relatively recently that imports of manufactures, by value, have exceeded imports of oil and food products. Japan consumes a smaller proportion of GDP, while capital formation contributes a larger share of aggregate demand, than is typical for OECD economies.

Japan's manufacturing sector is the foundation on which the economy has been built. It has been challenged by protectionism elsewhere, a strong yen, the rise of the NIEs and the other industrialising economies of Asia, and the deadweight of an inefficient distribution system and certain other service industries. Competition from the newly industrialised economies has caused a shift in the structure of production in Japan towards higher value-added and the services sectors, and away from heavy industries. Japanese manufacturers are spending significant sums on R&D. They are also shifting production to overseas sites, both to lower costs and to reduce its trade surplus and the resulting protectionist sentiment in its major markets abroad. There is an ongoing re-location of manufacturing to lower cost sites both within the North Asia region, particularly China, and the economies of Southeast Asia.

There are concerns in Japan that this economic restructuring may lead to reductions in manufacturing employment at home that will not be offset by increased employment opportunities in the new industries. The Japanese government is attempting to reduce the country's dependence on exports as an engine of growth and to encourage the expansion of domestic, and particularly consumer, demand through deregulation and tax reforms. Moreover, it is hoped that the rise in import spending that will accompany the increase in domestic demand will reduce the country's ongoing trade surplus. The ability of Japanese firms to adapt quickly to changing economic circumstances has been one of the country's greatest economic strengths. It is now being challenged once again.

Japan's industrial structure is characterized by inter-firm networks, known as keiretsu. Traditionally, keiretsu were organized around one of the country's large trading houses. Today, these structures typically connect a large corporation with a network of suppliers, which frequently are small firms. Surprisingly, in the manufacturing sector almost 50 per cent of the labour force works in firms with less than 50 employees. Moreover, only one-third of all Japanese workers have "positions for life", a practice confined to the major corporations. Japan's large corporations increasingly are relying on parent-subsidiary relationships to expand (as opposed to multi-division conglomerate structures).[10]

[10] I. Prakash Sharma, op. cit.