# BACKGROUNDER

## JAPAN: TAX INCENTIVES TO IMPORTERS

A tax reform bill designed to expand imports will be placed before the Japanese Diet in the next session. Although its impact on the Japanese current account surplus is difficult to gauge at this point, and some scepticism is in order, the measures are noteworthy in that they are more "structural" in character than previous packages and may therefore foreshadow a new approach to the management of international trade issues by the Japanese. At the very least they are aimed at mollifying the US Congress and "buying time" with US opinion-makers and the public at large as evidence mounts of increasing resentment toward perceived Japanese unfairness.

The main proposals are: tax incentives to manufacturers to increase imports or the incremental value thereof by 20%; tax relief to wholesalers and retailers who set aside 10-20% of import revenues for import marketing.

While these measures are not "import liberalization" measures, they are clearly an attempt by the Japanese to deal with the mounting resentment in the USA over non- macroeconomic, "structural" impediments to imports. MITI is reported as expecting, however implausibly, that the new measures will have three important effects: elimination of discrepancies between the cost of products in Japan and abroad; opening up the much-criticised Japanese distribution system; breaking down Japan's "keiretsu" system by which markets are manipulated by networks of tightly coordinated companies.

While the measures proposed are welcome simply from the point of view of making a small dent in Japanese trade surpluses, MITI's expectations are clearly optimistic and unlikely to lead to marked changes -certainly not in the short term. US reactions thus far are less than effusive although the Europeans and other countries in the region have shown positive interest.

According to official Japanese estimates the new measures could lead to lost revenue of $1 billion to the Japanese Government and an increase in imports of $12 billion over three years. A detailed list, expected to include chemicals, tires, safety glass, watches, sporting goods and measuring and inspecting equipment, will be issued by the Japanese before the effective date of operation of the scheme April 1, 1990.

Although tariff levels are not the major determinants of access in Japan, it is reported that the Japanese Tariff Rates Council is also recommending cuts in tariffs on 1004 items, including machinery and industrial mining products, from the same date. Elimination of tariffs on 585 items, including satellites and helicopters is also proposed. The cuts are likely to pass the Diet without serious problems.

### IMPLICATIONS FOR CANADA

Until the list of items affected by the import tax measure is finalized, we will not be able to assess the likely impact on Canadian exports to Japan. In general the advantages to Canada are likely to be relatively minor, given the emphasis in the Japanese proposals on manufactures. Nevertheless, there should be some additional opportunities for Canadian business to the extent that these proposals serve to reinforce marketing efforts in specific sub-sectors.