect, I am sure, it will be best for him to make your acquaintance and to have your influence while he resides in Washington D.C.

I should deeply appreciate any courtesy and assistance you may give Mr. Ueda, which will be regarded as shown to myself, and I shall be always happy to reciprocate it.

Very sincerely yours,



Kojiro Kitamura
Advisor

Mr. Shigeo Matsumoto

requests the pleasure of your company
to introduce

Mr. Hiromu Yamamoto

Representative

The Bank of Japan
New York Office

Tuesday, May eighteenth

Sheraton Carlton Hotel
North Lounge

Washington, D. C.

R. S. V. P.
TWENTY PINE STREET
NEW YORK 5, N. Y.

Cocktails
six to eight o'clock

May 10, 1954

Mr. Ivar Rooth

thanks Mr. Shigeo Matsumoto for his kind invitation to meet Mr. Hiromu Yamamoto on Tuesday, May 18th, but regrets that he is unable to accept as he will be in Europe on that date.

EXTRACT from WHALEY-EATON Foreign Letter No. 1812. January 5, 1954

"JAPAN'S quest for additional World Bank loans has drawn a warning from the Bank that the country must change its ways or risk economic ruin. The "Financial Times" (London) lists these things which the Bank says Japan must do: (a) Balance the budget; (b) cut spending while keeping capital investment high; (c) lower taxes, despite increasing Federal expenditures; (d) cut corporate rather than personal taxes; (e) raise the official discount rate.

"It is not known if the Bank has made approval of further Japanese credits conditional on these changes in policy. But it is a firm rule of the Bank that only "bankable" loans are made. The concern is that Japan's balance-of-payments may get so out of hand as to make repayment on time impossible."

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Buy spot sell forward
Forward 1/8 of 1% for 3 months
7/32 for 6 months.

Tommy My rate
Reversal must be done in Japan
has no 2

To: The Managing Director

2.81 ⁵/₃₂ today's ^{middle} rate
= 2.815625

Staff Comments on Japanese Proposal

1.(a) For a voluntary repurchase in gold to restore the Fund's holdings of yen to the amount necessary within the gold tranche, ~~the~~ Executive Board approval is required. The staff would recommend acceptance of such payment. The subsequent drawing of sterling 22 million would entail the service charge of 1/2 of 1 per cent equivalent to \$308,000.

(b) A voluntary repurchase in U.S. dollars would require Executive Board approval. The staff would recommend to the Board acceptance of the dollar payment. A subsequent drawing of sterling 22 million would entail the service charge of 1/2 of 1 per cent equivalent to \$308,000.

*
2. A member may purchase the currency of another member from the Fund for gold in accordance with Article V, Section 6(a). In such cases the member may be required to assume the estimated cost that would be incurred by the Fund if it used the gold so acquired to purchase the currency it has sold (Rule G-7). The cost of acquiring sterling for gold amounts according to the Exchange Control Act to two shillings per ounce for good delivery bars in London, or sterling 176,000 equivalent to \$492,800. In addition, the seller of gold would have to assume the cost of shipment to London, *if Japan does not have the gold in London.* Furthermore, there might be additional cost to Japan if it does not have gold available for a transaction under Article V, Section 6(a). In that event, Japan would have to buy gold from the United States for dollars, and would thus incur an additional charge of 1/4 per cent.

On the other hand, the Fund is not compelled to levy ^{the above mentioned} charges under Rule G-7. The power under that Rule is discretionary, although so far the Fund has indicated that it would levy the charges. The reason for this is that the sale of dollars for gold has been contemplated. The sale of sterling for gold would

* In both cases this corresponds to a rate of 2.814 dollars for 1 £, should a purchase of sterling against dollars be contemplated. 1/4% 2.807

be a different case since this would result in a net hardening of the Fund's resources. This might induce the Fund to waive any G-7 charges. The approval of the Board would be required. On the assumption that Japan has no available gold and that the Fund levies no charges under G-7, the total cost to Japan would be the 1/4 per cent involved in purchasing the gold from the United States, i.e., \$154,000 plus the small U.S. handling charge.

*no possibility for us of selling it for \$².
Why was this ruled out
To keep us out of
the exchange market*

December 9, 1953

Answer to-morrow

R

About 15/12

1953/12/9

M E M O

T. Yumoto

- (1) Contemplated amount of pound sterling to be obtained from IMF

£ 22,000,000 or \$61,600,000

N.B. (1) Swap transactions to be due in December and January is £21,270,000

(2) Gold tranche of Japan \$62,500,000

- (2) Procedures contemplated

- (1) To purchase the amount in excess of the gold tranche.
- ✓ (ii) To purchase the amount within the gold tranche after the outstanding purchase is voluntarily repurchased.
- ✓ (iii) To purchase the amount for gold.

or \$

SECRET

INCOMING MESSAGE

SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25, D.C.

TO: IVAR BOOTH INTERFUND
FROM: HISATO ICHIMADA MINISTER OF FINANCE, TOKYO
FILING TIME: 1730 NOVEMBER 28, 1955
VIA: R. C. A.

021745

Number: - 8 -

WE OFFER TO REPURCHASE WITH U.S. DOLLARS ON DECEMBER 5TH AND
DECEMBER 27TH AMOUNT OF JAPANESE CURRENCY EQUIVALENT TO U.S. DOLLARS
32,437,897.17 AND U.S. DOLLARS 30,000,000 RESPECTIVELY.

PAYMENTS TO BE CONSIDERED DISCHARGES OF REPURCHASE OBLIGATION AS
OF APRIL 30TH 1955 IF SUCH WAS INCURRED. IF ANY ADJUSTMENT IS
NECESSARY ACCORDING TO SCHEDULE B SUCH ADJUSTMENT WILL BE MADE
PURSUANT TO EXECUTIVE BOARD DECISION OF MEETING 648.

949

HISATO ICHIMADA MINISTER OF FINANCE

Orig: TRE
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Yumoto
Asian Dept.
LEG
RES
END
SEC

Approved:

Test number checks:

Received in Code Room: 9:20 AM November 28, 1955

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

CODE & CIPHER

To: Federal Reserve Bank of New York
New York, New York

No. 185

We understand that you have received instructions from Ministry of Finance, Government of Japan, to transfer to our Gold Account with you gold bars containing not less than 1,720 fine ounces. Please accept this gold for our account under cable advice to us.

INTERFUND

Test No. 653

mfu
 Drafted By WFWalsh/jbh
 Department Treasurer's
 Date 12/4/53

cc: Mg. Dir.
 Dep. Mg. Dir.
 Mr. Yamoto
 TRE
 Asian Dept.
 LEG
 RES
 ERD
 SEC

AUTHORIZATION

WCK

 Signature

Second Signature When Required

FOR CODE ROOM

Time Received 12:00
 Time Dispatched 1:10 PM
 Number of Words 11
 Log 14704
 Route WESTERN UNION
 Operator ONE



OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

CODE & CIPHER

INTERNATIONAL MONETARY FUND

To: Bank of Japan
Tokyo, Japan

No. 3

Fund has sold pounds sterling 4,300,000 to Ministry of Finance value December 7. On same date you will receive the equivalent of the above amount calculated in terms of Fund Circular No. 7, namely yen 4,334,400,000 from Ministry of Finance which please accept for the credit of the Fund's No. 1 Account under cable advice to us.

INTERFUND

Prepared By WFWalsh/jbh
 Department Treasurer's
 Date 12/4/53

Test No. 861

cc: Mg. Dir.
 Dep. Mg. Dir.
 Mr. Yumoto
 TRE
 Asian Dept.
 LEG
 RES
 ERD
 SEC

AUTHORIZATION

[Signature]
 Signature

Second Signature When Required

FOR CODE ROOM

Time Received 11:35 AM
 Time Dispatched 12:30 PM
 Number of Words 23
 Log 14701
 Route MACKAY
 Operator GEB



OFFICIAL**OUTGOING MESSAGE****OFFICIAL**

FOR PREPARING OFFICER

- Night Letter
 Ordinary
 Code

SPECIAL INSTRUCTIONS

CODE & CIPHER

INTERNATIONAL MONETARY FUND

To: Ministry of FinanceTokyo, JapanNo. 3

1. Reference your cable No. 5.
2. We have instructed Bank of England to transfer pounds sterling 4,300,000 to your account with themselves, value December 7.
3. Please instruct Bank of Japan to credit Fund's Number One Account value December 7, with the equivalent of the above amount calculated in terms of Fund Circular No. 7 namely yen 4,334,400,000.
4. We note that gold for service charge on this transaction is being transferred to the Fund's Gold Account with Federal Reserve Bank of New York.
5. Fund notes your Government's undertaking to comply with the principles set forth in sub-paragraphs A,B,C and D of paragraph 2 of the decision of the Executive Board of the Fund at meeting 52/11 February 13, 1952.

Drafted By WFWalsh/jbhDepartment Treasurer'sDate 12/4/53

AUTHORIZATION

Signature
[Signature]

Second Signature When Required

FOR CODE ROOM

Time Received 11:35 AM
 Time Dispatched 12:50 PM
 Number of Words 61
 Log 14703
 Route MACKAY
 Operator GEB

INTERFUND

Test No. 525

cc: Mg. Dir.
 Dep. Mg. Dir.
 Mr. Yumoto
 TRE
 Asian Dept.
 LEG
 RES
 ERD
 SEC

SECRET

INCOMING MESSAGE

SECRET

**INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.**

TO: INTERFUND

FROM: BANK OF JAPAN, TOKYO, JAPAN

FILING TIME: 1930 NOVEMBER 13, 1953

VIA: R.C.A.

017013

Number: - 4 -

ACCORDING TO INSTRUCTIONS IN YOUR CABLE OF NOVEMBER 12TH NO 2
WE HAVE CREDITED YOUR NUMBER ONE ACCOUNT TODAY WITH THE SUM OF
YEN 13,104 MILLION

569

BANK OF JAPAN

Orig: TRE
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Yuzoto
Asian Dept.
IRD
LID
RES
SEC

Test number checks:

Approved:

Received in Code Room: 9:30 AM November 13, 1953

SECRET

INCOMING MESSAGE

SECRET

**INTERNATIONAL MONETARY FUND
WASHINGTON, 25, D.C.**

TO: INTERFUND
FROM: BANK OF JAPAN, TOKYO, JAPAN
FILING TIME: 1930 DECEMBER 7, 1953
VIA: MACKAY

017141

Number: 5

ACCORDING TO INSTRUCTIONS IN YOUR CABLE OF DECEMBER 4TH NO. 3 WE HAVE CREDITED
YOUR NUMBER ONE ACCOUNT TODAY WITH THE SUM OF YEN 4,334 MILLION 400,000.
ALTHOUGH VALUE DATE TEST WORD MUTILATED WE HAVE COMPLIED WITH YOUR INSTRUCTIONS
CHECKING UP INSTRUCTIONS IN YOUR WIRE OF DECEMBER 4TH TO MINISTRY OF FINANCE
PLEASE CONFIRM OUR ACTION BY CABLE

680

BANK OF JAPAN

Orig: TRE
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Yumoto
Asian Dept.
LEG
RES
ERD
SEC

Test number checks:

Approved:

Received in Code Room: 9:30 A.M. December 7, 1953

SECRET

INCOMING MESSAGE

SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25, D.C.

Orig: Asian Dept.
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Yunoto
TRE
LEG
RES
ERD
SEC

TO: IVAR ROOTH - INTERFUND
SANKURO OGASAWARA
FROM: MINISTER OF FINANCE, TOKYO, JAPAN
FILING TIME: 1640 DECEMBER 2, 1953
VIA: R. C. A.

017117

Number: 5

1. AS FISCAL AGENCY FOR THE GOVERNMENT OF JAPAN, WE DESIRE TO PURCHASE FROM THE INTERNATIONAL MONETARY FUND POUNDS STERLING 4,300,000 IN ACCORDANCE WITH THE TERMS OF ARTICLE V, SECTION 3, OF THE FUND AGREEMENT. PLEASE CREDIT THIS AMOUNT TO THE ACCOUNT OF MINISTER OF FINANCE OF THE JAPANESE GOVERNMENT MAINTAINED WITH BANK OF ENGLAND, LONDON, ENGLAND.
2. WE DO HEREBY REPRESENT THAT THIS CURRENCY IS PRESENTLY NEEDED FOR MAKING IN SAID CURRENCY PAYMENTS WHICH ARE CONSISTENT WITH PROVISIONS OF THE FUND AGREEMENT.
3. THE EQUIVALENT OF THE AMOUNT OF DESIRED CURRENCY IN JAPANESE YEN CALCULATED IN TERMS OF FUND CIRCULAR NO. 7, NAMELY YEN 4,334 MILLION 400,000 WILL BE PLACED TO THE CREDIT OF YOUR NUMBER ONE ACCOUNT WITH BANK OF JAPAN, TOKYO, JAPAN ON THE VALUE DATE TO BE SPECIFIED BY YOU.
4. WITH REGARD TO THE CHARGES PAYABLE UNDER ARTICLE V, SECTION 8(a) OF THE FUND AGREEMENT, WE HAVE INSTRUCTED FEDERAL RESERVE BANK OF NEW YORK, NEW YORK, N. Y. TO BARMARK FOR YOUR GOLD ACCOUNT APPROXIMATELY BUT NOT LESS THAN 1,720 FINE OUNCES OF GOLD.
5. WE FURTHER STATE THAT THIS REQUEST IS MADE IN ACCORDANCE WITH THE ARRANGEMENTS DESCRIBED IN PARAGRAPH 2 OF THE DECISION OF THE EXECUTIVE BOARD OF THE FUND AT MEETING 52/11, FEBRUARY 13, 1952, AND THAT WE WILL COMPLY WITH THE PRINCIPLES SET FORTH IN SUB-PARAGRAPHS A, B, C AND D OF PARAGRAPH 2 OF THAT DECISION.

880

Received in Code Room: 8:55 AM December 2, 1953

SANKURO OGASAWARA
MINISTER OF FINANCE

Test number checks:

Approved:

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

CODE & CIPHER

To: Bank of England
London, England

No. 60

Please transfer from our No. 1 Account pounds sterling 4,300,000 to the Ministry of Finance of the Japanese Government Account with yourselves value December 7, under cable advice to the Fund.

INTERFUND

Test No. 532

Drafted By WFWalsh/jbh
 Department Treasurer's
 Date 12/4/53

cc: Mg. Dir.
 Dep. Mg. Dir.
 Mr. Yumoto
 TRE
 Asian Dept.
 LEG
 RES
 BRD
 SEC

AUTHORIZATION

WFW
 Signature

Second Signature When Required

FOR CODE ROOM

Time Received 11:35 AM
 Time Dispatched 12:35 PM
 Number of Words 14
 Log 14702
 Route WESTERN UNION
 Operator GEB



OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

CODE AND CYPHER

To: BANK OF ENGLAND
LONDON, ENGLAND

N O 59

Please transfer from our No. 1 Account pounds sterling
 13 million to the Ministry of Finance of the Japanese Government
 Account with yourselves value November 13, under cable advice
 to the Fund.

Test No. 569

INTERFUND

Prepared By WJWalsh/dr

Department Treasurer's

Date _____

AUTHORIZATION

WJWalsh
 Signature

Second Signature When Required

- cc: Mg. Dir.
- Dep. Mg. Dir.
- ✓ Mr. Yumoto
- Asian Dept.
- ✓ TRE
- ERD
- LEG
- RES
- SEC

FOR CODE ROOM

Time Received 3:12 PM
 Time Dispatched 3:32 PM
 Number of Words 14
 Log 14596
 Route WU
 Operator AT



SECRET

INCOMING MESSAGE

SECRET

**INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.**

TO: IVAR ROOTH INTERFUND

FROM: MINISTRY FINANCE, TOKYO, JAPAN

FILING TIME: 1850 NOVEMBER 13, 1953

VIA: R.C.A.

017010

Number: - 4 -

REFER TO YOUR CABLE NUMBER 2 WE HAVE CREDITED YOUR NUMBER ONE ACCOUNT
TODAY WITH THE SUM OF YEN 13,104 MILLION

883

MINISTRY FINANCE

Orig: TRE
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Yumoto
Asian Dept.
ERD
LEG
RES
SEC

Test number checks:

Approved:

Received in Code Room: 9:20 AM November 13, 1953

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

CODE & CYPHER

To: FEDERAL RESERVE BANK OF NEW YORK
NEW YORK CITY

NO 184

We understand that you have received instructions from Ministry of Finance, Government of Japan, to transfer to our gold account with you gold bars containing not less than 5,200 fine ounces. Please accept this gold for our account under cable advice, to us.

Test No. 673

INTERFUND

Prepared By WFWalsh/ocs
 Department Treasurer's
 Date November 12, 1953

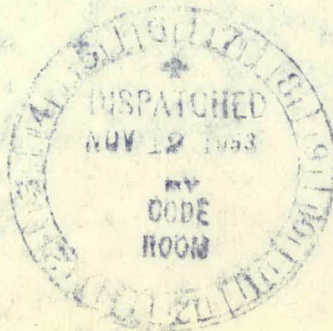
AUTHORIZATION

Signature

Second Signature When Required

cc: Mg. Dir.
 Dep. Mg. Dir.
 Mr. Yumoto
 Asian Dept.
 ✓ TRE
 ERD
 LEG
 RES
 SEC

FOR CODE ROOM
 Time Received 6:15 PM
 Time Dispatched 6:25 PM
 Number of Words 11
 Log 14601
 Route WU
 Operator GB



OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

CODE AND CYPHER

To: Bank of Japan

Tokyo, Japan.

NO 2

Fund has sold pounds sterling thirteen million to Ministry of Finance value November 13. On same date you will receive the equivalent of the above amount calculated in terms of Fund Circular No. 7, namely yen 13,104 million from Ministry of Finance which please accept for the credit of the Fund's No. 1 Account under cable advice to us.

Test No. 1029

INTERFUND

Drafted By WFWalsh/ces

Department Treasurer's

Date November 12, 1953

AUTHORIZATION

[Signature]
Signature

Second Signature When Required

FOR CODE ROOM

Time Received 3:12 PM

Time Dispatched 3:40 PM

Number of Words 22

Log 14597

Route MACKAY

Operator AT

- cc: Mg. Dir.
- Dep. Mg. Dir.
- Mr. Yumoto
- Asian Dept.
- TRE
- ERD
- LEG
- RES
- SEC



OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

CODE AND CYFNER

To: MINISTRY OF FINANCE
TOKYO, JAPAN

NO 2

1. Reference your cable No. 3, transaction approved.
2. We have instructed Bank of England to transfer pounds sterling thirteen million to your account with themselves, value November 13.
3. Please instruct Bank of Japan to credit Fund's Number One Account value November 13, with the equivalent of the above amount calculated in terms of Fund Circular No. 7 namely Yen 13,104 million.
4. We note that gold for service charge on this transaction is being transferred to the Fund's Gold Account with Federal Reserve Bank of New York.
5. Fund notes your Government's undertaking to comply with the principles set forth in sub-paragraphs A,B,C and D of paragraph 2 of the decision of the Executive Board of the Fund at meeting 52/11 February 13, 1952.

Drawn By WFWalsh/dr
 Department Treasurer's
 Date November

AUTHORIZATION

Signature

Second Signature When Required

Test No. 693

INTERFUND

cc: Mg. Dir.
 Dep. Mg. Dir.
 Mr. Yumoto
 Asian Dept.
 TRE
 ERD
 LEG
 RES
 SEC



FOR CODE ROOM
 Time Received 3:12 PM
 Time Dispatched 3:14 PM
 Number of Words 60
 Log 14598
 Route MCKAY
 Operator AT



to *C. Johnson*

Office Memorandum

TO : Mr. Ivar Rooth

FROM : H. L. Dey *H. L. Dey*

SUBJECT : Use of the Term "Loans and Investments" in the Japanese Drawing Memorandum

DATE: November 10, 1953

You asked for further information concerning the sense in which the term "loans and investments" is used in the Japanese drawing memorandum. The term is used in that memorandum in the same sense as throughout International Financial Statistics (see, for example, lines 31 and 41 on the country page for Japan). In this sense, the term includes all loans and securities, irrespective of the character of the securities. When "loans" and "investments" are stated separately, there is always some ambiguity, as short-term securities might be classified either as loans or as investments, depending on national custom (in the United States they are always classified as "investments"). The total of loans and investments combined is more significant analytically than either of them separately, as it is this total which affects the volume of deposits and of money supply. It would, of course, be of especial interest if a substantial portion of the investments of a banking system consisted of "equity" or share securities. This is not the case in Japan, however, where the investments appear, on the contrary, to consist exclusively of debt-type securities.

