

## **Japan's New Import Expansion Policies and their Implications for New Zealand**

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The new import expansion programmes adopted by Japan, in April 1990, are examined in the light of New Zealand's export position and the findings of the recent Porter study on upgrading the nation's competitive advantage. The new Japanese incentives, which include tariff reductions, are expected to substantially increase imports of manufactured goods. Although commodities have played a dominant role in New Zealand exports, the new market situation in Japan can play a crucial developmental role by providing added export demand incentives to manufacturing industries, particularly to the fifty-five percent that make up New Zealand's top 200 industries.

Keywords: Japan, exports, New Zealand, Porter

### **Introduction**

Exporters have often found Japan a challenging and even difficult country to trade with, partly because of its trade restrictions. However, recent moves by the government have sought to expand import programmes, and will eliminate some of the difficulties exporters have experienced. Effective April 1990, Japan introduced a comprehensive package of import expansion programmes. The government has used its highly successful exporting strategies as the basis of the new import policies and programmes, with the ultimate aim of establishing Japan as an import superpower. The Ministry of International Trade and Industry (MITI) and the Japan External Trade Organisation (JETRO) are the two main organisations responsible for implementation of these policies. If these programmes are even half as successful as their export counterparts, they hold important implications for exporters to Japan.

### **Japanese Import Expansion Programmes**

The new Japanese import expansion programmes cover mainly manufactured imports within the SITC (Standard International Trade Classification) categories five to eight. The Japanese programmes fall under the following broad categories: tax incentives for manufactured imports, elimination of tariffs, expanded budgets for import promotion, expansion of import loans and miscellaneous programmes. Each category is discussed in turn below.

#### **Tax Incentives**

Among the tax incentives designed to spur manufactured imports are tax credits and accelerated depreciation. For three years, starting in 1990, manufacturers who increase the value of qualified imports by at least 10% compared to their most recent maximum will receive a tax credit equal to 5% of the increase. (Subject to a limit: 10% of corporate tax for large companies and 15% for medium and small-sized firms). Firms will also receive accelerated depreciation on imported machinery and equipment, subject to a limit of 50% of the increase in qualified imports.

Further, wholesalers and retailers will be allowed to reserve funds from taxable income to develop markets for manufactured imports. Up to 20% of the increase in qualified imports will be permitted for companies which qualify for this programme.

These programmes cover about half of all manufactured imports into Japan. About 60% of the items covered are capital goods such as computers and machinery, 15% are intermediate goods such as synthetic rubber and tyres, and the remaining 25% are consumer durables including electrical home appliances and sporting goods. In 1989, such goods were worth about US\$40 billion.

### **Tariffs**

As from 1 April 1990, tariffs were eliminated on 1004 manufactured items, including measuring instruments, tractors, optical fibres and optical fibre cables, magnetic tapes and phonographic records, furniture, sports equipment, certain chemical products (including chemical fertilisers) and paper and plastic - coated paperboard. In 1988, the products covered by these tariff measures had an import value of US\$13 billion.

### **Import Promotion**

Strategies to enhance import promotion involve greatly expanded annual budgets for this purpose: the 1990 allocation was 800% higher than that allocated in 1989. Other components of this promotion programme include the establishment of a 'local internationalisation centre' in every prefecture in Japan. These centres will, among other things, study the issue of price differentials in Japan and foreign markets, and provide up-to-date information on exporting to Japan to exporters abroad as well as to importers inside Japan. Finally, funding will be provided to allow two-way exchanges of business and trade experts: experts from U.S.A., Europe and Oceania are to be invited to Japan to assess potentials for new imports and develop the contacts they need to succeed.

### **Import Loans**

Until 1990, only corporations based in Japan could apply to EXIM (Export-import Bank) for funds to finance importation of manufactured goods. However, the new initiatives extend the funding to corporations located outside Japan, and the total amount available for borrowing has been increased.

### **Potential Impact**

Although forecast figures are not available, these import incentives will substantially increase manufactured imports into Japan in 1991 and beyond. This expansion in demand provides New Zealand with an opportunity to increase such exports to Japan. Whilst it is unfortunate that the tariff cuts and other import incentives do not include the agricultural categories in which New Zealand exporters have traditionally been strong, the new incentives in Japan do provide New Zealand with an excellent opportunity to expand production and increase exports in these 'non-traditional' export categories.

Currently, a large proportion of New Zealand's manufactured exports go to Australia (see Table 1). For instance, in the case of SITC category 7 (which includes electrical apparatus, refrigerators, electro-thermic appliances and data processing equipment) the proportion is

45%. Reasons for the popularity of Australia as an export destination include the benefits that New Zealand exporters enjoy under ANZCERTA (Australia-New Zealand Closer Economic Relations or CER, for short). But these benefits may change, as illustrated by the Australian Government announcement (in early 1991), that tariffs would be progressively reduced in the next few years on a wide range of imported goods. This will erode one of the main advantages that CER accords to New Zealand exporters. Although Australia will remain an important export destination, exporters of manufactured goods will need to locate new international markets. In particular, if exporters plan to increase their production, new trading partners will provide an outlet for this as well as decreasing the risk of over reliance on one particular market.

