## Advisory Panel Urges Value-added Tax

A government advisory panel has worked out a sweeping tax reform plan built around a new, broad-based indirect tax and sharp cuts in income taxes. An interim report on the plan was submitted to Prime Minister Noboru Takeshita on April 28.

The report by the Tax System Council recommended two types of value-added tax (VAT), one using the invoice-based formula practiced by EC nations and another using account books. Both options would tax the value added to a product or service at each stage in a series of transactions. Under either formula, taxation would be "non-cumulative," with the VAT paid at earlier stages being deducted at later stages.

The council report also proposed relaxing Japan's present progressive income tax structure. Under the proposal, the present 12-stage tax system would be reduced to six brackets. The maximum tax rate would be cut to 50% from the present 60%, and minimum taxable income raised to ¥2 million from ¥1.5 million. The interim report also urged larger tax exemptions for spouses and other dependents while recommending that tax be imposed on capital gains from securities dealings.

A similar but more powerful tax panel formed within the ruling Liberal Demo-cractic Party hammered out its own reform plan on May 23. The government plans to submit a finalized tax reform package during the extraordinary session of the Diet to be convened in July.

## Trade Surplus Used To Buy Art Works

The trade surplus has turned Japan into a magnet for art masterpieces. The Ministry of Education's Agency for Cultural Affairs announced the purchase of 68 art objects worth ¥3,070 million from eight foreign countries in accordance with the government's policy of reducing the country's immense surplus in its trade account.

The most expensive acquisition was a landscape by French impressionist painter Paul Signac, priced at ¥398 million. It was a new record for Japanese government art purchases, rivaled only by the ¥280 million paid for a portrait by Rogier van der Weyden several years ago. Two other paintings in the latest round of purchases also topped the previous record price.

The newly purchased art objects will go on display at four national museums, and will later be shown at exhibitions throughout the country.

The fiscal 1987 budget originally set aside ¥500 million for the purchase of art objects. But pressure to do something about the trade surplus prompted the Ministry of Finance to approve an additional appropriation of ¥3 billion.

## Beer Prices Fall For First Time

Retail prices for Japanese beer have been cut for the first time since the end of World War II. The ¥10 cut, reducing the price of a 500cc can of beer to ¥270, is yet another sideeffect of the sharp appreciation of the yen, which has slashed the cost of imported raw materials such as hops and malt.

It was Kirin Brewery Co. that initiated the price cuts in April. Three other major brewers−Sapporo, Suntory and Asahi−immediately followed suit. Kirin, Japan's largest beer producer, posted foreign exchange profits of ¥4.2 billion last fiscal year.

Yet there may be more than meets the eye to the sudden price cuts. The beer industry is currently in the midst of a "dry beer war" triggered by Asahi, which scored a hit with its "dry" beer featuring higher alcoholic content and a sharper taste. Kirin's share of the domestic beer market has slipped below 60% since 1986, while No.3-ranked Asahi has boosted its share to around 17% from 9.8% in 1985.

Japan's avid beer drinkers naturally welcome the price reductions ahead of summer, but they should not get their hopes up. Asahi Vice President Takemasa Yoneyama warns that further price cuts are highly unlikely.

## Manufactured Imports Post Record High

Japan's imports of manufactured goods in 1987 increased 25% over the previous year to a record $66 billion, according to a survey by the Japan External Trade Organization (JETRO). The share of manufactured goods in total imports was also a record at 44.1%.

Imports of machinery registered the largest increase, climbing 30.1% year-on-year to $19.1 billion. Imports of automobiles rose a striking 87.4%, while imports of computers and other office equipment expanded by 30.0%.

Imports from Hong Kong, Taiwan and South Korea rose 61.1% to $11.6 billion. Imports from the member countries of the Association of Southeast Asian Nations (excepting Brunei) increased 47.8% to $3.1 billion.

In sharp contrast, imports of manufactured goods from the United States climbed a minimal 0.2% to finish the year at $17.7 billion.

## Cigarette and Liquor Imports Surge

Japan's imports of cigarettes and liquors are increasing steadily as the appreciation of the yen makes foreign products a better buy.

Imports of whiskey and wine rose a sharp 38.6% in 1987 over the previous year to reach a record 107,664 kiloliters, according to the 1987 white paper on alcoholic beverages compiled by the National Tax Administration.

The annual report said whiskey imports rose a record 27.3%, even as sales of domestically produced whiskey declined. Wine imports surged 52.7%, which was also a record.

At the same time, the Tobacco Institute of Japan reported sales of imported cigarettes in fiscal 1987 increased a phenomenal 255% in volume over the previous year to a record 30.3 billion, and by 222% in value to ¥368 billion.

The sharp increase, also coming at a time of sagging sales of domestic products, reflected not only the higher yen but also the abolition of customs duties on foreign cigarettes, which lowered their price by ¥20 to ¥30 per pack. Imports now account for 10% of total cigarette sales in Japan.

## Closer Ties Wanted With Foreign Firms

Nearly half of Japanese businesses have transactions with foreign companies, while some 60% would like closer ties with companies in other countries, according to a recent survey by the Ministry of International Trade and Industry.

The survey, jointly conducted in April by a private advisory panel to the head of MITI's Industrial Policy Bureau and the research arm of Sanwa Bank, covered 1,026 nonfinancial companies with foreign equity interests of 50% or less, of which 43.6% responded.

In all, 46.3% of the companies responding had business or cooperative relations with foreign concerns, while 58.8% said they were interested in maintaining or entering into such ties. Respondents cited joint R&D on new products and licensing as priority areas for future cooperation. Business diversification was frequently cited as an advantage of cooperation.

But respondents gave their foreign partners low marks in a number of areas traditionally respected in Japan. Regarding after-sales services in particular, only 7.2% of respondents gave a high rating to the performance of foreign firms.

## Japan's External Assets Top $1 Trillion

Japan's external assets passed the $1 trillion mark for the first time in 1987.

According to a Ministry of Finance report on Japan's international assets and liabilities, external assets held by Japanese financial institutions, corporate and individual investors and the government stood at a record $1,071.6 billion at the end of the calendar year, increasing 47.3% from a year earlier.

It was Japan's third consecutive year as the world's largest holder of international net assets, the ministry said.

Propped up by overseas bond flotations by Japanese firms and purchases of Japanese government bonds and stocks by foreign investors, Japan's total international liabilities also surged 51.9% to $830.89 billion.

The nation's net international assets—the difference between its international assets and liabilities—soared 33.5% from 1986 to a record $240.74 billion.

The Finance Ministry attributed the new high in holdings of international assets to the recycling of Japan's huge global trade surplus into foreign securities, international lending by banks and other financial transactions.