The principal items included in the loans and investments of the Bank of Japan at the end of 1952 (using the descriptive titles employed in Economic Statistics of Japan) were as follows:

(in millions of Yen)

Bills Discounted	179,048
Loans	44,227
Loans in Foreign Exchange	94,486
Advance to Government	38,389
Government Bonds	286,140

Less detail is available concerning the composition of the loans and investments of other banks. The same source, however, breaks down the loans and investments of these banks, as of the end of 1952, into ¥2,128,022 million for loans and discounts, and ¥236,054 million for securities.



To [unclear] [unclear] To my Japan file
Office Memorandum

TO : Mr. Ivar Rooth

FROM : H. L. Dey *H.L. Dey*

SUBJECT : Loans in Foreign Exchange by the Bank of Japan

DATE: Nov. 10, 1953

This memorandum is in response to your request for further information concerning the item "Loans in Foreign Exchange" on the balance sheet of the Bank of Japan. This item was, as indicated in the memorandum, copied word-for-word from the English column heads in the report Economic Statistics of Japan, published by the Bank of Japan.

The loans in question are made in dollars or sterling by the Bank of Japan to commercial banks on the security of loans which these banks make, in turn, also in dollars or sterling, to their importer customers. The Bank of Japan acquires the necessary dollars or sterling from the exchange control authorities. The loans, although denominated in dollars or sterling, are finally settled by payment of their yen equivalent. The amount of these loans held by the Bank of Japan at the end of 1952, amounting to ¥94.5 billion (equivalent to about US\$262 million), was equal to about 13 per cent of total Japanese imports of US\$2,028 million in 1952. At an earlier date these loans had been much larger. They were ¥154.5 billion (equivalent to about US\$429 million) at the end of 1950 and ¥138.3 billion (equivalent to about US\$384 million) at the end of 1951.

*→ what purposes are the loans given.
Spoke to H.M.*



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File number: 45

**ADLIB ref.
number:** 6266

File title & dates: Japan/file/1953-1955

**Doc. title &
dates:** **Publication:** Washington Post
Date of Publication: October 23, 1953
Title of Article: Matter of Fact.....Future of Japan
Author of Article: Joseph Alsop
Number of Pages: 1
Language: English

Reviewed: March 2021

INTERNATIONAL MONETARY FUND

1953 Consultations -- Japan

Prepared by the Exchange Restrictions
and the Asian Departments

(Reviewed by the Committee on Article XIV Consultations)

Approved by Irving S. Friedman and H. L. Dey

August 24, 1953

A Fund Mission, headed by Mr. H. Merle Cochran, and consisting of Messrs. J. Gonzalez del Solar, C. C. Liang, and Ernest A. Wichin, and Miss Roberta McKay, Administrative Assistant, visited Tokyo from July 1 to July 12 for staff discussions in connection with the consultations prescribed under Article XIV of the Fund Agreement. In that period, ten formal meetings and four working party sessions were held with representatives of the Ministries of Finance, International Trade and Industry, and Foreign Affairs, and with representatives of the Bank of Japan and of the Economic Stabilization Board. Also, there were discussions with the Ministers of Finance, International Trade and Industry, and Foreign Affairs, and with the Governor and Vice Governor of the Bank of Japan.

Since this was the first visit of a Fund Mission to Japan, and also the first Article XIV consultation to be held with the new member, a considerable amount of ground, beginning with prewar developments, was covered. The Japanese representatives furnished the Mission with ample information and materials, a summary analysis of which is presented in this memorandum. The background material on the Japanese restrictive system is presented separately as Appendix 1 of this paper.

I. Economic Background

A rapidly expanding population, large dependence upon imports of food-stuffs and raw materials, domestic inflationary pressures resulting in high prices for her exports, and the necessity of expanding trade and invisible items in order to equilibrate foreign payments in the face of diminishing extraordinary exchange earnings are the main problems with which the Japanese economy is confronted today. Some of these serious problems can be ascribed to the adjustments involved in the process of reconstruction and rehabilitation following the devastation of the war. Others, however, are of a much deeper character and are intrinsic in the country's economic structure and the general conditions prevailing in the world of today.

For a better understanding and evaluation of Japan's present problems, it seems advisable to recount briefly the situation before 1952, beginning with the prewar period.

1. Prewar Developments and Their Relation to the Present Economic Situation

As a consequence of the war, Japan has lost 40 per cent of its prewar territory. In 1950, its population was 83.2 million which is equivalent to a density of about 3,596 persons per cultivated square mile, or more than twice as much as that of China (1,639) and the U.K. (1,763). The rate of increase in population has been estimated at about 1 million persons per annum. The pressure of its fast growing population led Japan during the decade of the 1930's to make extraordinary advances in developing its internal economy as well as its foreign trade, on which it depended heavily. In 1934-36, total foreign trade represented around 36 per cent of the national income. Japan imported around 10 per cent of the coal, 90 per cent of the crude oil, 40 per cent of the copper, 90 per cent of the lead, 60 to 70 per cent of the zinc, tin and aluminum, 100 per cent of the nickel and 15 per cent of the food grains consumed. The prewar overseas territories and the neighboring areas of continental and southeast Asia, constituted a basic and relatively near source of raw materials and foodstuffs with lower shipping charges. These areas also were among the main outlets for Japan's expanding export trade. Aside from the foodstuffs and raw materials which Japan proper obtained from Formosa, Korea, Kuantung and Karafuto, China supplied about all of the Japanese imports of soy beans, half of the salt, about 70 per cent of the coal, about 30 per cent of the iron ore, and similarly important proportions of other essential products. Manchukuo and British Malaya were the chief sources of imported iron ore; tin came from Malaya and China; antimony came also from China. It has been estimated that in the prewar years these areas absorbed around 60 per cent of Japanese exports and supplied about 40 per cent of its imports, and in January 1939 a four-year plan was announced to increase trade with the so-called "yen bloc" countries. An active merchant fleet, together with income from investments abroad and other invisibles, provided enough earnings to cover the trade deficit traditionally resulting from the heavy dependence on imports, so that the overall balance of payments over the years did not seem to have any intrinsic element of disequilibrium. In the decade of the 1930's Japan had overall balance of payments surpluses, accumulated reserves, and also exported capital.

The fact that the nearby areas supplied raw materials and also absorbed a large proportion of Japan's exports was one of the basic reasons for the development in the 1930's of a Japanese economy devoted largely to manufacturing. The population engaged in agriculture tended to decrease proportionately over the entire decade. By the end of the 1930's, Japan could meet most of the domestic demand for manufactured goods and equipment like railway equipment, automobiles, trucks, engines, etc., and Japanese export industries had obtained a sizable share of foreign markets by

producing at low prices and adopting for its products many of the characteristics of western manufactures. The production of steel, coal, machinery, electric power, aluminum, and chemicals developed greatly. Steel production rose from 2.3 million tons in 1932 to about 7 million tons in 1939. Coal production expanded by an estimated 70 per cent in the same period. Factors contributing to the country's industrial development were the degree of economic and political integration achieved with neighboring areas; the low-cost labor made possible, in part, by the agricultural crises of the 1930's; the ability to adopt many of the production methods of the western countries; the existence, at the same time, of small-scale producing units where overhead costs were kept to a minimum; and the existence of social and economic conditions conducive to the maintenance of low levels of consumption and to the creation of a sizable volume of domestic savings capable of sustaining a relatively high degree of capitalization. In 1934-36, private capital formation represented 21.4 per cent of GNP, with 19.7 per cent accounted for by industrial capital. In addition to these factors, the 1932 devaluation of the yen placed Japanese industry in a better competitive position in world markets; and in subsequent years, special forms of taxation and direct subsidization of some export industries permitted the country to compete actively in foreign markets to the point of arousing restrictive retaliatory measures by many importing countries.

Japan's industrial development passed through two different stages during the 1930's. Until 1936, the development was primarily in those fields in which increases in efficiency and productivity made possible a strong competitive position in the domestic as well as foreign markets. After that year, however, priority was given to the armaments program, which caused shortages in the domestic markets and strong inflationary forces that lowered the real consumption level of the Japanese; according to some estimates, that level declined in 1936 by about 20 per cent. The armaments program also demanded large imports of metals and other raw materials at higher costs which apparently worsened the terms of trade for Japan and further impaired its competitive ability in many lines. These developments resulted in changes in the structure of industrial production which tended to reduce the importance of textile and other consumers' goods manufacture and to increase the importance of the production of machinery and other heavy manufactures.

But even though in the later years of the prewar decade, the efficiency and healthy development of the Japanese economy was impaired to the point that there were no increases in real per capita income, by developing industry and trade on the basis of integrating the economy with that of the neighboring Asian regions, Japan sought a possible answer to the pressing problem of maintaining -- if not improving -- the standard of living of its fast-growing population. Political and strategic considerations impaired the most fruitful and advantageous implementation of these basic economic trends. But aside from these factors, economic developments during the 1930's have proven the ability of the country to generate the

volume of savings necessary to sustain and to expand production and income. However, the extent to which the striking growth of Japanese industry and trade was due to a depressed agricultural sector, relatively easy access to the raw materials of annexed territories, and subsidization of some industries is still to be determined.

2. Rapid Reconstruction after the War

The reconstruction and rehabilitation of the Japanese economy after the war are striking. In spite of the devastation of productive facilities, of the loss of 40 per cent of its territory (parts of which constituted important sources of supply of raw material imports), of the 6 million increase in population since 1946, and of the rupture of connections with nearby markets, Japan's production had been reconstructed by 1951 to the point of even surpassing the prewar levels. All this was accomplished in the midst of deep social and political changes, many of which touched heavily upon some of the factors which had made possible the development of a low cost production structure before the war.

After the cessation of hostilities in August 1945, the occupation authorities concerned themselves primarily with dismantling the remains of Japan's war economy and with providing the population, through U.S. aid, with the necessary foodstuffs and consumer goods. This period was characterized by severe inflation and almost chaotic conditions. The process of reconstruction began to take shape in 1947 and the pace at which the economy recovered was spectacular until 1951. Industrial production rose to a level four times that at the end of the war, national income doubled, and the quantity of exports rose tenfold.

The Japanese authorities attribute the rapid rehabilitation of the economy to both internal policies and international developments. The U.S. aid program played a central role by financing the balance of payments deficits. Until 1950, U.S. aid imports amounted to approximately \$2,100 million, or roughly 40 per cent of all imports; in 1947 alone, they were about 77 per cent of the year's total. These imports helped to relieve the acute food shortages which occurred before 1947; and in later years, they supplied Japan with the raw materials and equipment necessary to restore production. After U.S. aid imports terminated in 1951, they were replaced by a new source of exchange funds, namely, special procurement connected with the Korean effort and expenditures of military personnel stationed in Japan. As a result, Japan has had sizable balance of payments surpluses in recent years, and has accumulated reserves amounting to \$1,024.1 million at the end of May 1953.

Also of importance in the reconstruction process was the fact that certain productive facilities were susceptible to quick restoration with relatively minor investment. Textile manufacturing was the first industry to achieve full production, followed by metal manufacturing and chemicals.

Iron and steel production, which was heavily dependent upon ore and coking coal imports, as well as on domestic coal production, took longer to regain full strength. The lack of savings, and the consequent shortage of investment funds in the early postwar period, was overcome by the use of U.S. Aid Counterpart Funds as well as by the inflationary credit expansion of the Bank of Japan, which financed the operations of the Rehabilitation Finance Corporation, a governmental agency charged with long-term financing. These inflationary policies activated the domestic economy. The wholesale price index (base January 1948) rose from 56 in 1947 to 150 in 1948 and to 245 in 1949. In order to develop exports, multiple exchange rates were used.

In 1949, a strong stabilization program was inaugurated, providing for reduced government investment, increased taxes, balancing of the budget, curtailing credit expansion, and replacing the multiple exchange rate system with a single rate of ¥360 per dollar, which is the present parity. The inflationary credit policy of the Bank of Japan and of the Rehabilitation Finance Corporation stopped and the main source of investment funds came to be the Counterpart Funds, the savings accruing to several private and governmental financial institutions and concentrated in the Trust Fund Bureau (a government agency), and the ordinary government revenue diverted to the so-called Special Accounts. Voluntary savings, which had been reduced considerably from the prewar level, were to be stimulated, and an effort was to be made toward inducing corporations to rely on their own funds as the main source of capital accumulation. Also, the securities market was to be developed, and banks were to be cautious in their investment policies.

The immediate effect of the stabilization program was to stop the excessive expansion of money supply, which in 1949 increased by only ¥11.4 billion as against ¥123.4 billion in 1948. By March 1950, one year after the stabilization program had been put into effect, the first signs of a recession were felt; the index of manufacturing production was at the same level as in March 1949; inventories had begun to accumulate and prices were rising at a moderate pace. This deflationary trend might have had adverse consequences in some sectors of the economy if the Korean war had not acted as a strong stimulant.

The Korean boom gave the Japanese economy a new impetus to consolidate the gains achieved prior to 1950 under inflationary conditions. By 1951, the index of industrial production was 30 per cent above the 1934-36 average, while agricultural production had fully achieved the prewar level. National income rose from an average of ¥14.5 billion in 1934-36 to about ¥4,849 billion in 1951; in real terms, the increase was from ¥14.5 billion to ¥16.8 billion, or about 15 per cent, but on a per capita basis real income in 1951 was only 95 per cent of the 1934-36 average. The consumption level was only about 86 per cent of the prewar average. The recovery of foreign trade lagged much more, however, the volume of exports in 1951 being only 36 per cent of that in 1934-36 and the volume of imports only 50 per cent.

Table 1 - Japan - Recovery Levels of the Economy^{1/}

Base: 1934 - 1936 = 100

	1950	1951
Industrial production ^{2/}	105	131
Agricultural production ^{1/}	101	100
Export volume (total)	31	36
Special procurement ^{2/}	1	5
Import volume ^{2/}	32	49
Consumption level ^{1/}	82	86
Industrial Investment level ^{2/3/}	119	119
Real Income, per capita ^{1/}	86	93
Total population ^{2/}	120	122

1/ Calendar year

2/ Fiscal year (April-March)

3/ Estimate based on actual supply of industrial funds.

Source: Economic Survey of Japan, 1951-52; Economic Stabilization Board.

Because of the rise in international demand and prices, Japan increased her exports from \$509.7 million in 1949 to \$820.1 million in 1950 and to \$1,354.5 million in 1951. Imports lagged because of restrictions as well as on account of the lack of bank credits which continued restricted until September 1950. Thus, in 1950, imports amounted to \$974.3 million (as against \$904.8 million in 1949) but in 1951 they rose to \$2,217.4 million. The receipts on account of special procurement and expenditures of military personnel, which started in mid-1950, amounted to \$278 million that year and in 1951 they reached \$656.5 million. Thus, although Japan incurred in 1951 in its largest trade deficit (\$862.9 million) it also achieved its largest payments surplus (\$563 million).

II. Industrial Expansion in 1952 and 1953

This new expansionary period in the Japanese economy resulted in an investment boom. Gross private capital formation rose from 16.9 per cent of G.N.P in 1950 to 20.9 per cent in 1951; bank loans rose from ¥1,408.1 billion to ¥2,112.2 billion and the domestic wholesale price index (base April-June 1950 = 100) rose from 124.1 in December 1950 to 150.0 in June 1951 and to 155.5 in December 1951. Despite the fact that fiscal operations resulted in net absorption of funds from the public in 1951, money supply increased by ¥138.4 billion. Most of these domestic inflationary trends continued in 1952 despite the fact that the Korean boom was over and contributed to keep the economic activity at a high level. These developments have resulted in overinvestments in certain industries, in artificially high prices, and in the appearance of serious inflationary pressures that threaten the development of exports and the attainment of early payments equilibrium in the face of diminishing exports and extraordinary exchange earnings.

Japan continued to increase, rising by 14.2 per cent in 1952. The main reason for this continued improvement in the face of falling international demand and prices were the stimulus arising from the continuation throughout 1952 of the expansion in investments and productive capacity which began with the Korean war. To private investments, contributing primarily to the existing capacity of some industries and rationalization of others, government investments for the development of public services and such facilities as power were added. The financing of these investments was made in no small portion by governmental loans and by the extension of bank credits, which increased by 40 per cent in 1952. The corporation's own profits financed only 20 per cent of the industrial investments. The direction of the investments has not been well balanced and excess capacity has resulted in some fields such as textile and iron and steel production. These industries were forced to curtail their production when the reduction in the international demand was felt early in 1952 and reductions in output were made by other important industries in subsequent months. The financial policies of the government underwent a significant change. In 1951 they had largely contributed to offset the inflationary impact of the balance of payment surplus and of the credit policy of the Bank of Japan by absorbing funds from the public, while in 1952 fiscal transactions were "neutral" and in 1953 became expansionary. These developments have resulted in an expansion of 18 per cent of the money supply in 1952 and together with the increase in wages contributed to maintain at a high level the consumer demand. Japanese wholesale prices declined by only 1.7 per cent since December 1951 and by April 1953 they were 52.8 per cent higher than in June 1950, while the level of comparable indexes in the U.S. and in the U.K. was only 9.6 and 16.8 per cent higher than on that date.

In the first half of 1953, these problems have become more acute. Demand for Japanese exports has not increased and the excess capacity in many industries is more evident now than before. There is a recession in many branches of production. On the other hand, the plans for rationalizing

II. Internal Developments in 1952 and 1953

Even though the fast recovery of the Japanese production in the post-war years can be termed as remarkable, the country has not attained as yet equally striking degree of success in overcoming the fundamental structural weaknesses of her economy. Furthermore, the recovery process has generated certain distortions in the structure of production and has resulted in 1952 and 1953 in inflationary pressures which threaten the competitive position of Japanese exports in world markets. The domestic economy has not attained as yet the structure that may make it possible to achieve an adequate level of consumption and to generate enough savings so as to maintain an adequate rate of growth without recourse to inflationary financial policies.

These problems have forcefully come to the fore in 1952 and 1953. Despite the reduction in international demand and prices which began to be apparent since the middle of 1951, the index of industrial production in Japan continued to increase, rising by 14.2 per cent between March 1952 and March 1953. The main reason for this continued improvement in the face of falling international demand and prices were the stimulus arising from the continuation throughout 1952 of the expansion in investments and productive capacity which began with the Korean war. To private investments, consisting primarily of additions to the existing capacity of some industries and rationalization of others, government investments for the development of public services and such facilities as power were added. The financing of these investments was made in no small portion by governmental loans and by the extension of bank credits, which increased by 40 per cent in 1952. The corporation's own profits financed only 20 per cent of the industrial investments. The direction of the investments has not been well balanced and excess capacity has resulted in some fields such as textile and iron and steel production. These industries were forced to curtail their production when the reduction in the international demand was felt early in 1952 and reductions in output were made by other important industries in subsequent months. The financial policies of the government underwent a significant change. In 1951 they had largely contributed to offset the inflationary impact of the balance of payment surplus and of the credit policy of the Bank of Japan by absorbing funds from the public, while in 1952 fiscal transactions were "neutral" and in 1953 became expansionary. These developments have resulted in an expansion of 18 per cent of the money supply in 1952 and together with the increase in wages contributed to maintain at a high level the consumers' demand. Japanese wholesale prices declined by only 1.7 per cent since December 1951 and by April 1953 they were 52.8 per cent higher than in June 1950, while the level of comparable indexes in the U.S. and in the U.K. was only 9.6 and 16.8 per cent higher than on that date.

In the first half of 1953, these problems have become more acute. Demand for Japanese exports has not increased and the excess capacity in many industries is more evident now than before. There is a recession in many branches of production. On the other hand, the plans for rationalizing

production and for the attainment of a more balanced and efficient productive structure have to be carried on in order to correct the present distortions which are to a large extent responsible for the high costs of production of many industries. Lower costs will improve the competitive position of Japanese exports in world markets and will help to close the gap in the balance of payments. These policies require large investments, which the economy may not be prepared as yet to finance with its own savings, despite the efforts of the government to induce accumulation of voluntary savings and to promote self-financing by the corporations through tax reductions. Furthermore, the expansion of 49 per cent in the money supply and of 48 per cent in bank credit which has taken place since the end of 1950 makes it difficult to continue at this time expansionary financial policies without risking the country's domestic monetary stability. Thus, the financing of the investments required to rationalize domestic production, in the light of high domestic prices and of reduced foreign exchange earnings, offers the most immediate challenge to Japan.

1. Trends of Output and Prices

By the end of 1952, industrial activity was about 43 per cent above the prewar (1934-36) level while agricultural production had increased only 6 per cent over the prewar mark. Grains production (rice, wheat and barley) has increased by about 10 per cent over the prewar figure and forestry (lumber) production even more (about 18 per cent), but silk production has declined to be only 30 per cent of the 1934-36 average.