## **New Zealand Industries**

The Porter study of New Zealand (Crocombe, Enright & Porter 1991) identifies the top 200 industries in terms of exports. Fifty-five percent of these industries are exporting manufactured goods in SITC categories 5 to 8, indicating that substantial capabilities exist in New Zealand to manufacture and export goods in the categories covered by Japan's new import expansion initiatives. Table 1 shows the New Zealand exports and Japanese imports in the relevant SITC categories. The top New Zealand manufactured goods, in terms of export value, occur in SITC category 6 (this includes newsprint, carpets, aluminium, sheets and plates, paperboard and plywood). Japanese imports in this trade category (which includes non-ferrous metals, textiles, yarns and fabrics, iron, steel, paper and paperboard, wood, and non-metal mineral manufactures) amounted to US\$17400m in 1987. Imports after 1990, when the effects of the new import expansion programmes will be felt, are expected to be substantially greater. New Zealand exports to Japan in this category, constituted only US\$906m (5.2%) in 1987, thus showing the substantial room available for export expansion. Similar opportunities for export expansion are indicated in all of the other SITC categories shown in Table 1.

## **Conclusion**

The Japanese announcement in April 1990, of an import expansion programme, includes substantial tariff reductions on a wide range of manufactured goods. Whilst present New Zealand exports are largely commodities and fall outside that range, fifty-five percent of the top two hundred industries identified in the 1991 Porter study fell within the SITC categories covered by the new Japanese import initiatives. The current imports and anticipated increases into Japan of goods in these categories are enormous by New Zealand export-volume standards. Even a comparatively small share of the expanded market opportunities in Japan would have a tremendous positive impact upon industrial growth and performance in New Zealand.

## **References**

- Crocombe GT; Enright MJ & Porter ME (1991) *Upgrading New Zealand's Competitive Advantage*, Oxford University Press, Auckland.
- Ministry of International Trade and Industry, and Japan External Trade Organisation (1990). *What Japan Offers: A Guide to Import Expansion Programs*, Tokyo.

**Table 1. New Zealand exports and Japanese imports, 1987**

S.I.T.C.	NEW ZEALAND EXPORTS <sup>1</sup> TO			JAPAN IMPORTS <sup>2</sup>	
	All countries US \$m	Australia US \$m	Australia% NZ Exports	US \$m	Comments
<b>SECTION 5</b>					
a)Perfumery, distillates, etc.	24.1	20.1	84.6	3,500	Chemicals, etc.
b) Medicaments, etc.	11.9	5.9	49.6	2,100	Medicinal & Pharmaceuticals
c)Other: Benzene, Casein, Methanol, etc.	246.9	28.3	11.5	5,700	Others: Inorganic Chemicals etc.
TOTAL	282.9	54.3	19.0	11,300	
<b>SECTION 6</b>					
a) Newsprint.	61.8	39.5	64.0	5,500	Non-ferrous Metals
b) Carpets, Rugs, etc.	38.5	31.7	82.0	3,200	Textiles, Yarns, Fabrics.
c)Others: Yarn, Aluminium, Leather, Sheets & Plates, Paperboard, Plywood	805.9	208.3	26.0	8,700	Others: Iron, Steel, Paper, Paperboard, Wood, Cork & Non- Metal Mineral Manufactures
TOTAL	906.2	279.5	31.0	17,400	
<b>SECTION 7</b>					
a)Electrical Apparatus	17.5	12.9	74.0	3,700	Electric Machinery
b) Refrigerators, Deep Freezers, etc.	14.1	11.2	79.0	2,600	Road Vehicles
c)Others: Electro- thermic Appliances, Aircraft Parts, Data Processing Equipment.	217.6	94.2	43.0	10,300	Others: Transport Machines, Office Machines, Telecommunications
TOTAL	249.2	118.3	47.0	16,600	
<b>SECTION 8</b>					
a) Jewellery, precious metals, etc	13.8	12.3	89.0	4,700	Clothing & Accessories
b) Articles conveyance or packaging of goods, etc.	11.0	7.8	71.0	4,300	Miscellaneous Manufactured Goods
c) Others (e.g. furskin, furniture, medical instruments, apparel & clothing, electronic measuring, etc.)	142.2	56.1	39.0	5,000	Others: Precision Instruments, Footwear.
TOTAL	167.0	76.2	45.0	14,000	

Sources: 1. Crocombe GT et al (1991). *Upgrading New Zealand's Competitive Advantage*. Oxford University Press: Auckland, 213 - 218.

2. United Nations (1989). *International Trade Statistics Yearbook. Trade by Country*. Vol 1. New York, 464 - 466.

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