The Japanese authorities have expressed concern about the structure and direction of the industrial development. Until now, the emphasis has been placed primarily on the heavy and chemical industries, both of which have a high earning ratio in terms of foreign exchange. However, both industries have been able to expand because of the impetus arising from the high international demand and prices created by the Korean boom, and now both industries face serious competition in world markets. Furthermore, these industries consist of large corporations, many of which have not adopted as yet the efficient and modern methods of production of western countries, but which have to carry on substantial additional costs emerging from the social reforms dating from the occupation period, all of which contributes to create a high cost of production structure. In addition to this, the maintenance of a low rate of utilization of the industrial capacity contributes presently to high costs (Table 2). On the other hand, the lighter manufacturing industries and the smaller business concerns, which constituted in the prewar period one of the basic elements of the low cost of production structure of Japan, and which gave Japan a competitive advantage in world markets, have not developed sufficiently. For 1952, the index of capital goods production (1934-36=100) was 169.7 while the index of consumers' goods production was only 108.2.

The government believes that a rationalization of the industry is necessary and to this effect no new investments will be encouraged or financed unless they will tend to reduce cost and increase efficiency rather than to expand productive capacity. Simultaneously, investments in industries supplying raw materials and power to the industry as a whole will be encouraged. A typical example is the case of domestic coal production.

Table 2. Ratio of Output to Capacity in Selected Industries in Japan

	1950 ^{1/}	1951 ^{1/}	1952 ^{1/}
Pig iron	91.7	96.1	90.6
Steel ingot	79.8	87.2	83.5
Ammonium sulphate	75.3	67.8	74.3
Cotton, spinning	94.8	80.8	77.1

^{1/} End of fiscal year, that is, end of March of following calendar year.
Source: Ministry of Finance, Japan, based on data of MITI, ECB, and Cotton Spinners Association.

The Japanese authorities believe that the high industrial costs are largely due also to the abnormally high price of domestic coal. Since many basic industries depend upon domestic coal production, a lowering of coal prices through rationalization of the industry involving substantial investments is urgently needed. They have indicated, however, that if the extensive use of electric power made in 1952, instead of coal, continues, it may not help to reduce the cost of coal production. Because of the substitution of electric power, the coal industry was depressed in 1952 and was forced to accumulate inventories. The greater use of electricity was made possible in 1952 by heavy rainfall which permitted an expansion of output; but if increased electric power output is to be maintained in the future, substantial investment will also be required.

As to prices, the wholesale index remained almost stable in 1952 at the high level they attained in 1951. After the outbreak of the Korean war, Japanese prices advanced at a faster rate than prices in the United States and the United Kingdom; and the declining tendencies since the middle of July 1951 seem to have been more pronounced in the United States and the United Kingdom than in Japan. In fact, the Japanese price index seems to have shown again an upward tendency in the first quarter of 1953 (Table 3).

Table 3. Wholesale Price Indices for Japan, the United States, and the United Kingdom

	Japan ^{1/}			U.S. ^{2/}	U.K. ^{3/}
	Consumers' goods	Producers' goods	Combined index		
1950 June	100.7	100.2	100.5	100	100
Sept.	108.2	119.2	113.9	106.9	106.9
Dec.	111.4	135.9	124.1	111.9	111.5
1951 March	125.5	165.3	146.1	116.3	118.9
June	125.7	172.6	150.0	114.9	120.5
Sept.	132.0	174.5	154.0	113.2	116.9
Dec.	131.5	177.8	155.5	113.3	118.1
1952 March	127.8	178.9	154.1	112.1	118.9
June	130.0	172.0	151.8	111.0	118.5
Sept.	128.1	174.5	152.1	111.5	116.6
Dec.	125.7	171.6	149.5	109.5	116.7
1953 March	130.7	174.4	153.3	109.7	116.5
April	130.8	173.4	152.8	109.6	116.8

1/ Bank of Japan index of Tokyo wholesale prices of some 300 items based April-June 1950 = 100.

2/ U.S. Department of Labor figures converted to June 1950 basis.

3/ The Economist figures converted to June 27, 1950 basis.

Source: Ministry of Finance, Japan.

The increase in Japanese prices has been greater for producers' than for consumers' goods. Since the middle of 1951, the consumers' goods index has been about 30 per cent, and the producers' goods index about 75 per cent above the June 1950 level. Apparently the consumers' goods index has been influenced heavily by the stability in prices of foodstuffs and clothing, while the producers' goods index has been influenced first by the impact of rising prices of imported raw materials, as well as by the international demand for producers' goods, and later, when the international demand for producers' goods² by the domestic investment program receded,

The high domestic, and consequently the high export, prices are one of the main problems of Japanese industry and trade. This problem is discussed quite fully in Section IV (The Restrictive System). It is sufficient here to say that the future of Japan's price level depends, to a great extent, not only upon the prices of raw material imports and the substitution of domestic for imported raw materials, but also upon the lowering of domestic costs and the reduction of domestic inflationary pressures by means of a more judicious domestic investment policy in both

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the private and government sectors. However, the plans for rationalization of the industry indicate that investments this year may continue to exert some pressure on the production level which, in turn, may contribute toward maintaining the present relatively high price level.

2. Income and Investment

Japan's national income increased from 3,683.7 billion yen in 1950 to 4,849.4 billion in 1951 (Table 4). Judging by the production trends, the increase in 1952 must have been less substantial. Per capita real income rose from 187 yen in 1950 to 199 in 1951, an increase of 6.4 per cent. Since the population increased in 1952 while the rate of expansion in production slowed down somewhat and prices remained almost constant, the per capita figure for 1952 may well be lower than that for 1951.

Table 4. Real National Income of Japan

	1934-36 Average	1950	1951
National income (billion yen)	14.5	3,683.7	4,849.4
Population (1,000 persons)	68,644	83,167	84,550
National income per capita (yen)	211	44,293	57,355
Deflator	1.0	237	288
Real income (billion yen)	14.5	15.5	16.8
Real income per capita (yen)	211	187	199

Source: Ministry of Finance, Japan.

Per capita real income in 1951 was 94 per cent of the 1934-36 average of 211 yen, while real individual consumption in 1951 was 86.5 per cent of the prewar level. This indicates that a large share of total income was devoted to investment: in 1951, savings represented 34 per cent of income, against 23 per cent in 1934-36. For 1952, the proportion may possibly be lower, reflecting a decline in corporate profits; the ratio of earnings to capital declined from 10.35 per cent in 1951 to 4.45 per cent in 1952; and the ratio of earnings to sales dropped from 5.07 per cent to 2.42 per cent.

Aside from the traditional thriftiness of the Japanese people, important elements in the high savings ratio are the high ratio of total taxes to national income and the tax policies of the Government. In the fiscal year 1951 (April 1951-March 1952), total taxes represented about 21.2 per cent of national income, and in fiscal 1952 the proportion declined to 20.7 per cent; for fiscal 1953 it is estimated at about 20 per

cent. Taxes and other public levies represented 8.9 per cent of the worker's income in 1952, against 0.6 per cent in 1935. Voluntary savings do not seem to have increased in the postwar years to the level and proportions of the prewar period, and the corporations are still relying heavily on borrowed funds to increase their capitalization.

Table 5. Private Gross Capital Formation in Japan
as a Percentage of Gross National Product

	1934-36	1949	1950	1951	1952
Gross national product	100	100	100	100	100
Private capital formation	21.4	12.0	16.9	20.9	21.3
Housing	1.7	1.1	1.4	1.6	2.8
Industrial capital	19.7	10.9	15.5	19.3	18.5
Equipment	11.0	4.1	6.6	8.1	7.6
Inventories	8.7	6.8	8.9	11.2	10.9

Source: Ministry of Finance, Japan.

Since 1949, the rate of private capital formation has increased substantially, and in 1952 it was approaching the prewar level of 21.4 per cent (Table 5). The proportion of investment in private housing rose in 1952, while capitalization in the form of industrial equipment and inventories, which were the main reasons for the substantial increase in 1951, tended to slow down.

3. Source of Investment Funds

The Government plays, in Japan, an important role in supplying investment funds to the industry, agriculture and to financial institutions. From the total revenue of the General Account (about ¥850 billion a year or \$2.6 billion) a portion is devoted to public works and other expenditures and the rest is devoted to finance investments through the so-called "Special Accounts". Thus, part of ordinary taxes may be used for investment purposes. In addition, the Government has managed until October 1952 the U.S. Aid Counterpart Account, whose assets at the end of March 1953 amounted to \$375.6 billion (\$765.5 million). This account is now entrusted to the Development Bank, an official agency which may also receive governmental funds but whose main source of funds will be the securities market.

The Postal Savings funds, some funds from insurance companies and also resources from official accounts and private sources are entrusted to the Trust Fund Bureau, a governmental agency which is charged with channeling these funds either directly through loans to local governments or industries or through the subscription of debentures and bonds issued by the government-owned banks or by private long-term banks. The assets of the Trust Fund Bureau amounted to ¥627 billion (\$1.5 billion) by March 1953.

The above figures, which do not include other governmental financial agencies and accounts, give an idea of the importance of the fiscal operations in connection with the supply of funds to the industry and agriculture as well as with the stability of the money market. Although the analysis of the fiscal operations in Japan becomes complicated because of the duality of the governmental budget, the authorities provide data on the net monetary effect of all governmental transactions with the public and its relationship with the expansion or contraction of the currency issue of the Bank of Japan. These figures are analyzed later on. Additional data indicating the effect of governmental transactions in supplying or withdrawing funds from the banking system is not available.

The most important source of investment funds in Japan has been the commercial banking system, which has received the full pressure of a heavy demand for loans because the government operations, although very important in magnitude, had resulted until recently in absorption of funds and also because of the lack of institutions specially suited for long-term financing. The private corporations have not provided for their own financing on sufficient scale, neither have found it feasible to recourse to the bond market to obtain long-term funds.

The Japanese Government has estimated that the total amount of industrial funds available to industry for investment purposes in 1952 was ¥1,369.6 billion. The 1952 increase of ¥268 billion (or 24 per cent) over 1951 (Table 6) was about ¥50 billion smaller than the expansion of 1951, and was due entirely to larger funds obtained from external sources, among which loans from private financial institutions were the most important (an increase of ¥259 billion). Corporations' own funds declined in 1952 by ¥38 billion.

A comparison of the figures for 1952 and those estimated for the period 1934-36 (Table 6) shows clearly that in the postwar period the capitalization of corporations has been primarily through borrowing from banks and financial institutions and through government loans rather than through the use of retained profits or their own earnings. The impact of these developments on the structure of the banks' portfolios, as well as on the banking situation, is an important feature of Japan's financial position in the postwar period. The Japanese authorities attribute the reliance of corporations on borrowed funds to their low level of earnings in the early postwar years, as well as to the low level of assets, which did not make it possible for the corporations to avail themselves of the

depreciation allowances which the tax laws have granted to industrial enterprises. Furthermore, the corporations have not succeeded in placing a substantial portion of their shares and bonds on the market, since the relatively low level of private voluntary savings has prevented development of the absorption capacity of the securities market. As a result, commercial banks have had to supply funds more and more to business enterprises, and the banks, in turn, have had to increase their indebtedness to the Bank of Japan since their deposits and capital have not increased in the same proportion as the demand for funds. From the corporation's standpoint, the reliance on borrowed funds tends to increase their cost of production because of the high interest rates prevailing in Japan. The maximum rate chargeable by commercial banks on commercial bills is 7.67 per cent, while the comparable rate in the United States is 2.31 per cent and in the United Kingdom 3 per cent.

Table 6. Supply of Industrial Capital in Japan

(In billions of yen)

	1934-36		1950		1951		1952	
	Amount	%	Amount	%	Amount	%	Amount	%
<u>Total</u>	1,745	100	783.6	100	1,101.3	100	1,369.6	100
Internal sources	508	30	135.2	17	310.0	28	272.0	20
Retained profits	508	30	84.0	10	179.0	16	156.0	11
Depreciation			51.2	7	131.0	12	116.0	9
External sources	1,237	70	648.4	83	791.3	72	1,097.6	80
<u>Government funds</u>	15	1	17.5	2	75.4	7	122.7	9
Reconversion Bank			-12.1	-2	-11.0	-1	--	--
US aid counterpart fund			28.6	3	48.3	4	31.6	2
Development Bank			--	--	20.2	2	37.6	3
Eximbank of Japan			1.0	--	5.9	1	8.0	--
Agricultural Bank			--	--	12.0	1	20.5	1
Other			--	--	--	--	25.0	2
<u>Private funds</u>								
Loans of fin. inst.	1,222	69	630.9	80	715.9	65	974.9	70
Shares, bonds & trusts	99	5.7	76.6	10	100.8	10	162.0	10
Loans, Foreign Exch. Fund			147.3	19	-88.1	-8	11.0	1

Source: Ministry of Finance, Japan.

4. The Impact of the Government and Banking Operations on the Money Supply

The expansion in bank credit was one of the main elements that made possible the increase in capitalization and production in 1951 and 1952. Total bank loans increased by 52.7 per cent (¥523 billion) in 1951 and by 40.2 per cent (¥610.2 billion) in 1952. In 1951 particularly, the credit

expansion was larger than the increase in deposits, and the Japanese banking system continued the trend toward "overlending" that had been noticeable in early postwar years. The ratio of total loans to total general deposits, which had increased from 87 per cent in 1948 to 108.8 per cent in 1950, rose to 112.6 in 1951. Although in 1952 total bank deposits rose more than in 1951, loans were still above deposits and the ratio declined only slightly to 105.5 per cent.

The expansion of the money supply also has been substantial: ¥138.4 billion (26.2 per cent) in 1951 and ¥122.0 billion (18.3 per cent) in 1952 (Table 7). By the end of February 1953, there was a small decline from the December 1952 level, probably because of seasonal factors. However, the rate of increase showed signs of slowing down.

Table 7. Money Supply ("cash and deposit currency") in Japan

(In billions of yen)

End of	Deposits ^{1/}	Currency ^{2/}	Total
1947	42.8	210.4	253.2
1948	83.7	332.9	416.6
1949	98.1	329.9	428.0
1950	128.4	400.8	529.2
1951	185.4	482.2	667.6
1952	248.8	540.8	789.6
Feb. 1952	173.3	422.8	596.1
" 1953	214.5	477.6	692.2
<u>Increase over previous year</u>			
1950	30.3	70.9	101.2
%	30.9%	21.5%	23.6%
1951	57.0	81.4	138.4
%	44.4%	20.3%	26.2%
1952	63.4	58.6	122.0
%	34.2%	12.2%	18.3%
Feb. 1953	41.2	54.8	96.1
%	23.8%	13.0%	16.1%

^{1/} Current deposits less bank holdings of checks and bills.

^{2/} Currency issue less currency holdings of financial institutions.

Source: Ministry of Finance, based on figures from the Bank of Japan.

The expansion in 1951 was due largely to an increase of ¥81.4 billion in currency in circulation; bank deposits increased by only ¥57.0 billion. In 1952, however, the opposite was true, bank deposits accounting for over half (¥63.4 billion) of the total expansion.

The movements of currency in circulation corresponds roughly to the changes in the total note issue of the Bank of Japan, which increased by ¥58.4 billion in 1952, compared with ¥61.3 billion in 1951 (Table 8). But, while the increase in 1952 was less than in 1951, it reflects a change in the anti-inflationary character of government operations. In 1951, government transactions absorbed ¥21.2 billion and partly counteracted the large increase of ¥99.9 billion in loans of the Bank of Japan, whereas in 1952 the loans of the Bank of Japan increased by ¥63.4 billion and was almost fully reflected in the increase of ¥58.4 billion in the note issue. In the first four months of 1953, there was a contraction in the lending policies of the Bank of Japan (loans of the Bank of Japan declining by ¥14.2 billion) and an expansion (or ¥15.9 billion) in government operations, so that the net effect was an increase of ¥1.7 billion in the total note issue.

Table 8. Factors Affecting the Currency Issue in Japan^{1/}
(In billions of yen)

	Fiscal year 1950	Fiscal year 1951	Fiscal year 1952	April 1953
I - <u>Govt. operations</u>	¥46.0	-21.2	- 0.4	¥15.9
II - <u>Bank of Japan</u>	¥39.0	¥82.5	¥58.8	-14.2
Loans to banks	¥19.1	¥99.9	¥63.4	-18.5
Purchase or sale of bonds	¥24.0	- 0.3	- 1.0	¥ 6.7
Bank deposits	- 7.5	¥ 2.6	- 0.9	- 1.3
Others	¥ 3.4	-19.7	- 2.7	-10.3
III - <u>Increase or decrease of bank notes</u>	¥85.0	¥61.3	¥58.4	¥ 1.7
IV - <u>Bank note issue</u>	396.3	457.6	516.0	517.7

^{1/} A minus sign (-) indicates funds absorbed, and a plus sign (¥) funds released. Fiscal years are those beginning in April of the year indicated.

Source: Ministry of Finance, Japan.

Aside from the lending operations already mentioned, Government operations in Japan include the purchase and sale of exchange by the banking system on government account by using special funds shifted to a Special Account from the Government's General Account (revenue). This fact gives special relevance to the anti-inflationary impact of government operations in 1951 and 1952, at a time when foreign exchange reserves were increasing very rapidly, and also explains the magnitude of the excess disbursements in 1953, which has more than offset the absorption of yen funds from the public resulting from the decline in reserves in the first months of 1953.

5. Fiscal and Monetary Policies in 1953-54

For the fiscal year April 1953-March 1954 the Japanese authorities expect that fiscal transactions with the public will result in net disbursement of funds, thus continuing the trend observed since the middle of 1952. The General Account (ordinary) Budget contemplates expenditures of ¥968.2 billion (an increase of ¥35.8 billion over the 1952-53 budget) while, on the other hand, revenue from taxation will decline by about ¥102 billion from the actual amounts collected in the last fiscal year. To cover the deficit the government will resort to using past surpluses as well as to the issuance of Special Tax Reduction National Bonds and debentures.

The increase in General Account expenditures is the result of a new financial policy of the government tending towards increase in so-called expenditures of constructive nature, that is mainly investments in public works, housing, and agricultural development, all of which are financed primarily with funds from the General Account. Expenditures of "consumptive nature" are reduced and also national defense expenditures are curtailed by ¥48 billion. The new policy towards increasing loans and investments out of government funds will also apply to the Trust Fund Bureau operations as well as those of the Special Accounts. To finance the additional disbursements the government will resort to the increase in savings deposits accruing to these institutions as well as to the issuance of bonds and debentures. The Government expects that the absorption capacity of the market will increase in 1953-54 due primarily to the tax reductions and to lesser demand of loanable funds from the part of corporations, which are expected to rely more on self financing.

The tax reduction plan is aimed at facilitating the accumulation of voluntary savings and also at permitting the corporations to apply larger depreciation allowances so as to foster self financing. Personal exemptions and dependent credits are increased in the personal income taxes and a chance will be given to the corporations to effect a revaluation of their assets, the third since 1949. The Special Tax Reduction Bonds, to be issued in the amount of ¥20 billion, are also intended to serve as incentive for savings. Corporations and individuals can deduct up to 20 per cent and 25 per cent, respectively, of the amount invested in these bonds from their yearly tax bill, provided the total deductions will not exceed 20 per cent of the total tax due.

Whether these policies will in fact help to increase the amount of voluntary savings so that the expansion in investments could be made without resorting to inflationary financing is hard to anticipate. They will tend, however, to restore a more flexible functioning to the money market since the pressure upon commercial banks for long-term financing may be shifted to the specialized institutions dealing in long-term credits. It is hard to anticipate whether the proposed reductions in personal taxes will not result in increase of consumption expenditures rather than in additional voluntary savings. If the bond market plus the savings deposits do not receive an additional volume of funds capable of absorbing the debentures and bonds to be issued to finance part of the increase in expenditures, the policies may result in additional inflationary pressure over the economy.

The banking policies, on the other hand, will have a significant role to play in this connection. The Governor of the Bank of Japan, in recent declarations, has announced the intention of pursuing cautious credit policies in view of the prospective inflationary impact of the fiscal transactions, and insisting on the full compliance with the past recommendations in regard to credit policy. The extent to which these policies will be successful is also hard to anticipate, particularly in view of the expansion in bank loans which has occurred despite the recommendations. Japanese banks are not required to maintain minimum reserves against deposits. Thus, the main instruments used by the Bank of Japan and the Government to influence bank lending policies are persuasion, general directives, changes in the interest (rediscount) rates of the Bank of Japan, and establishment of criteria of eligibility for the different kinds of rediscountable paper that the Bank of Japan can accept from the banks. There is a Voluntary Credit Control Committee, composed of representatives of the commercial banks, which is charged with coordinating the lending policies of the banks and of the Government, and with implementing the credit policy directives issued since 1951 by the Ministry of Finance, which are still in effect.

The Government recommended on July 5, 1951 that the banking system cooperate with the Government in channeling credit toward the most important industries and essential small business enterprises. Among the industries considered as having priority for obtaining loans were electric power, shipping, coal, iron and steel, nonferrous metals, chemicals, and textiles. The July circular to the banks was followed by another directive in September 1951 requesting the banks to take special caution in advancing funds for financing industrial equipment, and recommending that equipment loans should be made only for increasing electric power resources, for shipping, and for the rationalization of coal and of iron and steel production. In March 1953 a new circular was issued by the Ministry of Finance, again recommending restraint in the credit policies of the banks. This was followed by a circular of the Voluntary Credit Control Committee, urging the cooperation of banks in restricting nonessential or less urgent loans.

In 1952 the Bank of Japan took various measures to improve the accumulation of funds in banks, one of the most important being the restoration of "anonymous deposits".^{1/} Financial institutions also intensified their efforts to collect funds through savings campaigns. Furthermore, in 1952 the Bank of Japan facilitated the absorption by the market of bonds issued by the Long-Term Credit Bank by declaring these securities eligible for collateral against loans by the Bank of Japan to the city banks and also undertook to facilitate the financing by banks of smaller enterprises which have been experiencing a shortage of funds. These same policies will be carried on in the future, and are likely to reduce the reliance of private banks upon the credit of the Bank of Japan, particularly since the bulk of the long-term financing may be made in the year 1953-54 by the government agencies and by the Long-Term Bank. On the other hand, the facilities afforded by the city banks to the use of long-term debentures as collateral for loans in the Bank of Japan may result in the Bank of Japan absorbing the securities intended for the bond market.

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^{1/} Deposits which do not require the depositors to report to the taxation office. *Is this a good idea?*

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111. Balance of Payments and Reserve Position

1. Comparison of Prewar and Postwar Foreign Trade

The loss of territory after the war has increased Japan's need for importing foodstuffs; the severance of trade and political communications with Southeast Asia and the neighboring countries has caused it to shift to the dollar area for its imports, while high export prices as well as competition in foreign markets has reduced the demand for some of Japan's traditional exports such as silk and textiles. Thus, Japan's trade deficit has widened in the postwar years, particularly with the dollar area, while her normal invisible earnings have declined considerably, due primarily to the loss of overseas investments and to the reduction of her merchant fleet, which in 1953 amounted to 2 million gross tons as against 4.6 million gross tons in 1940.

In contrast to the extraordinary development of the domestic industry in the postwar period, Japan's foreign trade has not yet become as important as it was in 1934-36 insofar as its absolute volume or its relationship with national income is concerned. By 1952, the quantity of exports and of imports was approximately 31 per cent and 54 per cent respectively, of the prewar (1934-36) level, and total trade amounted to only 22 per cent of total national income, against 36 per cent in the prewar base period.

Important changes have also occurred in the composition of trade and in the distribution of imports and exports by areas. In 1952, foodstuffs accounted for about 31 per cent of total imports, against 23 per cent in the prewar base period (Table 9). Foodstuffs and raw cotton imports accounted for more than half of all imports in 1952. There were also significant increases in imports of iron ore, coal, raw wool, and rubber, the first two indicating the postwar emphasis on the development of heavy metallurgical industries (whereas in prewar years the emphasis had been on textile manufacturing) and also the increased dependence on coal and iron ore imports. On the export side, textiles declined from 52.2 per cent of total exports in 1934-36 to 37 per cent in 1952, reflecting the reduction of raw silk and silk textile exports, as well as of cotton textiles. The importance of exports of metal products and machinery, on the other hand, has increased substantially.

Table 9 Percentage Composition of Japan's Foreign Trade

	1934-36 Average	1952
Imports	100.0	100.0
Foodstuffs	23.3	31.3
Raw cotton	23.6	22.2
Raw wool	5.9	7.9
Iron ore	1.1	4.7
Coal	1.7	4.1
Machinery	4.7	3.5
Petroleum & oil	3.2	2.9
Rubber	1.9	2.6
Fertilizers	2.5	1.3
Others	32.1	19.5
Exports	100.0	100.0
Textiles	52.2	37.0
Metals & metal products	8.2	28.0
Machinery	7.1	10.9
Foodstuffs	9.5	7.7
Pottery products	3.0	4.4
Others	20.0	12.0

Source: Ministry of Finance, Japan

Simultaneously with the changes in the composition of imports and exports, there have been significant shifts in the origin and destination of imports and exports by settlement areas. The decline in exports of raw silk to the United States, and also the decline in trade with China, Manchuria, and Kuantung, has been primarily responsible for the reduction, during the postwar years, of the importance of export trade with the dollar area; in 1952 such trade accounted for only 23.4 per cent of all exports, against 41.8 per cent in 1934-36. (Table 10) On the other hand, imports from the dollar area --and principally from the United States-- have increased significantly; in 1952 they constituted almost 59 per cent of the total, compared with 42.8 per cent in the prewar period. This change was due primarily to large imports of cotton, coal, and iron ore from the United States, and reductions in imports of cotton from India, coal from China, and iron ore from Korea. Aside from the monetary implications of these changes in the sources of supply of the principal raw material imports, the increase in cost owing to the higher transportation charges for shipments from the United States, compared with shipments from neighboring Asiatic countries, has an important bearing on the present difficult competitive position of Japanese trade.

In trade with the sterling area countries, Japanese exports --primarily machinery, metals and metal products-- have increased significantly since the war, while imports have tended to remain relatively stationary or to increase at much slower pace. This trend was particularly significant in 1950 and 1951 and was responsible for the large Japanese surplus in trade with the sterling area.

Table 10 Percentage Distribution of Japan's Foreign Trade, by Settlement Areas

	1934-36 Average	1952
Exports	100.0	100.0
Dollar area	41.8	23.4
Sterling area	22.1	45.2
Open Acct. area	35.3	31.4
Other areas	0.8	--
Imports	100.0	100.0
Dollar area	42.8	58.7
Sterling area	22.5	23.1
Open Acct. area	33.9	18.2

Source: Ministry of Finance, Japan.

2. Recent Changes in Foreign Trade

The improvement in demand and prices brought about by the Korean war caused Japanese exports in 1950 and in 1951 to increase 41 per cent and 53 per cent, respectively, over the previous years. The increase in imports in the same period was 8 and 127 per cent, respectively. In 1952, however, trade tended to decline: exports fell by 6 per cent and imports by 9 per cent. The striking increase in imports in 1951 brought the trade deficit to \$862.9 million and in 1952 it was reduced to \$755.3 million.

Table 11 Japan - Imports and Exports
(millions of \$)

	Exports	Imports			Trade Deficit
		Total	American Aid	Commercial	
1947	173.6	523.5	404.4	119.1	350.0
1948	258.3	684.2	461.0	223.2	425.9
1949	509.7	904.8	534.7	370.1	395.1
1950	820.1	974.3	361.3	613.0	154.3
1951	1,354.5	2,217.4	180.3	2,037.0	862.9
1952	1,272.9	2,028.2	5.4	2,022.8	755.3

Source: Ministry of Finance, Japan.

The above figures correspond to imports and exports as per date of license and, therefore, their movements are not reflected immediately in the statistics on export receipts and import payments. The latter (table) show a smaller decline in the 1952 figures over 1951. For the first five months of 1953 export receipts continued to decrease, the monthly average for January-May 1953 being about 13 per cent below the monthly average for the same period in 1952. Import payments, on the other hand, picked up, and the monthly average for January-May 1953 was about 18 per cent higher than that for the period January-June 1952, and about 20 per cent higher than the average for the second half of 1952.

(a) Exports to sterling and open account areas

The changes in trade since 1950, and particularly in 1952 and 1953, have made more acute the bilateral disequilibrium in the trade and payments of Japan with the three "settlement areas" --the dollar area, sterling area and the open account area. 1/ The extraordinary increase in exports in 1950 and 1951 was largely the result of increased exports to the sterling and open account areas. While total exports increased by \$524 million between 1950 and 1951, those to the dollar area declined by \$62 million, those to the sterling area increased by \$336 million (more than doubled), and those to the open account area increased by about \$250 million (Table 12). On the import side, however, the shift was in the opposite direction: of the increase of \$1,080 million (more than 100 per cent) in total imports in 1951, \$695 million were imports from the dollar area, and only \$229 million imports from the sterling area and \$156 million imports from the open account area. The increases in imports from all areas were substantial, however; those from the dollar area rose by more than 115 per cent, those from the sterling area by about 110 per cent, and those from the open account area by approximately 90 per cent.

Table Japan's Export Receipts and Import Payments by Settlement Areas
(in millions of U.S. dollars)

Cal. Year	Total		Dollar Area		Sterling Area		Open Acct. Area	
	Exports	Imports	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
1950	773	645	364	284	226	200	182	160
1951	1297	1725	302	979	562	429	432	316
1952	1289	1718	395	954	596	532	296	230
1953 1/	557	1050	264	476	151	363	143	211
Changes:								
1951 over 50	±524	±1080	-62	±695	±336	±229	±250	±156
1952 over 51	-8	-7	±93	±25	±34	±103	-136	-86
1953 over 52 1/	-175	±227	±82	±6	-61	±117	±12	±86

1/ January-June

Source: Ministry of Finance, Japan.

1/ Open account area embraces transactions with countries with which Japan has payment agreements.

In 1952 and in the first five months of 1953, the dominant feature was the reduction in exports. In 1952 exports to the open account area fell by \$136 million, and the rate of increase for exports to the sterling area fell considerably. On the other hand, dollar area exports, after the decline in 1951, expanded by about \$93 million. As for imports, those from the dollar area and from the open account area, declined while those from the sterling area expanded by more than the increase in sterling area exports. Thus, dollar area trade tended toward a smaller deficit through an increase in exports, while sterling area trade tended to level off through a decline in the rate of growth of exports and an increase of imports. The trend toward an increase of dollar exports and a decrease of sterling exports has continued in the first five months of 1953, but the overall deficit has tended to increase from \$91 million to \$493 million. These factors are primarily responsible for the pressures which have developed in the Japanese balance of payments in the first half of 1953.

3. Financing of the Balance of Payments Deficit

The intrinsic weakness of the postwar balance of payments of Japan is shown in Table 13. Out of total payments amounting to \$8.4 billion from 1945 to 1952, only \$5.5 billion have been covered with normal or ordinary receipts. The remainder, plus the reserve accumulation of about \$1.0 billion in May 1953 were covered by U.S. aid imports and other forms of relief, by special receipts from expenditures by U.S. and U.N. forces, stationed in Japan and by expenditures of allied forces in connection with the Korean war. Without these extraordinary resources Japan's economy could not possibly have recovered to the present levels.

Between the end of the war and March 1953 (the end of the fiscal year 1952), Japan's payments for imports and invisibles exceeded receipts by \$2,871 million (Table 13). Of this sum, the trade deficit accounted for \$2,781 million. The amount of the extraordinary financing received during that period amounted to \$4,016 million, so that there was an excess, after errors and omissions, of \$1,061.1 million, which is roughly equivalent to the reserves at the end of May 1953.

The extraordinary financing was composed of the following items:

Aid imports	\$2,087
Special procurement and U.N. expenditures	1,736
Receipts from GARIOA <u>1/</u>	193
	<hr/>
Total	\$4,016

1/ Government And Relief In Occupied Areas

Table 13 Receipts and Payments of Foreign Currency in Japan Since
the End of the War
(millions of dollars)

Fiscal Year	1945-46	1947	1948	1949	1950	1951	1952	Cumulative Total
1. Receipts								
Export	129.9	180.1	343.7	534.7	920.0	1404.9	1168.5	4681.8
Invisible	2.5	8.0	35.9	91.0	77.3	222.4	137.3	574.4
Borrowing from the occu- pied Japan Ex.-Im. Revolving Fund, etc.	<u>126.5</u>	<u>59.5</u>	<u>36.1</u>	<u>54.4</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>276.5</u>
Total	258.9	247.6	415.7	680.1	997.3	1627.3	1305.8	5532.7
2. Payments								
Import (incl. aid import)	381.8	640.3	718.3	916.3	1255.8	1759.3	1791.3	7463.1
Invisible	--	--	--	--	55.0	185.5	223.9	464.4
Repayment to the Occu- pied Japan Ex.-Im. Revolving Fund, etc.	23.0	92.5	77.9	64.5	73.7	--	--	331.6
Others (Adj. items)	<u>40.1</u>	<u>11.8</u>	<u>5.9</u>	<u>43.4</u>	<u>43.3</u>	<u>--</u>	<u>--</u>	<u>144.5</u>
Total	444.9	744.6	802.1	1024.2	1427.8	1944.8	2015.2	8403.6
3. Difference (1 - 2)	-186.0	-497.0	-386.4	-344.1	-430.5	-317.5	-709.4	-2870.9
4. Financing								
The amount of aid imp. Sp. procurement demand and consmpt. by stationed forces	247.1	476.5	473.8	494.3	292.8	100.7	1.8	2087.0
Receipts from GARIOA Fund	--	--	--	--	278.0	656.5	801.3	1735.8
Total	<u>247.1</u>	<u>476.5</u>	<u>473.8</u>	<u>494.3</u>	<u>639.5</u>	<u>881.4</u>	<u>803.1</u>	<u>4015.7</u>
5. Net Total (3-4)	61.1	20.5	87.4	150.2	209.0	563.9	93.7	
Adjustments				+ 6.0	- 0.4	+ 24.6	+ 65.7	
Cumulative Total (Reserves)	61.1	40.6	128.0	284.2	492.8	1032.1	1060.1	

Source: Japan, Consultations Document JC53/ER2.

The U.S. aid imports were granted primarily in the years prior to June 1950. Special procurement and expenditures by military personnel stationed in Japan started in mid-1950 on account of the Korean war, and accounted for additional exchange earnings of \$278 million in the fiscal year 1950, \$657 million in fiscal year 1951, and \$801 million in fiscal 1952; they were the main factors in the favorable overall balance of payments attained by Japan in those years.

Special procurement consists of official purchases by U.N. and U.S. forces of goods and services, mostly in dollars, while expenditures of military personnel are primarily private disbursements of U.N. and U.S. forces stationed in Japan or passing through that country to and from Korea. From June 1950 and to April 1953, the contracts covering the former amounted to \$1,277 million, of which \$1,151 million was on a dollar basis, that is, representing dollar expenditures; about 69 per cent of the contracts were for goods, and 31 per cent for services.

The Japanese authorities estimate that, for the year 1953, the earnings on account of special procurement and of expenditures of military personnel will not decline substantially --by more than \$100 million or so -- even in the face of the Korean truce. The amounts already contracted plus the planned expenditures for the rest of the year seem to warrant this estimate. However, special procurement is an extraordinary source of exchange income, in the years to come it will disappear and it cannot be easily replaced by increases in ordinary exports. Thus, the Japanese authorities are seriously concerned about the effects of the eventual discontinuation of this item which had provided Japan with more than \$1,525 million up to the end of 1952. In 1952, the amount received by Japan through special procurement was equivalent to 41.5 per cent of total ordinary exports and to 17.4 per cent of all foreign exchange earnings. The proportions increase (to 62.6 per cent and to 36 per cent, respectively) if the comparison includes also the receipts from expenditures of military personnel.

In fiscal 1951, largely because of the increase in exports following the Korean war, the excess of payments was at the lowest level, amounting to \$318 million against \$431 million in the previous fiscal year. Special procurement and the expenditures of U.N. forces in fiscal 1951 amounted to \$657 million and, together with aid imports and receipts from the GARIOA fund, increased the amount of extraordinary financing to \$881 million. Therefore, in that year Japan had the largest surplus (\$563 million) of any year in the postwar period. Total reserves increased from \$493 million to \$1,032 million. In fiscal 1952 (April 1952-March 1953), the situation changed and the surplus was only \$94 million, although special financing totaled \$803 million. The trade deficit increased to \$709 million, from \$318 million in the preceding year, primarily because of a decline in receipts from exports (from \$1,405 million to \$1,169); receipts from invisibles fell by \$85 million, and payments for imports and invisibles increased by \$70 million. Thus, in the fiscal year 1952, the international current account transactions of Japan showed the smallest postwar surplus, only \$94 million, against \$564 million, \$209 million, and \$150 million in the fiscal years 1951, 1950, and 1949, respectively.

4. Capital Movements

The figures on inflow and outflow of capital are not given separately in the foreign exchange statistics and therefore they are not altogether clear. According to an estimate by the Ministry of Finance of Japan, receipts for capital transactions amounted to \$41.5 million in 1951 and to \$78.8 million in 1952, while payments reached \$9.7 million in 1951 and \$118.2 million in 1952. The latter figure includes payments to the Fund and to the IERD in the amount of \$112 million. Thus, excluding this amount, in 1952 Japan seems to have had a net capital inflow of \$151.4 million, which is considerably higher than the figure of \$31.8 million in 1951.

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It seems that most foreign investments have been made under the strength of the Foreign Investments Law passed in 1950 and revised in 1951 and 1952, and have primarily taken the form of purchasing of shares in Japanese corporations as well as providing for technical assistance and know-how through the so-called "technological assistance contracts". Most of these arrangements have been completed with Japanese firms and they do not represent, in the main, substantial receipts of foreign exchange for Japan. As to Japan's investments abroad, on various occasions it has been reported that plans have been drawn for developing production of raw materials in Southeast Asia by Japanese firms, and it is known that Japanese firms have invested in the developing of iron ore mines in Portuguese Goa and in Malaya as well as in the exploitation of asbestos and manganese in Indonesia. Other similar plans seem to be under discussion. As to payments of reparations, negotiations are still being carried on by Japan with Indonesia and the Philippines, and it is known that the claims are considerable. However, under the terms of the Peace Treaty the payments should take primarily the form of making available the services of the Japanese people in production, salvaging and other work for the Allied Powers in question, and will not throw any foreign exchange burden upon Japan.

5. Receipts and Payments by Areas

Despite the increase in exports to non-dollar areas since the Korean war, Japan's trade continues seriously unbalanced; in 1952, about 53 of all import payments were to the dollar area, while dollar area export receipts accounted for only 29 per cent of the total. This distortion is not reflected in the composition of reserves because the bulk of special financing has been in terms of dollars and, therefore, dollar holdings constitute about 83 per cent of all exchange reserves as per May 1953. Excluding the extraordinary earnings, the resulting overall 1952 deficit of \$708 million was due to excess of dollar payments of the order of \$554 million. Ordinary dollar area receipts only cover 53 per cent of dollar payments.

Total exchange receipts (including extraordinary earnings) and payments for fiscal 1952 indicate that the surplus of \$94 million was due to the excess of receipts from the dollar area (\$227 million) which more than offset the deficits with the sterling and open account areas (Table). The excess

with the dollar area resulted from the special procurement financing (\$781 million) which exceeded by \$227 million the deficit on trade and invisible accounts (\$554 million). The ordinary deficit with the sterling area (\$113 million) was reduced to \$92 million on account of special procurement receipts of \$21 million. The deficit with the open account area was \$41 million.

Table 111. Japan's Receipts and Payments in Foreign Currency
Fiscal Year 1952 1/

(In millions of U.S. dollars)

	Total	Dollar Area	Sterling	Open Account
1. Receipts				
Exports	1,168	440	469	259
Invisibles	241	180	39	22
Total	1,409	620	508	281
2. Payments				
Imports	1,789	957	556	276
Invisibles	328	217	65	46
Total	2,117	1,174	621	322
Difference	-708	-554	-113	-41
Special Procurement, etc.	802	781	21	
Net Total	-94	-227	-92	-41

1/ April 1952-March 1953

Source: Japan, Consultations document JC 53/ER2

6. Balances with the Sterling Area

Japan's balance of payments with the sterling area shifted from a surplus position in 1950 and 1951 to a deficit of \$93 million in 1952. Estimates for the fiscal year 1953 indicate an excess of payments over receipts of about \$110 million. From figures now available on total receipts and payments, and also on imports and exports, for the period January-June 1953, it seems that the deficit may be even greater than estimated.

The principal item in the balance of payments with the sterling area is trade with the sterling area countries. Ordinary invisibles are of little importance and special procurement and military expenditures do not exceed the sterling equivalent of \$10 million a year. However, Japan has made increased use of sterling in 1952 to pay for imports from other areas, so that the deterioration in the sterling position cannot be judged from the trade with sterling area countries only. Between 1951 and 1952, trade with

the sterling area changed significantly. In 1951, exports to that area amounted to \$555.5 million and imports were \$421.0 million. Thus, the favorable balance was approximately \$134.5 million (£48.1 million). In 1952, exports continued growing but imports increased more sharply, particularly in the second half of the year, and for that period there was an unfavorable balance of \$45.5 million, compared with a surplus of \$152.3 million (£54.4 million) for the first half of the year (Table 15). While the balance for the entire year was favorable, at \$106.8 million (£38.1 million), it was considerably below the 1951 surplus. Partly as a consequence of these developments, sterling holdings reached a peak of \$355.3 million (£118.1 million) in June 1952, and then gradually decreased to \$265 million at the end of December 1952, and to \$96 million at the end of May 1953.

The Japanese authorities have attributed the unfavorable trade balance since the second half of 1952 mainly to import restrictions of sterling area countries against Japanese goods since the spring of that year. In accordance with the terms of the Anglo-Japanese Payment Agreement of 1951, discussions were held early in 1953 between representatives of Japan and the United Kingdom, in order to find ways to balance and expand trade and to enable Japan to hold sterling balances at appropriate levels. As a result of the discussions, the U.K. Government agreed to recommend to British colonies that they increase imports from Japan to a level 20 per cent above actual imports during the second half of 1952, computed on an annual basis, and to inform the independent members of the Commonwealth of this recommendation. Also, it was agreed in principle to enlarge the range of administrative transfers, thereby making it possible for Japan to acquire sterling in her trade with areas outside of the sterling area. Finally, in order to ease the situation caused by the decline in sterling balances in the first months of 1953, swap transactions between dollars and pounds were agreed.

Table 15 Japan's Trade with the Sterling Area
(In millions of U.S. dollars)

	Exports	Imports	Balance
1951	555.5	421.0	134.5
1952	587.0	480.2	106.8
1st half	379.6	227.3	152.3
2nd half	207.4	252.9	-45.5
1953 Jan.-May	120.1	277.5	-157.4
Monthly averages:			
1951	46.3	35.1	
1952	48.9	40.0	
1st half	63.3	37.9	
2nd half	34.6	44.9	
1953 Jan.-May	24.0	55.5	
Increases (+) or decreases (-)			
1951-1952	+32.5	+59.2	-27.7
1st half-2nd half	-172.2	+25.6	-197.8
Monthly averages:			
1951-1952	+ 2.6	+ 4.9	
1st half-2nd half	-28.7	+ 7.0	
Jan.-May 52/53	-10.6	+10.6	

Source: Japan, Consultations Documents JC 53/ER 9.

It is still too early to note any results from the new agreement. It is expected that the extension of the range of administrative transfers for export payments may help to increase Japanese sterling earnings, and may offset Japan's excess of sterling payments to countries outside the sterling area. These operations in 1951 resulted for Japan in an excess of disbursements over earnings of \$1.3 million, and in 1952 of \$42.8 million. For the first five months of 1953, the excess was \$19.1 million (Table 16).

Table 16 Japan - Exports and Imports Outside the Sterling Area Settled Through Administrative Transfers
(In millions of U.S. dollars)

	Exports	Imports	Excess of Payments
1951	2.2	3.5	-1.3
1952	9.5	52.3	-42.8
1953 (Jan.-May)	2.3	21.4	-19.1

Source: Japan, Consultations Document: JC 53/ER 9

Among the main export transactions to non-sterling areas financed by transfers of sterling in 1952 were sales to Egypt, China, and Iran. In the first six months of 1953, these operations seem to have increased, primarily covering exports to China, Russia, Indonesia and Egypt.

As for an increase in direct exports to the sterling area, which is to be expected because of the relaxation of restrictions against Japanese exports, the figures for export letters of credit increased from £7.2 million in April to £10.3 million in May; however, this is not viewed by the Japanese authorities as an indication of sustained improvement in the sterling area demand for Japanese exports.

7. International Reserves

At the end of May 1953, total gold and exchange reserves of Japan amounted to \$1,006 million. The reserve accumulation was particularly intense in 1950 (\$341 million) and in 1951 (\$354 million). In 1952, the increase was less substantial (\$254 million), and in the first five months of 1953 there has been a net decline of \$164 million. (Table 17)

Table 17 Foreign Exchange Reserves
(In million U.S. dollars)

Date	Total	Gold	Foreign Exchange			
			Total	Dollars	Sterling	Open Account
1949	225	4	221	166	44	11
1950	569	7	562	467	54	41
1951	926	10	916	585	211	120
1952	1186	16	1170	783	265	122
1953 -Jan.	1154	16	1138	795	236	107
Feb.	1120	17	1103	824	187	92
Mar.	1098	17	1081	850	147	84
Apr.	1061	18	1043	841	118	84
May	1024	18	1006	838	96	72

Increases (+) or decreases (-)

1950	:344	÷ 3	:341	:301	÷10	:30
1951	:357	÷ 3	:354	:118	÷157	:79
1952	:260	÷ 6	:254	:198	÷ 54	÷ 2
1953 1/ May	-162	÷ 2	-164	÷ 55	-169	-50

1/ Tentative

Source: Japan Consultations Document, JC 53/ER2

As indicated before, the bulk (84 per cent) of the exchange reserves are in dollars, reflecting primarily the fact that they are the result of the surpluses made possible by the existence of special procurement and other extraordinary dollar earnings. The preponderance of the dollar accumulation also reflects the trend of the authorities to use sterling reserves for settlement with non-sterling area countries. This, plus the increase in sterling imports caused the reduction of \$169 million of sterling reserves Jan.-May 1953. Balances with open account countries have also declined by \$50 million in the same period, and both caused the decline of \$164 million in overall reserves indicated above.

The Japanese authorities do not consider the present level of reserves satisfactory primarily in view of the weakness in their balance of payments. They have indicated that they do not have any definite figure in mind as the optimum level for their reserves. In view of the transitory character of the earnings that have made possible the accumulation of reserves, they consider it necessary to retain restrictions and prevent any sudden or sustained drop of reserves which certainly would arise from a relaxation of the present restrictions. Furthermore, the recent swap operations made in order to increase the supply of sterling indicate that the Japanese authorities would be inclined to preserve their dollar holdings or, at least, not to allow any substantial change in the composition of the total reserves, as long as full convertibility is restricted to their dollar holdings. The holdings of sterling and open account balances would be determined primarily by the extent to which they are required to finance an expanding volume of trade and to cover seasonal or short term disequilibria only.

8. Balance of Payments Prospects for 1953

Japan's balance of payments problems are too deep-rooted and complex to be susceptible of short-run solution. The use of restrictions is expected to continue until Japan's exports and normal invisible earnings are large enough to cover the import and invisible payments without the help of extraordinary financing via special procurement and disbursements of military forces. All this is closely dependent upon an eventual change in the present sources of imports; the substitution of domestic production for imported goods; the attainment of a more competitive position for Japanese exports in world markets; and the ability of the Japanese economy to develop its domestic and export industries with a minimum of inflationary disturbances in the domestic field.

But aside from the long-run problems, there are immediate factors which threaten to cause a deficit in 1953 in the overall payments position of Japan, despite the continued use of restrictions on payments and the existence of extraordinary exchange earnings arising from special procurement. The Japanese authorities, however, believe that in 1953 overall receipts and payments will be in equilibrium. Even so, this result will be in contrast to the results of previous years, when there was a consistent surplus, due to special procurement disbursements.

The Japanese authorities estimate that in fiscal year 1953 (April 1953-March 1954) export receipts may be about \$12 million above those in the preceding fiscal year. A decline of about \$10 million in exports to the dollar area is estimated, however, (Table 18) partly on account of the ability of U.S. markets to produce more goods for home consumption, with the Korean truce, and partly because of a reduction in U.S. economic activity in 1953. A decrease of \$49 million (more than 10 per cent) in receipts from exports to the sterling area is estimated; the authorities do not expect that the change in policy toward Japanese exports resulting from the renegotiation of the British-Japanese Payments Agreement, discussed above, will eliminate the deficit with the sterling area. For the open account area, an increase in exports of \$71 million, or almost 30 per cent, is estimated, which will more than compensate for the combined reduction of \$59 million in exports to the dollar and sterling areas. The Japanese authorities base their expectations on the fact that the increase in imports from the open account which occurred in 1951 and 1952, and which is also expected for 1953, may lead those trading partners to increase their imports from Japan in order to balance the agreement accounts.

Table 18 Japanese Estimate of International Receipts and Payments for the Fiscal Year 1953, and Actual Results for the Year 1952. 1/

(in millions of U.S. dollars)

Classification	Estimates for Fiscal 1953				Actual Results for Fiscal 1952			
	Total	Dollar Area	Sterling Area	Open Acct Area	Total	Dollar Area	Sterling Area	Open Acct Area
1. Receipts	2,120	1,290	460	370	2,211	1,401	529	281
Export	1,180	430	420	330	1,168	440	469	259
Invisible	940	860	40	40	1,043	961	60	22
Stationed forces, etc.	700	690	10	--	802	781	21	--
General invisible	240	170	30	40	241	180	39	22
2. Payments	2,120	1,150	570	400	2,117	1,174	621	322
Import	1,780	900	500	380	1,789	957	556	276
Invisible	340	250	70	20	328	217	65	46
3. Balance	0	140	- 110	- 30	94	227	- 92	- 41

1/ Fiscal years cover the period April-March

Source: Japan. Consultations Document JC 53/ER2

The estimated receipts from invisibles -excluding procurement- follow the same pattern as export receipts, so that total earnings from current normal invisibles and exports in fiscal 1953 are estimated at \$1,420 million, compared with \$1,409 million in fiscal 1952.

The "extraordinary" receipts on account of special procurement are estimated at \$700 million, which is \$102 million (about 12 per cent) less than actual receipts for fiscal 1952. During the consultation discussions, the Japanese authorities indicated that the decline takes into account the possible reduction in special procurement expenditures and in expenditures of military personnel in Japan, to be brought about by the Korean truce, and also that the estimate takes into account U.N. and U.S. expenditures connected with the reconstruction and assistance work in Korea after the truce. The decline in special procurement will affect primarily dollar area earnings -a reduction of \$91 million; the decline in such sterling earnings is estimated at about \$11 million.

Thus, the Japanese authorities expect for the fiscal year 1953 a net decline in total exchange receipts of \$91 million, despite an increase of exports of about \$12 million. The expected net receipts of \$2,120 million would, according to the estimate, cover payments substantially identical to those actually made in fiscal 1952, without any recourse to exchange

reserves. However, the distribution of the estimated total payments by areas will be different. Reductions in payments to the dollar area (\$24 million) and to the sterling area (\$51 million) are expected mainly through a shift of imports to the open account area (\$104 million). Invisible payments to the dollar and sterling areas are expected to increase by \$38 million, while invisible payments to the open account area are expected to decline by \$26 million. In summary, Japan expects in fiscal 1953 a net surplus of \$140 million in its payments to the dollar area -against a surplus of \$227 million in fiscal 1952- which will exactly offset the deficits with the sterling area (\$110 million) and with the open account area (\$30 million). In fiscal 1952, the sterling area deficit amounted to \$92 million, and that with the open account area to \$41 million.

(a) Possibility of an overall deficit in fiscal 1953

During the consultation discussions, the Japanese authorities indicated that the above estimates were based on trends indicated in the first months of the year, adjusted on the basis of the latest available date. By the time the Fund Mission left Japan, the authorities indicated that they were still confident that the goals would be met; that they considered that the estimate realistically portrays actual trends; and that they did not believe that the course of events made it advisable to revise or change whatever policies might be based on the estimate.

The Mission, however, pointed out that the trade figures available covering actual imports and exports for the first five months of 1953, as well as the data on import payments and export receipts in the first six months of 1953, covering past imports and exports (Table 19) indicate that the actual results were somewhat different from the expectations. While the estimate for fiscal 1953 contemplated slightly higher export receipts, the actual results of January-June 1953 indicate a decline of \$175 million (about 20 per cent) over the same period of last year. Furthermore, the trade figures do not indicate any visible upward trend which might permit any anticipation of a revival of export receipts in the next few months. Another substantial difference with the estimate was indicated in relation to the composition of export receipts by currency area. The figures reveal that in January-June 1953 dollar export receipts have increased by about \$82 million, 45 per cent over the equal period of last year, while sterling area export receipts show a decline of \$234.3 million, and export receipts to the open account area also have declined, although proportionately less: by \$23.3 million. Thus, the dollar area receipts are showing an increase that had not been anticipated; sterling receipts are smaller than expected; and the improvement in exports to the open account area has not taken place so far. Retailed trade figures covering actual exports in the first five months of 1952 and 1953 indicate an increase in dollar area exports attributable mainly to higher exports to the United States (an increase of \$31 million) and to Korea (increase of \$14 million), while the decline in sterling area and open account exports is due to reductions in sales to Australia (\$25 million), Pakistan (\$78 million), U.K. Colonies (\$51 million), United Kingdom (\$28 million), Indonesia (\$10 million), French Union (\$18 million) and Argentina (\$7 million). As to the products involved, the main reductions are in cotton products (\$76 million), artificial fibres products (\$27 million), and iron and steel (\$65 million).

Table 19- Japan - Export Receipts and Import Payments^{1/}
(million \$)

Month	Exports			Imports				
	Total	Dollar Area	Sterling Area	Open a/c Area	Total	Dollar Area	Sterling Area	Open a/c Area
<u>1952</u>								
Jan.-June	732.2	181.5	384.8	165.8	823.1	470.3	246.4	106.2
July-Dec.	556.9	214.1	211.6	131.1	895.2	484.5	286.0	124.6
<u>1953</u>								
Jan.	90.7	41.2	28.8	20.7	178.8	86.8	52.9	39.1
Feb.	86.5	43.7	22.7	20.1	140.6	57.0	58.6	24.9
Mar.	90.1	44.3	25.2	20.5	156.2	73.2	50.6	32.3
Apr.	94.7	47.3	23.1	24.2	192.4	96.9	69.0	26.4
May	89.5	41.3	22.4	25.7	193.2	85.7	67.5	39.8
June	104.8	45.5	28.1	31.2	188.3	75.7	63.9	48.6
<u>1953</u>								
Jan.-June	556.7	263.6	150.5	142.5	1,049.7	475.5	362.7	211.4

1/ Tentative

Source: Japan, Consultations Document JC53/ER 7.

On the payments side, the actual situation in the first half of 1953 also differs from the estimate. While import payments were expected to shift from the dollar and the sterling areas to the open account area without a reduction from the 1952 levels, in fact a substantial increase of \$226 million, or about 27 per cent, has taken place. Thus, dollar payments have risen by \$5 million, sterling imports by \$116 million, and open account area imports by \$105 million -almost exactly twice those in the first half of 1952. The main increase in actual imports -which would be reflected in the payment figures of months to come- have been in imports of foodstuffs (an increase of about \$27 million), wool (\$44 million) and other products (\$95 million), among which, some unofficial sources have indicated, may be a larger amount of strictly non-essential goods than formerly. Within the dollar area, larger imports are particularly noticeable from the United States (\$15 million), Mexico (\$17 million), and Cuba (\$5 million); and within the sterling and open account areas from Australia (\$35 million), India (\$20 million), Burma (\$22 million), Hong Kong (\$12 million), United Kingdom (\$7 million), Indonesia (\$12 million), Philippines (\$8 million), Sweden (\$9 million), and Argentina (\$12 million).

So far, the results of the first half of 1953 have shown a net excess of payments over receipts of \$517 million -\$225 million to the dollar area, \$223 million to the sterling area, and \$69 million to the open account area. (Table 20) The special procurement receipts so far have amounted to \$376 million -\$365 from the dollar area, and \$11 million from the sterling area. Thus, for the first time in the postwar period, Japan is incurring an overall net deficit, which for the period January-June 1953 amounted to \$141 million. The net surplus of \$140 million with the dollar area has not been enough to cover the deficits of \$212 million and \$69 million with the sterling and open account areas, respectively.

The decline in reserves for the first half of 1953 amounted to approximately \$174 million. Furthermore, Japan made a "swap" of dollars against sterling to the amount of \$46.8 million, which has prevented the decrease in sterling holdings from being more than about \$165 million in the first half of 1953.

Foreign Exchange Holdings, Estimated (Inc. or Dec.)

Foreign Exchange Holdings, Estimated (Inc. or Dec.)

Table 20 Receipts and Payments in Foreign Currency from
January 1953 to June 1953 (Tentative)
(in millions of U.S. dollars)

Item	Total	U.S.\$	Pound Sterling	Open Account
1. <u>Receipts</u>	633.8	317.1	167.6	149.1
a) Trade	556.7	263.6	150.6	142.5
b) Invisible (excluding Special Procurement demand and Consumption by Stationed Forces)	50.2	32.3	11.5	6.5
c) Donations	7.6	7.3	0.2	0.1
d) Capital Transactions	19.2	13.9	5.3	--
2. <u>Payments</u>	1,150.9	542.5	390.6	217.8
a) Trade	1,049.7	475.5	362.8	211.4
b) Invisible	87.5	56.5	24.9	6.4
c) Donations	0.1	--	--	--
d) Capital Transactions	13.5	10.5	2.9	--
3. <u>Balance</u>	-517.1	-225.4	-223.0	-68.7
Special Procurement demand and consumption by Stationed Forces	376.0	364.8	11.2	0
Balance of total	-141.1	±139.4	-211.8	- 68.7
Adjustment items (Dollar-Sterling Swap)	- 33.0	-83.8 (46.8)	±46.8 (46.8)	± 4.0
Foreign Exchange Holdings, Estimated (Inc. or Dec.)	995.0 -174.1	838.0 ±55.6	100.0 -165.0	57.0 -64.7

Source: Japan, Consultations Document JC 53/ER7

IV. The Restrictive System

1. Main Features of the System

Immediately after the war, Japan's international, commercial and financial transactions were brought under the strict control of the Supreme Commander for the Allied Powers (SCAP). Both export and import trade were carried on by Japan's Board of Trade under the supervision of SCAP. Settlements in foreign currency were made on SCAP's account, and those in yen currency were made on Japan's Special Foreign Trade Account. There was no established exchange rate for commodity trade,^{1/} and each transaction gave rise to a different implicit rate. Under the directives of the Far Eastern Commission, successive steps were taken by SCAP and the Japanese Government to restore Japan's foreign trade and other transactions to a private basis. Exporters were permitted to negotiate contracts with foreign purchasers, first through SCAP and later directly. A unitary exchange rate of 360 yen per U.S. dollar was established in April 1949. This rate is now the par value. In December 1949, the Foreign Exchange and Foreign Trade Control Law was promulgated, and in the following month the import trade reverted to a private basis. Moreover, the Foreign Investment Law was passed in June 1950 to regulate and encourage foreign investment in Japan.

(a) The institutional set-up

At present, Japan has a unified foreign trade and exchange control system. The allocation of exchange is based on an exchange budget. The control procedure is simplified by providing that, once a transaction is authorized by one responsible Ministry, a related payment or transfer does not require a separate authorization. The supreme authority rests with a Ministerial Council which is responsible for the passing and revising of the Foreign Exchange Budget. On the basis of estimates of anticipated receipts from exports and invisible trade, the exchange budget prescribed semiannually^{2/} expenditures for imports and invisible payments. The degree of convertibility and transferability of currencies is given consideration by classifying exchange receipts and expenditures according to the three following currency areas: dollar area, sterling area, and open account area, which covers all countries with which Japan has payments agreements.

^{1/} The exchange rates established in the immediate postwar years were of very limited use, principally for conversion of military scripts of occupational personnel into yen and for conversion of yen expenditure of SCAP into dollars in SCAP's accounting system.

^{2/} For the exchange budget, the fiscal year is used, covering April to March. The first half covers the period April-September, and the second half, October-March.

The Ministry of Finance is responsible for the general financial control and exchange policy. Through the Foreign Exchange Bureau, the Ministry authorizes banks and money changers to perform foreign exchange transactions; fixes buying and selling rates and standard methods of settlement; and supervises foreign investment and transactions concerning invisible items not connected with trade. Foreign trade control and the actual licensing of imports and exports are in the hands of the Ministry of International Trade and Industry (MITI). The Bank of Japan, acting as agent for the Ministry of Finance, manages the official exchange reserves and the Special Foreign Exchange Yen Account,^{1/} and also performs various control functions delegated by the responsible Ministries. However, most of the routine work of control is entrusted to the authorized foreign exchange banks under the supervision of the Ministry of Finance and the Bank of Japan.

(b) Control over earnings and payments

Exchange control is exercised through the usual requirements of surrendering and concentrating foreign exchange proceeds, and by prohibiting, except under license, all international transactions involving foreign means of payment, claimable assets, securities, and immovable property. As a rule, all transactions between "exchange residents" and "exchange non-residents" require authorization. Licenses are required in the case of "exchange residents" if the transactions involve foreign currencies, claimable assets, or property rights, and in the case of "exchange non-residents" if the transactions involve Japanese currency, claimable assets, or property rights.

There are three standard methods of effecting settlement for the payment or receipt of foreign exchange arising from both visible and invisible trade on the basis of trade and payments agreements with various countries. These methods are: (1) settlement in sterling on a cash basis with countries covered by the over-all sterling payments agreement, (2) settlement through "open accounts" (clearing or payments agreement accounts) with countries with which payments agreements specify the use of a special account, and (3) settlement in U.S. dollars on a cash basis with countries with which an agreement specifies settlement on such a basis. Settlement in U.S. dollars on a cash basis is also made with countries with which Japan does not have trade or payments agreements. In dealings with the military forces (special procurement) not only are the currencies prescribed, but also the terms of payment (such as the use of remittances or drafts, the form of letters of credit, and other conditions) for imports, exports, invisible trade, freight remittances, and insurance premiums. Only for transactions involving services to occupation forces, and payments for services rendered by foreign insurance, banking, and transportation companies

^{1/} Purchases and sales of exchange by banks are for the account of the Government. The yen funds are provided by the Government through the Special Foreign Exchange Yen Account, a subsidiary of the General Fund of the Treasury.

in Japan, may yen currency be used. When settlement is to be effected by non-standard methods, prior approval from a responsible government agency is required.

(c) Licensing of exports and imports

With the exception of certain designated exports, no license is required for export trade. However, the certification of a foreign exchange bank is required to prevent capital flight through under-declaration, and to assure prompt settlement by a standard method. A license from the Ministry of International Trade and Industry is required for exports and imports under contracts involving processing, and under barter transactions. In order to encourage exports to the dollar area, retention credits are granted in different percentages for three categories of domestic exports destined for the dollar area. The retention credits can be used to import goods on a specified list or for travel and other invisible expenses in connection with the promotion of trade, and the procedure governing the issuance of licenses covering imports with retained exchange is simpler than the procedure governing licenses for other imports. (The retention quota system is discussed more fully below).

(d) Exchange budget and licensing procedures

Import licenses are granted within the framework of the exchange budget. The maximum amounts indicated in each budget are only guides, however. The MITI makes "announcements" usually covering imports for less than the budgeted amounts, although the original budget is usually subject to revisions and adjustments. There are three different licensing procedures.

One, the Exchange (or Fund) Allocation System, is applied to about 65 per cent of all imports -- imports of foodstuffs, raw materials, and other essentials, primarily when they come from the dollar area. The MITI issues import allocation certificates to importers and "consumers", entitling them to obtain the necessary exchange from the authorized bank. The allocation of certificates to "consumers" (industrialists, producers, etc.) is made with a view towards ensuring the proper supply of raw materials for selected industries whose production the Government wishes to expand or to maintain at present levels. The allocation to importers is based primarily on price, quality, and other considerations. The recipient of an import allocation certificate does not have to fulfil any other formality in order to obtain the necessary exchange from an authorized bank.

The second import procedure, the so-called "automatic approval", is applied to about 34 per cent of all imports. Licenses for the commodities included in specified lists are issued provided the quota for the appropriate currency area has not been completely committed in the budget. The budget does not specify a certain quota or limit for any specified commodity,

but the MITI may set an over-all limit for any commodity when the import announcement is made.

The third procedure, the "first-come, first-served procedure", is substantially the same as automatic approval, but the import announcement specifies maximum amounts for each commodity, the conditions of settlement, currency of settlement, and the areas from which the goods may be obtained; imports under this procedure represent slightly over 1 per cent of total imports.

At one time or another, there have been, subject to special authorization, other non-standard import procedures, such as linking exports and imports, and linking imports from one currency area with imports from other currency areas. As to transit trade and switch transactions, each operation requires individual approval by the authorities who claim that it is given after consent has been obtained from the second and third countries' authorities.

In the last year or so, the Japanese authorities have established special facilities for financing imports and exports, and also have endeavored to strengthen the position of the foreign exchange banks by permitting them to withhold and maintain larger foreign exchange balances.

(e) Invisibles and capital

The purpose of the Foreign Investment Law of 1950, as amended, is to provide incentives to foreign investors by guaranteeing protection in respect of expropriation, the remittance of interest, profits, withdrawals, and amortization payments, and also to direct foreign investments into desirable channels. All foreign investment contracts and projects, including those for technological assistance, must be approved by a responsible Ministry. A foreign investor desiring to receive payment in a foreign currency must clearly state this desire in his contract or application which, if approved, enables such payments to be made by the foreign exchange banks without reference to the Control Authorities.

2. Policies Governing the Restrictive System

The Fund Mission undertook to obtain the views of the Japanese authorities concerning the present need for maintaining restrictions and their immediate as well as more distant policies in this field. The discussion covered the efforts towards expanding exports, and in this connection the difficulties caused by the high Japanese prices; possible changes in the restrictive policy in the light of the balance of payments prospects for 1953-54; and the use planned for present foreign exchange reserves. The discussions also covered the retention quota system, plans for revising the present regulations, and the norms applicable to transit trade operations.

The Japanese representatives indicated that Japan had to maintain the present restrictions because of its weak balance of payments and reserve positions. They emphasized that the balancing of payments and the accumulation of reserves have been due chiefly to special procurement and the expenditures of military forces in Japan, factors which are considered temporary, especially in view of the Korean truce.

The representatives indicated that the possibilities of relaxing and eliminating restrictions do not seem very favorable at present. The dullness in exports to the sterling and the open account areas, and the reduction in special procurement, as well as the high prices prevailing for some Japanese exports, were among the main factors cited for the deterioration in the balance of payments for the past and current fiscal years. In regard to the long-run prospects, they emphasized that the attainment of a self-supporting economy with a balance of payments in equilibrium is being hampered by present international and domestic conditions. They mentioned that in the international field the restrictions imposed by other countries on Japanese exports create difficulties, and that the severance of trade connections with neighboring countries is an important drawback since Japan is forced to locate more distant, and therefore more expensive, sources of supply. They indicated that in the domestic field the main export industries which Japan needs to develop are suffering from high costs due to the price of imported raw materials, from high domestic interest rates, and from lack of adequate investment funds. The present domestic conditions were not termed as being highly inflationary, and it was repeatedly emphasized that the Government policies were not resulting in domestic investments and consumption competing with export markets.

The domestic expansion has increased the demand for imports, and the rise in domestic prices has created difficulties for the export trade, which in turn has put pressure upon the exchange rate. The Japanese authorities indicated that, under present conditions, the restrictive system's main functions are to preserve the stability of the yen and to ensure better utilization of the foreign exchange resources in a manner compatible with the development plans of domestic industry. Furthermore, since the inconvertibility of the principal currencies, as well as the restrictions imposed in foreign markets, have forced Japan to resort to bilateral payment and trade agreements in order to expand its foreign trade, the present restrictive system is being effectively used to obtain an adequate trade balance with the different areas, and to adjust payments to changes in the balance of payments position.

(a) Import and payment policies

The authorities indicated that they do not anticipate any major change, in the near future, in their import and payment policies, despite balance of payment difficulties. They emphasized that their principal aim has been to expand trade, and that their view is that a reduction in

imports, in order to preserve exchange reserves, may cause retaliatory measures from the partner countries which would adversely affect Japanese exports and would ultimately reduce the general level of trade. Thus, aside from adjustments tending towards a shift of imports from the dollar to the non-dollar area, or from the more expensive (distant) toward less expensive (nearer) areas of supply, they do not expect to take any substantial measures. They indicated, however, that they expect that the pressure upon the balance of payments may subside somewhat in the present year, because of the large inventories of some products, the greater ability to produce domestically certain raw materials, and also because of measures to be taken to discourage or prevent the importation of less essential goods.

The statements of the authorities, however, did not indicate the extent to which any of the anticipated minor changes in policies have already been made. The exchange budget figures indicate only the maximum authorized amounts, and the original estimates are usually revised. Furthermore, the import announcements and import notices, which in fact set the maximum amounts available for imports of certain goods or groups of goods, are determined by the authorities, and it is in this way that the policies are effectively applied. Thus, through the flexibility afforded by the import announcements, as well as through the changes that can be made from one import system to another, more liberal, system -- or vice versa -- the Japanese authorities can alter considerably the import policies in regard to products, countries of origin and currency, or method of settlement.

(b) Exchange budget results and prospects

The available information indicates that, for the first half of the fiscal year 1953 (April-September 1953), the original exchange budget anticipates imports of \$1,225 million (see Table 21). This figure is \$276 million lower than the actual (revised) exchange budget for the period October 1952 - March 1953, and \$17 million lower than the figure for the revised budget for April-September 1952. A more accurate impression of the present licensing could be drawn from a comparison between the amounts actually announced in the past with those in the present, April-September 1953, budget. In the two preceding half-year periods, the announcements covered only 89 and 92 per cent of the revised budgets respectively. However, the available figures cover only announcements up to the end of May (that is, two months), and they represent only 59 per cent of the budgeted amount, so that they cannot be considered as indicative of an actual trend. Thus, if in the present half fiscal year the announcements are made with the same criterion as before, a larger reduction of imports may result. This declining would be reflected in a decline in payments in the second half of the present fiscal year or in the 1954 fiscal year.

Table 21. Amounts of Imports Announced under Japan's Exchange Budget: Values and Percentages of Revised Budget

(Values are in Millions of U.S. Dollars)

	T O T A L		Dollar Area		Sterling Area		Open Account Area	
	Value	% ^{1/}	Value	% ^{1/}	Value	% ^{1/}	Value	% ^{1/}
I. Oct.'51-Mar.'52	1,253	89	506	99	474	88	273	76
II. Apr.'52-Sept.'52	1,109	89	548	99	340	75	221	92
III. Oct.'52-Mar.'53	1,387	92	573	86	449	97	365	97
IV. Apr.'53-Sept.'53 ^{2/}	1,225		579		300		346	
Increase (✓) or Decrease (-)								
I and III	✓ 134		✓ 67		- 25		✓ 92	
II and IV ^{2/}	✓ 116		✓ 31		- 40		✓ 125	
IV ^{2/} and III	- 162		✓ 6		- 149		- 19	

^{1/} Announcements as percentage of the revised (actual) exchange budget.

^{2/} Figures for April 1953 - September 1953 correspond to original budget estimates.

Source: Japan--Consultations document JC 53/ER 14.

The information available regarding the possible composition of imports licensed in April-September 1953 (Table 22) suggests that food-stuffs imports may be reduced, while imports of raw materials for industrial purposes may be increased. However, the extent to which the damage done to the rice crops of certain sections of Japan by the floods of June-July 1953 may require larger imports of foodstuffs than originally planned is difficult to estimate.

This policy seems to be in accordance with the aims stated by the Japanese representatives, i.e., that emphasis would be placed on the importation of raw materials required by the export industries, as well as of machinery and equipment for the improvement and rationalization of the industry as a whole. Within the framework of this general policy, the tendency seems to have been to decrease the budgetary allocation for imports of nonessential and luxury goods. This, however, is limited to the extent to which the various trade agreements provide for the importation of such goods by Japan. For the April-September 1953 budget, nonessential and luxury imports have been reduced to two-thirds of the previous budgetary allocation. A proof that nonessential imports have been decreasing is the fact that the first-come, first-served method of allocation has decreased in importance. In some cases, although the authorities are ready to provide exchange for the importation of some luxuries, no applications for licenses have been presented.

Table 22. Japan's Budgetary Allocations for Principal Imports

(In millions of U.S. Dollars)

	April- Sept. '52	Oct. '52- March '53	April-Sept. '53		Difference be- tween April- Sept. '52 and Apr.-Sept. '53
	Commitment	Commitment	Budget-Commitment ^{1/}		
	A	B	C	D	C - A
Rice, wheat and barley	230	252	176	29	- 54
Soybean	20	31	12	3	- 8
Raw sugar	37	73	29	24	- 8
Raw cotton	196	181	163	31	- 33
Raw wool	64	142	56	9	- 8
Lumber and log	11	10	-	7	-
Skin and hide	14	18	2	1	- 12
Crude rubber	23	33	AA2/	2	-
Crude oil, fuel oil and gas oil	33	24	52	26	+ 19
Iron ore	20	31	25	12	+ 5
Iron and steel scrap	21	54	AA2/	5	-
Bituminous coal	18	45	29	14	+ 11
Machinery	30	47	85	27	+ 55

1/ Commitments made in the first two months of the period April-September 1953.

2/ Automatically approved.

Source: Japan -- Consultations document JC 53/ER 14.

(c) Discriminatory import policies

Between the first and second half of 1952, Japanese imports from the sterling area rose from \$349 million to \$427 million, and those from the open account area increased from \$158 million to \$267. The Japanese representatives explained that, aside from the factors tending towards a general increase in imports, the rise in those from the sterling and open account areas was the result of the policy to shift imports away from the dollar area. This policy was facilitated in 1952 by the holding of large sterling reserves and open account credits by Japan. It was carried out by transferring imports from the exchange allocation system to the automatic approval system, which is more liberal; granting more favorable financing for imports from the sterling area than for those from the dollar area; for some products, establishing the linking system, under which imports from the dollar area are permitted if a certain amount of identical imports are obtained from the sterling or other non-dollar areas.

Most of these measures, however, have been discontinued, and, according to the Japanese authorities, there is no discriminatory treatment in trade financing, and there exist now no special provisions for linking imports from different areas or for linking imports and exports.

On the general question of the different treatment granted to some currencies and commodities, the authorities indicated the view that they do not consider the prescription of dollars or sterling for the settlement of certain exchange transactions with certain areas to be a discrimination against other currencies. They also stated that they consider it necessary, for the purpose of effectively utilizing Japan's foreign exchange funds, to treat differently the different currency areas or commodities in the operation of the foreign exchange budget.

As to any possible changes in the policies followed since 1952 in relation to imports from the sterling and the open account areas, the Japanese authorities indicated that they are not considering a shift back of any imports from the sterling and open account areas to the dollar area. The only measures taken have been those to equalize treatment insofar as financing is concerned, and to shift some products from the automatic approval system to the prior allocation system.

In discussing the method of financing possible deficits in trade with the sterling and the open account areas, the Japanese authorities stated that the supply of sterling has been increased by swapping dollars against sterling, and that it may also increase in the next few months on account of the provisions of the new Anglo-Japanese Agreement referred to elsewhere in this paper.^{1/} However, they indicated that they may engage in other, similar, swap operations if the situation warrants. It was clearly stated that no new swap transactions will be instituted unless it can be foreseen that subsequent exports will provide the sterling necessary for the ultimate repurchase of the dollar counterpart. For the financing of open account imports, the Japanese representatives stated that they do not contemplate utilizing more swing credits, but that they expect to use their present balances with several open account countries. However, they stated that, in the future, Japan may also use the swing credits to a fuller extent, provided they can be repaid later on by an expansion of Japanese exports. In this connection, it was stated that Japan's network of trade and payments agreements had worked successfully in the sense that it has made possible the expansion of trade, primarily with Europe. Exports and imports under the bilateral agreements have been at international prices; only in isolated cases has Japan paid higher prices for imports, but then it has also received higher prices for its exports. Thus, although bilateral payments agreements do not constitute an ideal solution to Japan's deep-rooted trade problems, they have permitted an expansion of Japanese trade under the present conditions of inconvertibility.

^{1/} See page 29.

3. The Exchange Rate and Export Prices

During the course of the discussions, the question of adequacy of the present exchange rate arose on several occasions. It should be emphasized that this topic was never discussed as an implication by either side that a change in the parity was advisable or being considered by the authorities; it was discussed rather in connection with the price difficulties of some export industries and with the pressure of import demand brought about by the domestic policies for expansion.

The Japanese authorities emphasized repeatedly that the maintenance of the present parity is one of the main aims of the Government economic policy, and one of the main purposes of the restrictive system. The authorities do not believe that the present level of Japanese export prices makes the present rate unrealistic. There are, however, certain important discrepancies between domestic prices and foreign prices. As shown in Table 23, the prices of such commodities as pig iron, steel, and coal in the United States and the United Kingdom in April 1953 were considerably below prices in Japan. That is, many Japanese export prices, particularly those of the heavy industry and chemical products, were higher than international prices.

Table 23. Prices of Selected Commodities in Selected Countries
as a Percentage of Prices in Japan, April 1953^{1/}

(Japanese Prices = 100)

Item	Standard	U.S.	U.K.	West	
				Germany	Others
Raw silk	21 m.A. 1 lb.	103	-	-	-
Cotton yarn	20 single 1 lb.	133	104	-	-
Cotton fabric	2003, yd.	96	-	-	99
Rayon yarn	Visc. 150, den. 1 lb.	124	127	-	128
Pig iron	for steel, 1 ton	72	57	81	96
Steel bar	1.9 mm. 1 ton	85	88	96	82
Steel sheet	1.6 mm. 1 ton	48	68	77	70
Electric. copper	1 lb.	64-75	86	-	-
Zinc	1 lb.	55	49	-	-
Tin	1 lb.	90-104	88-84	-	85-81
Ammonium sulphate	1 ton	70	70	86	-
Crude rubber	1 lb.	148	137	-	87
Raw hide	1 lb.	65	-	-	70
Coking coal	1 ton	38	39	69	83

^{1/} Prices are based on market prices.

Source: Japanese Ministry of Finance, General Survey of the Japanese Economy. The figures are based on: "International Comparison of Selected Commodities" by the Nippon Keisai Shimbum, and ECB's "International Comparison of Commodity Prices."

The authorities indicated that one of the main reasons for the higher Japanese export prices is the rise in raw material costs which followed the outbreak of the Korean war. The shift from nearby to more distant markets for the importation of products like coking coal and iron ore also has a very important bearing. Furthermore, the incidence of the domestic price of coal in the production costs of more important industries has increased significantly in the post-war period; coal prices at present are extremely high, even when compared with prices of other domestic commodities. The high price is attributed by the authorities to a deterioration of the natural conditions of the mines (old collieries and thin coal deposits) to a decrease in the efficiency of the miners (in 1952 it was only 54 per cent of that in the 1934-36 period), and to obsolete and worn-out facilities and equipment. Finally, the high interest rates in Japan were also mentioned as an important element in the rise in export prices. In the post-war period, corporations have depended to a very significant extent on borrowed funds. Wage costs, according to the authorities, do not seem to have had any marked effect upon the rise in prices, because of the over-all increase in the productivity of the workers.

The domestic expansion and the impact of the Korean boom were also indicated by the Japanese authorities as important factors in the present high level of prices. Japanese prices rose higher and faster than those of other countries, and the continuation of domestic expansion policies helps to maintain the original impact of an enlarged demand upon the level of prices, even though the international demand has declined. It is claimed, however, that deflation is not the answer. The reduction of production in such lines as textiles, where the international demand has fallen, has resulted in an increase in cost -- or the maintenance of high costs -- rather than a reduction.

The Japanese representatives indicated that the domestic expansion policies have increased the pressure upon the exchange rate, as well as upon the import and export controls, to the point that, if exchange and trade restrictions were to be removed, the increase in demand for less essential consumers' goods and for luxury goods would deplete reserves, and possibly a change in the rate would be necessary. They emphasized, however, that the policy of the Government is to maintain the present level of restrictions as a safeguard for the parity of the yen as well as of the reserves, and also as a means for redirecting the investment policy and industrial expansion of Japan. Without restrictions, the proper use of foreign exchange earnings would be difficult to achieve under the present domestic expansion conditions.

(a) Foreign restrictions on Japanese exports

The Japanese authorities also indicated their belief that the high export prices of Japanese goods have not been the main factor in the decline of exports since 1952. They attributed the decline primarily to the restrictions imposed by sterling area countries and by open account countries. They also indicated that the sterling area restrictions on

Japanese exports may have been caused by Japan's large accumulation of sterling, by the competitive position of Japan in such fields as textiles, and perhaps by a desire to protect domestic industries. They suggested that the restrictions imposed by the open account countries were probably due to the fact that many of them had already used their credits, and that they were not in a position to cover the resulting overbalances with dollars. However, Japanese exports faced other difficulties which could not be ascribed to either the higher prices or the restrictions of other countries. Steel exports were expected to decrease in 1953 because of an increase in the United States production and exports of textiles and other typical prewar Japanese exports were expected to fall off because of the shrinkage of Asiatic markets. In summary, the problems of the Japanese export trade are not, according to the Japanese authorities, attributable to the level of the parity alone, but to a conjunction of factors. One of the main aims of the Government is to redirect investments in industries so that an increase in efficiency may, in time, eliminate the present price disparities. In this connection, it was mentioned that the same goal was being approached by foreign investment plans to develop nearer sources of supply for imported raw materials, and to shift dollar imports to South Asiatic countries. The shift of iron ore imports from the United States to South Asia has been largely accomplished, and it is expected that coking coal imports may be obtained eventually from the prewar sources of supply, China and Korea. The plans for increasing productivity in the domestic coal industry would have similar effects.

During the discussions it was learned that MITI has a plan for subsidizing exports, which still has to be considered by the Cabinet. The plan relates to the fiscal year April 1954-March 1955, and it was considered too early for the Japanese representatives to advance any views on the matter. However, it was learned that for the present fiscal year the Government, in an effort to encourage exports, is planning to exempt from excise taxes certain commodities, to allow corporations to hold special reserves against a possible cancellation of claims arising from export transactions, and to allow special depreciation rates for overseas branches of Japanese firms. It was also indicated that the Government is concerned with the problem of reducing the rate of interest and the cost of financing industries in general. It was mentioned that the credit conditions for the financing of imports by the main export industries are, in general, more favorable than those for financing ordinary imports, and that special facilities for financing export transactions have been provided by the authorized banks.

4. Retention Quota System (Retained Credits)

✓ During the discussions, the Japanese authorities specifically indicated that they were requesting the Fund's authorization to maintain the retained credit system, since in their opinion it served as a useful method of distributing exchange allocation, it did not result in harmful effects against other countries, and it enjoyed the favor of the business and trade community. The Japanese authorities expressed the opinion that the system can be considered to fall precisely within the third paragraph of the Fund decision on Retention Quotas.

Japan's present retention quota system has been in operation since December 1951, under administrative regulations issued by MITI, and it superseded a similar system which was abolished in June 1951. Since July 1952 it has applied to exports to the dollar area only. Priority is given to exporters and other qualified persons to receive exchange allocations for certain specified purposes within the amount of certain percentages of dollar proceeds (except "open account dollars") arising from the export of commodities. There are three different percentages -- 15 per cent, 10 per cent, and 5 per cent -- applied to certain commodities in the light of their foreign exchange earnings ratios and the degree of processing. Not all exports are eligible for the accrual of retained credits, and all re-exports are excluded from the system.

Started when?

The retained credits have to be used within seven months from the date of shipment, and can be used (1) by exchange residents who have directly exported the goods, (2) by those makers, suppliers, merchants, or packers who have participated in providing the goods exported, (3) by associations of which the above persons are members, and (4) by officers or employers of the associations, or by persons mentioned above, for travelling expenses abroad only. MITI may also authorize the use of retained credits by (5) persons who are considered to have a part in supplying commodities to be exported in the future. Transfer of the credit by the direct exporter to any of the authorized persons has to be made with the consent of the exporter, and no compensation, monetary or otherwise, can be accepted by the persons involved.

The retained credits can be used in dollars, or the beneficiaries may receive the equivalent in sterling or open account dollars. The purposes for which they can be used are as follows:

1. To import goods that are considered to be contributing to the promotion of export trade or to the rehabilitation of the economy, samples, catalogues, credit investigation records, and other materials concerning foreign trade. The following items are specifically exempted: strategic materials; such controlled goods as chemicals, salt, powder; silver; platinum; items for which the tariff stipulates a customs duty of more than 40 per cent; jewels; art objects; and goods that may compete with domestic industries.
2. To pay travelling expenses connected with the promotion of foreign trade; advertising expenses; freight costs; insurance premiums and expenses related to the establishment of operating branches.

The Japanese representatives indicated that the main purpose of the retention system is the simplification of the exchange allocation procedure. The system has permitted the granting, almost automatically, of exchange to importers of essential goods required mainly by the export industries, and which it is difficult to allocate by quotas. The representatives felt

that this is the principal reason for the Japanese Government's decision to continue the system. The same argument was given in relation to the allocation of exchange for the payment of services abroad; it is difficult for government agencies to judge the actual needs of exporters. The holder of a retained credit does not have to go through the ordinary budget and licensing routine, and therefore he can obtain the necessary exchange without delay.

Since the inception of the system, credits of about \$85 million have been registered, most of them in dollars; its application to sterling and open account exports was discontinued in June 1952. Of the total, about \$53.4 million had been used up to April 1953, and the balance still pending as of that date was \$14.4 million.^{1/} Of the amount used, dollar allocations represent \$39.8 million (74 per cent), sterling allocations \$10.4 million (19 per cent), and open account allocations \$3.2 million (about 7 per cent). As shown in Table 24, about 75 per cent of the allocations were for commodity imports, 10 per cent for agents' fees, 10 per cent for travel expenses, and 5 per cent for the operation of branches.

Table 24. Japan's Allocation of Retained Credits from Inception of System through April 1953

(In thousands of U.S. dollars)

Purposes	Total	%	Dollars	Sterling	Open Account
Commodity imports	40,356	75	34,609	4,273	1,474
Agents' Fees	5,427	10	1,241	3,264	922
Travel	5,234	10	2,891	1,836	507
Operation of branches	2,336	5	1,013	1,041	281
Advertising	68	-	58	6	4
Freight and Insurance	1	-	-	-	-
Total:	53,422	100	39,813	10,421	3,188
%	100		74	19	7

Source: Japan: Consultations document JC 53/RQ 1.

Imports payable with retained credits can also be imported under the ordinary import system. There is no "positive" list of commodities permitted, but there is a "negative" list indicating which commodities cannot be paid for with retained credits. For the period October 1952-March 1953, total imports under the system amounted to \$25.5 million (Table 25). The

^{1/} The difference between these two figures and the total probably indicates lapsed credits.

principal items imported were: raw sugar (\$6.6 million), cattle hides (\$4.1 million) and calf skins (\$2.8 million); they represented 7.8 per cent, 23.3 per cent, and 47.8 per cent, respectively, of total imports of these commodities, which would indicate that the system is used, to a certain extent, for the importation of restricted items. The percentages for other products are even higher, although the total of items imported under the system is only 2.1 per cent of Japan's total imports.

Table 25. Japanese Imports of Commodities under Retention and Other Systems, October 1952 - March 1953

(Import figures in thousands of U.S. dollars)

	Imports under Retention System	Imports under Other System	Total Imports	Percentage Imported under Re- tention System
Raw sugar	6,635	78,264	84,899	7.8
Cattle hides	4,114	13,546	17,660	23.3
Kid and calf skins	2,810	3,066	5,876	47.8
Machinery	1,355	43,970	45,503	3.4
Woolen yarn and woolen textiles	1,233	1,195	2,428	50.8
Sulphite and sulphite pulp	1,065	420	1,485	71.7
Iron and steel products	828	3,600	4,422	18.7
Raw cotton	532	143,500	144,032	0.4
Carbon black	356	529	885	40.2
Coffee bean and its products	343	2,171	2,514	13.6
Cocoa Bean " " "	281	2,180	2,461	11.4
Dyestuff	201	4,297	4,498	4.5
Raw wool	120	129,001	129,121	0.1
Scientific and technical equipment	100	550	650	15.4
Other	5,319	802,179	807,498	0.7
Total:	25,470	1,228,468	1,253,938	2.1

Source: Japan, Consultations.

The authorities indicated that the system has operated relatively well, and that it has been well accepted in trade and export circles. They acknowledged, however, that it is difficult to prevent abuses, especially insofar as they pertain to the transfer of credits or to the retention of profits by the importers under the system. But they indicated that the amount of credits transferred has been relatively small.

In the period from October 1952 to April 1953, total allocations for imports amounted to \$29.1 million, of which the amount transferred was only \$0.2 million, or about 0.7 per cent. In the same period, total allocations for travelling purposes amounted to \$1.2 million, of which transferred credits represented \$0.3 million, or 25.8 per cent. The authorities indicated that severe penalties are applied to the violators of the regulations, but acknowledged that they do not have means to detect violations, or to prevent premiums from being obtained through the resale of imported goods.

no premiums paid although it is not permitted.

(a) Tentative views on possible modifications of retention quota system

At the same time that the Japanese authorities indicated their desire to maintain the retention quota system, they outlined some possible changes being considered. The authorities emphasized, however, that the changes were being studied by MITI, and that, before they are incorporated, they will have to be submitted for the approval of other responsible agencies. The Fund Mission indicated that the authorities might wish to communicate the changes to the Japanese Executive Director in order to fulfil, if appropriate, any possible prior consultation requirement with the Fund, particularly in the light of the recent Board Decision on Retention Quotas.

The main changes being considered were: (1) the extension of the system to all export areas; (2) the adoption of a single percentage of 10 per cent instead of the three ratios of 5, 10, and 15 per cent; (3) the establishment of a "positive" list indicating the commodities whose importation may be effected through the system, and (4) a possible change in the name of the system, for example, the "Special Exchange Allocation System."

The extension of the system to cover exports to all areas was being considered because of the change since July 1952 in the trade with the sterling and open account areas, and also because the scope of the system would thereby be enlarged. Since the proposed changes are intended to facilitate the allocation procedures, and since the list of goods to be imported will exclude less essential or luxury articles, the authorities find it desirable to give more latitude to the sources of accrual of retention credits. It is also with this purpose in mind that they are considering the elimination of the present three ratios and the institution of a uniform 10 per cent ratio.

The goods to be included in the proposed lists are not yet known, but the authorities indicated that they will be raw materials, subsidiary materials, and production equipment needed by the export industries, as well as items to be imported up to certain amounts in accordance with trade and payments agreements. Less essential items which attract high values within the country will be excluded, or another allocation system will be devised. There will be no change in the list of invisible payments

to be permitted under the new system, except that those travelling abroad for more than 90 days will also have the advantage of automatic approval of their applications by the Bank of Japan. The authorities indicated that the system under study will be temporary, and that, as at present, the exporters will not have the right to retain exchange. The transferability of credits will be permitted, as under the present system, and the prevention of abuses will be continued. The system will not apply to transit trade.

Does it now?

During the discussions, the Mission commented that the possible changes outlined would, in fact, extend considerably the scope of the system, and might create an element of disturbance rather than simplify the present allocation procedures. For one thing, the volume of retention credits would be increased substantially, from about \$30-\$40 million a year to perhaps over \$100 million, and this would, consequently, reduce the exchange available for allocation within the ordinary procedures based on the exchange budget. The commodities to be included in the revised system could also be imported under the ordinary procedures. As to the possibility of controlling transfers in order to avoid the payment of premiums, it was pointed out to the authorities that the difficulties of exercising adequate supervision and imposing adequate safeguards would increase if the system were spread to larger proportions. As long as the holders of retained credits are able to obtain sizable portions of total imports with relative ease, the credits will, in all probability, command a premium that may be tantamount, in its effect, to an additional set of exchange rates. In summary, the comments of the Fund Mission indicated doubts concerning the proposed modifications. The Mission doubted that the modifications actually would facilitate import procedures; it feared that exporters would not be prevented from obtaining a premium or subsidy for their exports; and, finally, it was concerned with the fact that the subsequent effects of the system might be such that it would be contrary to the spirit of the Fund resolution on retention quotas. The Japanese authorities reiterated that the changes outlined were still under discussion, and that they should not be considered as an official proposal, at least for the time being.

(b) The new Special Foreign Exchange Allocation System

On August 20, 1953, the Japanese authorities have modified the retention credit system following the lines advanced by the Japanese representatives during the discussions with the Fund Mission in Tokyo in early July. According to the information supplied by the Japanese authorities the new system, to be called "Special Foreign Exchange Allocation System", is designed to facilitate the allocation of imports of raw materials, semi-manufactured goods and equipment required by the export industries. Imports of less essential and luxury goods are excluded but the list of invisible payments made possible under the old system will continue to be applicable to the new system. The percentage of "credit" (there is no actual retention of exchange by the exporter) will be uniformly fixed at 10 per cent, and applied to all exports to all areas. Dollar "credits" will be permitted to be exchanged for "credits" for imports from the sterling or open account areas, but the reverse will not be permitted. As to the transferability of the "credits", the same limitations

under the previous system will apply to the new procedure and, in addition, the importer obtaining a "credit" must arrange the payment (opening of letter of credit) under his own name and for his own account. The Japanese authorities believe that this new provision may prevent the importer from selling his "credit" at a premium and that similar discouraging effect will arise from the exclusion from the list of permissible imports of all semiessential and luxury goods, which command a premium in the market.

The Japanese authorities, in the information supplied to the Fund, emphasize that the new system is intended to facilitate the allocation of imports rather than to stimulate exports and reiterate their intention to control abuses and to prevent the appearance of implicit exchange rates. Furthermore, they emphasize that the system will be applied only to domestically produced exports -- not to transit trade -- and that, in their opinion, the system is a device to facilitate exchange allocations which does not violate the aims of the Fund's retention quota decision. However, if the final decision of the Fund is adverse to Japan's maintaining the new system, the Japanese Government will respect that decision.

The above information on the characteristics, purposes and possible effects of the system does not afford new elements of judgement that may change the preliminary views expressed by the Mission to Japanese authorities on the dangers that the system involves. It would seem necessary to allow some time to pass to analyze further the effects of the system in the light of the experience which its operation and functioning may offer.

(b) The new Special Foreign Exchange Allocation System

On August 30, 1953, the Japanese authorities have modified the retention credit system following the lines advanced by the Japanese representatives during the discussions with the Fund Mission in Tokyo in early July. According to the information supplied by the Japanese authorities the new system, to be called "Special Foreign Exchange Allocation System", is designed to facilitate the allocation of imports of raw materials, semi-manufactured goods and equipment required by the export industries. Imports of less essential and luxury goods are excluded but the list of ineligible payments made possible under the old system will continue to be applicable to the new system. The percentage of "credit" (there is no actual retention of exchange by the exporter) will be formerly fixed at 10 per cent, and applied to all exports to all areas. "Credits" will be permitted to be exchanged for "credits" for imports from the sterling or open account areas, but the reverse will not be permitted. As to the transferability of the "credits", the same limitations

Any differences between your findings and those of the BBRD
- 57 -

V. The Main Problems Ahead

As indicated elsewhere in this report, the Japanese economy is faced with serious problems, some of which can be ascribed to the conditions created by the war, to the process of rehabilitation and reconstruction of the immediate postwar years, to the boom following the outbreak of the Korean war, and to the subsequent recession. Others are of a much deeper character and are intrinsic in the country's economic structure; their solution is likely to be achieved only through the implementation of well coordinated, long-run economic plans.

Wages
Spending
etc.

The recent trends in production and income and the high level of Japanese prices have been commented upon in Chapter II. Also, the development of domestic inflationary pressures, their effect upon the money supply and the banking structure, and the impact of the expansion of private investment, as well as the changing character of the fiscal policies, on the whole process have been indicated. In Chapter III, the immediate problems brought about by the disequilibrium in the balance of payments with the various areas, the reduction in special procurement, the increase in imports in the face of reduced export earnings, and the prospects for the 1953 balance of payments have been discussed, while in Chapter IV the functioning of the restrictive system and the policies governing the system have been described.

In the present section, the longer-run problems will be considered in the light of the views expressed by the Japanese authorities during the consultations discussions. Special reference will be made to the so-called Five Year Plan, formulated by the Economic Council Board of Japan. This plan formed the basis for the policy declarations made by the Minister of International Trade and Industry before the Diet on June 16, 1953.

1. Attainment of Payments Equilibrium

The core of the problems is the attainment of equilibrium in international payments without the help of extraordinary financing that is without the exchange earnings arising from special procurement and military and defense expenditures. To this end, the expansion of exports and of normal invisible earnings, the substitution of imports, and the achievement of a higher degree of self-sufficiency so as to increase the stability of the domestic economy are sought. The basic assumption underlying the policies proposed is that present receipts from special procurement and expenditures of military personnel will either decline gradually or be replaced in part by other forms of extraordinary financing so that the impact of domestic policies for rationalizing industry and developing agriculture may be carried out with a minimum of disturbance in the international balance of payments, and without unduly restricting domestic consumption and imports. The plan requires sizable capital imports, part of which the Government expects to obtain through loans from the International Bank and from private capital inflow.

6
2
Have you asked BBRD for amounts

(a) The Korean truce and the termination of special procurement

in each year?

In the short-run, the Japanese authorities expect that earnings on account of special procurement required for the war in Korea will diminish, but that a considerable amount will be replaced by the demand for reconstruction in Korea. 1/ On the other hand, the Japanese authorities expect that the expenditures of U.S. and U.N. forces in Japan in the immediate future may not differ from the present volume of over \$350 million a year. Thus, the Japanese authorities believe that in 1953 and 1954 they can count on extraordinary earnings from those two sources in the neighborhood of about \$700 million, which is close to the figure estimated for 1953, and that by 1957 they may still be receiving as much as about \$200 million a year. In this connection it should be indicated that the Japanese Government is now taking steps toward requesting MSA aid to Japan in order to replace part of the possible reduction in earnings on account of special procurement and U.N. military personnel.

(b) Export prospects

The Japanese authorities believe that the Korean truce will not have any sudden effect on the defense program in the United States, and therefore that the world demand for imports may not decline further. In the longer-run, reduction in the international tension may revive international trade which would help to expand demand for Japanese exports. By that time, the Japanese industry may have made progress in their plans for rationalization and expansion, and the competitive position of Japanese exports in world markets should have been improved. Thus, by 1957 exports should have increased to \$1,460 million, about \$300 million above the estimated figure of \$1,180 million for 1953. Exports of textiles are expected to rise by \$135 million, chemical products by \$20 million, machinery by about \$50 million, and of nonferrous metals and nonferrous minerals by a total of about \$45 million. Exports of iron and steel are expected to decrease by about \$87 million.

The expansion of exports will be achieved by increasing the competitive position of Japanese exports in world markets through reduction in prices. In this connection, the program of rationalization and modernization of coal production, which is being undertaken, is expected to result in a reduction of about 20 per cent in the price of domestic coal during the next five years. At present, domestic Japanese coal prices are higher than those of other producing countries and the dependence of many important industries on coal production has increased. Thus, the Japanese authorities believe that a reduction in the price of domestic coal will be a significant contribution toward lowering export prices. Furthermore, through the

1/ The authorities have mentioned that about \$200 million has been indicated as the possible extent of U.S. expenditures for reconstruction in Korea in the immediate future.

accelerated plan for the modernization of iron manufacturing equipment now being undertaken under the three-year rationalization program, production costs of pig iron are expected to be reduced by 4 per cent, of steel bars by 12 per cent, and of steel plate by 27 per cent. A similar program will reduce the cost of production of ammonium sulphate by about 20 per cent in the same period. For machinery and shipbuilding a decline in costs is also expected.

(c) Expansion of trade with South East Asia, China and Korea

The Japanese authorities have emphasized particularly the importance of economic cooperation with South East Asia in order to achieve a mutual expansion of trade. Japan expects to contribute to the economic development of these countries through positive technical assistance as well as through fostering plans for the investment of Japanese and local capital in areas capable of supplying raw materials which Japan now imports from the dollar area. Specifically, the strengthening of business diplomacy, the reorganization and consolidation of business concerns, and the development of integrated economic plans have been mentioned as the most immediate measures to be taken. Along with these policies, Japan plans to continue, through its restrictive system, shifting its orders for imports from the dollar area to the sterling and open account areas. This involves, to a large extent, the development of trade connections with South Asian countries.

Handwritten notes:
Korea
Japan
to Korea

Another important consequence of the Korean truce may be the expansion of Japanese trade with Mainland China. As indicated elsewhere in this report, before the war Japan obtained a considerable portion of her imports of iron ore, coking coal, and other raw materials and foodstuffs from what is now North Korea and China. South Korea provided primarily foodstuffs. These areas were also important markets for Japanese exports. In the postwar period the trade had declined considerably, and since 1951 the amounts exported and imported have been almost negligible because of the ban imposed by Japan on trade involving exports of strategic materials to China. The trade that has been possible has been primarily in sterling. During the time the Fund mission was in Japan, Japanese businessmen were reported to have appealed to the Government for a liberalization of trade restriction with China, and the Government seems to have indicated a desire to revise the list of banned articles, especially since similar lists adopted by other countries appeared to be of broader scope. Furthermore, the day after the Korean truce was announced, the Japanese Diet unanimously passed a resolution requesting the Foreign Minister to take positive steps toward expanding trade with Mainland China.

Handwritten notes:
Korea
to Korea
1952
and 1953

(d) Participation in GATT

The Japanese Government emphasized during the discussions that, apart from price and currency difficulties, Japanese exports are being hampered by the restrictions imposed by third countries. Since 1947-48, Japan has been preparing the grounds for participation in G.A.T.T. in order to benefit from the tariff reductions that might accrue to it through negotiations.

Although Japan is not a member of G.A.T.T., many countries now grant to it tariff concessions. China and India do so on the basis of the Peace Treaty; Denmark, Finland, Germany, Sweden, Switzerland, Thailand, Turkey, and Yugoslavia on account of Treaties of Commerce and Navigation or Bilateral Tariff Agreements; Ceylon, Burma, Korea, the Netherlands, Philippines, and Syria on the basis of Trade Agreements; and the United States, Greece, and Uruguay on the basis of domestic regulations. Also, the Belgian Monetary Area, Colombia, Liberia, Norway, Pakistan, and the United Kingdom grant de facto tariff concessions. A large group of countries, including Australia, Austria, Brazil, Canada, Chile, Cuba, Dominican Republic, Egypt, France, Haiti, Indonesia, Lebanon, New Zealand, Nicaragua, Peru, South Africa, and Spain do not grant the most-favored-nations treatment to Japan, but the Japanese authorities expect that their trade relations with Japan will improve considerably if Japan is admitted as a signatory to G.A.T.T. Japan's application for membership was expected to be considered at ~~either the Inter-Sessional Committee Session in August or~~ at the Eight Session in October.

Through participation in G.A.T.T., the Japanese Government expects an improvement in its trade and payments position in general, and particularly in its position vis-à-vis the dollar area, by an expansion of exports to countries which will pay in dollars or to other areas, outside the dollar area, with which the trade has not yet developed sufficiently.

(e) Maintenance of restrictions and reduction in import payments

The plan to improve its trade and payments position cannot be carried out without restrictions on payments and imports, even if the expansion of exports is sufficient to replace most of the losses in earnings resulting from the gradual reduction of special procurement. Thus, the Japanese authorities expect that the curbing of non-essential imports, as well as the control of domestic consumption of commodities eligible for export, will be necessary during the period covered by the Five Year Plan.

Apart from direct restrictions, domestic production is to be geared toward increasing the output of raw materials and foodstuffs, which are now imported, so that domestic products may be substituted for imports. In 1952, foodstuffs imports accounted for \$530.1 million, and raw cotton and raw wool for about \$502.1 million. Imports of these three commodities accounted for more than 50 per cent of total imports, and it has been estimated that, with the present rate of population increase, the availability of foodstuffs either through imports or through larger domestic production, may have to be increased by about \$300 million by 1957. The Japanese authorities, therefore, emphasize especially the development of domestic production of foodstuffs, so that by 1957 the total foodstuff imports may be reduced to about \$487.1 million (about \$43.0 million or 8 per cent below the 1952 level). Furthermore, by emphasizing consumption of wheat and barley, an attempt will be made to curb the present bias toward rice in the Japanese diet. As to imports of textile raw materials, it is expected to reduce them by about \$66 million (over 11 per cent) primarily through the substitution of domestically produced synthetic fibres. Other reductions

So this is correct

To report report of this principle

in import payments are expected by 1957 because of the reduction in the unit price arising from the fact that coking coal will be imported from the Mainland China instead of the United States, and iron ore will be imported from South Asian countries. In this connection, savings of exchange will also arise from increased use of Japanese vessels which will be made possible by the rebuilding of the country's merchant marine. The authorities expect that all these changes may reduce total imports in 1957 to \$1,660 million, about \$129.5 million (7 per cent) less than in 1952.

(f) Balance of Payments in 1957

The increase in exports at the same time that import payments are reduced is expected to reduce the trade deficit from \$639 million in 1952 to about \$200 million in 1957; invisible receipts and payments are expected to balance out. The authorities anticipate that the over-all payments deficit will be financed by special foreign currency income. The amount of the deficit will decrease to the extent that capital inflow and other invisible receipts may increase above the estimated amounts, which were not specifically indicated to the Mission at the time the discussions on these topics were held.

It is known, however, that Japan is expecting to increase its invisible earnings by expanding its Merchant marine so as to attain by 1957 about 70 per cent (3,200,000) of the prewar tonnage. Also, plans are now being drawn to establish international air services, which will increase freight and transportation earnings. Other possible source of foreign exchange is tourism, which the authorities have mentioned as being the subject of intense study with a view toward expanding exchange earnings.

The extent to which any possible use of existing foreign exchange reserves has been considered in the above calculations, in the event that the anticipated extraordinary aid may not be forthcoming, is not known. However, the opinions expressed by the Japanese authorities during the consultations discussions indicate that they would not be inclined to finance consistently a balance of payments deficit with their own funds, and that additional restrictive measures might eventually be taken, provided they do not impair unduly the development of Japan's export trade. Thus, in order to avoid that the pace of the domestic development program be slowed down, it would seem necessary for Japan to continue receiving substantial extraordinary aid in the next few years. But even assuming that Japan continues to receive extraordinary earnings until 1957, a question arises as to whether the amount could be reduced to the \$200 million or less estimated by the authorities. The assumptions on which that estimate is based imply that international prices may not change significantly; that total exports may be increased until 1957 at a rate of about 8 per cent per annum and that by 1957 dollar exports would have risen by 80 per cent and non-dollar exports by 35 per cent over the 1952 figure. As to imports, the main assumption is the substantial increase in domestic agricultural and synthetic fibre production so as to reduce the present relative importance of these items, and to shift imports from dollar to non-dollar sources in order to reduce costs by incurring lower transportation charges.

Table 26. Principal Indicators of Economic Activity in Japan

		Base Period or Unit	FY1952 (A)	FY1953 (B)	FY1957 (C)	C/A (%)	C/A (%)
Production	Industrial activity index	1934-36 = 100	146.6	159.9	180.5	123.1	113.0
	Industrial production index	"	139.4	154.1	170.0	122.0	110.4
	Agr., forestry, and aquatic production index	1932-36 = 100	109.5	108.2	121.3	110.8	112.3
International balance of payments	Exports	\$ million	1169	1180	1460	125.0	123.5
	Imports	"	1790	1780	1660	92.8	93.3
	Balance of invisible trade (excl. special income)	"	- 86	-100	-	-	-
	Special foreign currency income	"	801	700	200	-	-
	Balance of payments	"	94	-	-	-	-
Commodity prices	Producers' goods wholesale price index	Jan 1948 = 100	466.4	471.1	471.1	101.0	100.0
	Consumers' goods price index	1951 = 100	104.8	109.7	109.7	104.7	100.0
National income		Y = billion	5368	5820	6550	122.0	112.5
Population		1000 persons	85,800	86,900	91,360	106.4	105.1

Source: Economic Council Board, Consultations Document JC 53/GE18.

On the whole, the estimates seem somewhat optimistic. However, one should not underestimate the proven ability of the Japanese people to work hard and to endure the limitations on consumption that the plan as a whole implies (capital formation is expected to continue requiring about 20 per cent of GNP). Furthermore, there is a striking consensus of views among the Officers of the Japanese Government on the necessity to curtail the present strong dependence of the Japanese balance of payments upon extraordinary aid and to put the Japanese economy on "its own feet". Thus, from this standpoint the plan may be successfully implemented and carried on.

It should be emphasized again that the above calculations are still tentative and subject to discussions and adjustment by the Japanese authorities, and that they are dependent both on internal Japanese developments and on economic and political factors outside Japan.

2. Increases in Domestic Production

According to the estimates of the Five Year Plan, the index of industrial activity will increase to 180.5 (1934-36 = 100) in the fiscal year 1957, from 146.6 in fiscal year 1952, that is an increase of about 23 per cent (Table 26). By that time, all industrial activities will have increased substantially over the prewar level, except textile manufacturing, which will still be close to the present index of 71.2. The index of agricultural, forestry, and aquatic production (1932-36 = 100) will have increased between 10 and 12 per cent in the same period. (Table 26). The specific development programs which have been considered in the above estimates are indicated in Table 27.

Coal production in 1957 is expected to be 21 per cent greater than in fiscal 1952 and about 10 per cent over the estimate for fiscal 1953. The main improvement contemplated seems to be the opening of vertical shafts, which also will reduce the average cost of production by about 20 per cent. Electric power generation will also be substantially promoted and by fiscal 1957 the supply at the demand end is expected to have risen by about 41 per cent.

Cotton yarn production, on the other hand, is expected to decline by about 14 per cent from the estimated 1953 figure. The decline will be timed with the expansion in the production of synthetic fibers from 7.7 million pounds in fiscal 1952 to 15 million pounds in fiscal 1953 and to an estimated figure of 150 million pounds in fiscal 1957. The savings in exchange as a result of this plan is expected to be about \$160 million, or the equivalent of imports of about 840,000 bales of raw cotton.

Plans for extending the merchant marine include the building of cargo boats and tankers. By fiscal 1957, the total increase in tonnage will be about 1,200,000 gross tons, and by that time the merchant marine will have attained about 70 per cent of the prewar tonnage (3,200,000 tons). The foreign exchange savings have been estimated at about \$90 million a year.

Table 27. Estimates of Production of Major Commodities
Under Japan's Five Year Plan

	Unit	Actual	Estimates	
		FY1952	FY1953	FY1957
Electric power, generation end	Million KWH	44,645	45,576	58,960
Coal	Thousand tons	43,747	48,000	53,000
Cotton yarn	Million pounds	761.5	825	710
Paper	" "	3,122	3,356	3,664
Ammonium sulphate	Thousand tons	1,945.2	2,123	2,500
Rayon and stable fiber	Million pounds	430.5	485	609
Synthetic textile	" "	7.7	15	150
Cement	Thousand tons	7,127	8,100	9,200
Pig Iron	" "	3,529	4,200	4,870
Steel	Thousand tons (including re- rolled steel)	4,727	4,700	4,800
Aluminum	Thousand tons	42	45	57
Automobiles	Thousand cars	24.8	31.2	40
Vessels	100 gross tons	537	680	560

Source: Economic Council Board, Japan.

Other significant increases in output estimated for the fiscal year 1957, in relation to fiscal 1952, include those for pig iron (38 per cent), automobiles (61 per cent), aluminum (36 per cent), paper (17 per cent), ammonium sulphate (29 per cent), and cement (29 per cent). Steel production, on the other hand, is not to be increased further; total output in fiscal 1957 has been estimated at 4.8 million tons (including rerolled steel), which is only about 2 per cent above the figure for fiscal 1952, and for fiscal 1953, a small decline from the 1952 level is expected.

The expansion of agricultural production will involve primarily plans for expansion, improvement and irrigation of land and also improvement of agricultural practices and will be linked with the rationalization and expansion of output of the fertilizer industry, which is expected to result in a reduction of 20 per cent in the cost of fertilizers by fiscal 1957. In terms of brown rice, the expansion in the production of rice, wheat, and barley is expected to be around 9 million koku, (1 koku = 9.827 cu. ft.), or about 1.5 million metric tons (12 per cent) over the 1951 figures. There are also plans for developing the livestock and fishing industries.

(a) National income, population and consumption

It is estimated that national income may increase from ¥5,368 billion in fiscal 1952 to ¥5,820 billion in fiscal 1953 and ¥6,550 billion in fiscal 1957 (Table 26). Domestic prices, on the other hand, are expected to be higher in fiscal 1953 than in 1952 but to remain constant thereafter. Thus, the large increase in national income in fiscal 1953 will, in real terms, be comparable to the rate of about 2 per cent per year (12 per cent in five years), which is the rate of increase expected from 1953 to 1957. Since in the same period, the population is expected to increase by 5.1 per cent, per capita income also will increase. The population is expected to reach 91.4 million in fiscal 1957, as against 86.9 million in 1953 and 85.8 million in 1952.

The population growth presents an immediate problem. It has been estimated that between 1940 and 1950 the population increased by 11.8 million, to 83.2 million in 1950. The casualties during the war have been estimated at about 2 million; but since 1945 there has been an influx of more than 6 1/2 million repatriates from abroad, about one-half of whom were mobilized service men who were expected to come home sooner or later. Thus, the net number of repatriates is about 3.3 million. However, at the same time about 1.4 million persons left the country, so that there was a net increase of about 2 million. For the years until 1955, the population is expected to continue increasing by about 1.2 - 1.4 million a year and after 1955 by about 1.2 - 0.8 million a year. The authorities indicate that the present structure of the Japanese economy does not afford the same opportunities as before the war for absorbing the growth. At that time, agriculture absorbed a considerable amount of the yearly increment, but in the postwar years the rationalization plans for agriculture have called for a relative reduction in the utilization of manpower. The same is true of the heavy and chemical industries, so that it appears, at present, that the medium-size manufacturing industries are the ones which will have to absorb the increase in the labor force. The

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authorities are concerned over these trends and their possible effect on the increase in the standard of living of the Japanese people.

The consumption level of the population is expected to remain relatively constant, so that the increase in income will either be saved voluntarily or absorbed by taxation, so as to supply the demand for capital investment required by the expansion in production. However, changes in the structure of the consumption pattern are expected, so that the consumption of textiles, sugar, and oils may improve in terms of pounds of textiles per year and of calories per day.

(b) Investment requirements of the Five Year Plan

On the basis of several studies and plans which have been considered by several governmental agencies and industries, the Economic Council Board has indicated a figure of about ¥2,090 billion as representative of the total amount of investment funds required for the expansion of some principal lines of production (Table 28). Some of the industries considered are already undertaking plans for the rationalization and expansion of production, and the amounts required to carry out these plans have already been "budgeted" in the investment plans of the responsible governmental agencies. The total amount budgeted is ¥909.4 billion; it includes the amounts assigned for the present agricultural development projects but excludes the funds required for the development of livestock and fishing industries.

Table 28. Investment Requirements of Some Industries
Under Japan's Five Year Plan
(In billions of yen ^{1/})

	Government Funds		
	Total FY 1953-57	FY 1953-57	FY 1953 (Budgeted)
Coal	146.3	42.7	4.0
Iron and steel	156.6	17.0	6.0
Fertilizer	20.3	7.5	1.5
Machinery	125.0	10.0	2.0
Synthetic fibres	43.4	21.0	2.5
Marine transportation	231.4	137.3	22.0
	(197.0)	(115.8)	
Electric power	779.3	418.1	71.0
	(711.3)	(350.1)	
Foodstuffs	586.3	437.3	
	(463.3)	(345.3)	
Total	2,088.6	1,090.9	149.5
	(1,863.2)	(909.4)	

^{1/} These requirements represent only those needed for the enforcement of the principal programs for economic self-support which, as stated in the Plan, are to be undertaken on a priority basis. Moreover, they are merely intermediate requirements demanded by various ministries, and are naturally subject to revision in accordance with future study.

(Continued on next page)

Two remarks should be made in connection with the above estimates. The first one is that the exchange component of the investment plan is not known to the Mission and therefore it is impossible to assess its effect on the balance of payments. The Japanese authorities have indicated that the balance of payment estimates take into account the additional capital requirements for financing the investment plan and that the calculations of the balance of invisible receipts and expenditures also include the servicing of foreign capital. The details of these calculations, however, were not made available to the Mission.

The second remark is in reference to the possibility of the economy providing enough savings to finance the additional capital accumulation required by the plan without creating undue inflationary pressures. The authorities have indicated that the above estimates do not include either the ordinary demand for capital funds or the additional demand that may be generated in subsidiary industries or in fields other than those indicated in the table above. The authorities expect that these needs will be covered by the private financial institutions as well as by the promotion of foreign investment.

In any event, it would seem that considerable care should be taken to ensure that the investment plans do not give rise to the development of inflationary pressures capable of destroying one of the basic assumptions of the plan as a whole, i.e., that domestic prices as a whole will remain constant throughout the period although in many sectors the prices will decline.

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The Japanese Government has shown concern over the need for encouraging voluntary savings, and in this connection it has taken two main lines of policy. In fiscal 1953 tax reductions have been granted, mainly to corporations, in order to facilitate the accumulation of reserves through the revaluation of capital and inventories. Also, strong savings campaigns have been conducted and the government has issued tax savings bonds, with the provision that, for computing taxes, 20 per cent of investments in such bonds is deductible from the yearly earnings of individuals. These plans seem to have brought results already, since the total amount of national savings collected through the several campaigns increased from ¥665 billion in the fiscal year 1951 to ¥941 billion in fiscal 1952. In 1951, the goal for the year was exceeded by 25 per cent, and in 1952, by 38 per cent.

Footnote - continued from previous page

The figures in parentheses denote funds required for the enforcement of existing programs, funds that may be necessary for the continuation of activity after fiscal 1957 are not included.

Source. Japan, Consultations Document JC 53/GE 18.

Table A. - Japan - Shifts in Major Trade Items, by Monetary Areas

(in percentages)

	Dollar Area		Sterling Area		Open Account Area	
	1935	1952	1935	1952	1935	1952
<u>Major Exports</u>						
Textiles	47.4	21.6	31.9	59.2	20.2	19.2
Machines	76.6	43.2	12.1	29.3	11.0	27.6
Metal products	55.9	22.9	21.8	49.4	21.9	27.7
Pottery products	44.7	37.2	32.5	43.7	22.2	19.0
<u>Major Imports</u>						
Foodstuffs and beverages	30.1	71.2	7.3	10.9	60.9	17.8
Textile raw materials	48.3	44.2	48.0	50.9	2.6	4.8
Metallic raw materials	61.5	51.8	25.1	33.1	12.4	15.1
Non-metallic raw materials	79.4	63.4	9.6	30.1	8.1	6.5
Oil, fats and wax	61.9	57.9	5.4	33.9	27.4	8.2

Source: Ministry of Finance, Japan.

Eximbank credits

Footnote - continued from previous page.

The figures in parentheses denote funds required for the extension of existing programs; funds that may be necessary for the continuation of activities after fiscal 1957 are not included.

Source: Japan, Communications Department, UNCTAD.

Table B. - Japan - Total Trade with Dollar Area and with U.S.

(millions of \$)

	Total		Dollar Area		U.S.A.	
	Exports	Imports	Exports	Imports	Exports	Imports
1934/6	928	951	388	406	148	234
1950	802	970	554	554	179	427
1951	1,355	2,047	317	1,202	185	695
1952	1,289	1,719	378	929	230	671
Jan/Mar 53	267	475	117	216	69	165

Source: Ministry of Finance, Japan.

(S-1) Japan - Total Trade with Dollar Area and with U.S. (millions of \$)
 1934/6 1950 1951 1952 Jan/Mar 53
 Total Exports Imports Dollar Area Exports Imports U.S.A. Exports Imports
 928 951 388 406 148 234
 802 970 554 554 179 427
 1,355 2,047 317 1,202 185 695
 1,289 1,719 378 929 230 671
 267 475 117 216 69 165

Table C.- Japan - Receipts and Payments by Areas
(Millions of dollars)

	1950				1951				1952			
	Total	\$ Area	E Area	O.A. Area	Total	\$ Area	E Area	O.A. Area	Total	\$ Area	E Area	O.A. Area
1. Receipts												
Exports	920	372	287	261	1,405	304	674	427	1,169	441	469	259
Invisibles	77	71	6	--	222	192	29	2	137	100	28	9
Others												
Total	997	443	293	261	1,627	496	703	429	1,306	541	497	268
2. Payments												
Imports including aid imports	1,256	778	278	200	1,759	1,033	443	283	1,791	959	557	276
Invisibles	55	46	9	--	186	158	25	3	224	162	54	8
Others	117	74	7	36								
Total	1,428	898	294	236	1,945	1,191	468	286	2,015	1,121	611	284
3. Difference (1-2)	-431	-455	-1	25	-318	-695	235	143	709	580	114	16
4. Financing												
Special procurement	179	179	--	--	329	329			801	781	21	--
Allied forces	99	96	3	--	261	252	9					
Stationing expenses	--	--	--	--	67	67						
Aid imports	293	293	--	--	101	101			2	2	--	--
Receipts from GARIOA	69	69	--	--	124	124			--	--	--	--
Total	640	637	3	--	882	873			803	783	21	
5. Net total (3-4)	209	182	2	25	564	177	243	144	94	202	-93	-16

Source: Japan, Consultations document JC53/GEL

Note: Due to rounding some columns do not total exactly.

Table D Japan's Holdings of Gold and Foreign Exchange
(millions of \$)

Year & Month	Items	Holdings by the Government					Holdings by the Bank of Japan	Holdings by Foreign Exchange Banks	Grand Total
		Dollar	Pound	Open Account	Sub-Total	Gold			
End of 1949		166.1	44.3	11.1	221.6	3.8	225.4	---	225.4
End of 1950		461.8	54.4	40.6	556.9	7.0	564.0	---	569.2
End of 1951		582.9	211.2	119.7	914.0	10.3	924.4	---	926.4
1952, Jan.		601.3	230.0	118.1	949.4	10.9	960.4	---	961.4
Feb.		623.2	256.8	129.2	1009.3	11.4	1020.8	---	1022.4
Mar.		642.6	279.0	137.4	1059.1	11.6	1070.7	---	1074.1
Apr.		659.8	307.3	138.5	1105.8	12.2	1118.0	---	1121.6
May		700.8	337.8	139.1	1177.8	12.5	1190.4	---	1192.7
June		671.4	355.2	134.6	1161.3	12.7	1174.1	---	1186.4
July		662.9	353.1	132.8	1148.9	13.4	1162.4	---	1183.1
Aug.		676.2	338.7	126.6	1141.6	13.9	1155.5	---	1184.1
Sept.		651.3	336.8	126.7	1114.9	14.5	1129.4	50.0	1207.7
Oct.		660.8	319.1	119.5	1099.4	14.8	1114.3	50.0	1197.4
Nov.		670.4	291.1	128.3	1089.9	15.4	1105.3	50.0	1190.8
Dec.		669.4	265.4	121.7	1056.6	15.9	1072.6	50.0	1186.4
1953, Jan.		685.7	236.2	106.9	1029.0	15.9	1044.9	50.1	1153.9
Feb.		715.8	187.3	92.4	995.7	16.8	1012.5	50.1	1120.3
Mar.		739.1	106.9	83.6	929.7	17.2	946.9	50.1	1097.7
Apr.		731.1	58.5	84.2	873.9	17.3	891.3	50.2	1060.7
May		736.6	34.7	71.9	843.3	17.8	861.2	50.2	1024.1

Note: The figures for April and May 1953 are tentative and are open to some revision.
Source: Japan, Consultations Document JC53/ER 3.