

NIGHT FLIGHT SPECIAL I

WORLD ROUTE

Why Did Japanese Companies Move Overseas?

● INTERMEDIATE ROUTE

Was It Really Just About Cheap Labor?

TAKEOFF

When we talk about the period in which Japanese companies expanded production overseas, one explanation often appears:

“They moved production to countries where labor was cheaper.”

That was certainly one important factor.

Production costs matter.

But if we explain Japan’s overseas expansion only through cheap labor, we miss much of what companies were actually facing.

Especially when we look at small and medium-sized manufacturers, another story appears.

Some did not go overseas because:

“We want to expand abroad.”

They went because:

“We may have to go overseas if we want to keep our business.”

So this time, let’s climb one altitude higher.

We will look not only at the company—

but at the forces surrounding it.



WHEN A MAJOR COMPANY MOVES, WHAT HAPPENS BEHIND IT?

Imagine a Japanese automobile manufacturer building a new factory overseas.

The automobile company cannot simply build one factory and begin producing cars by itself.

A modern automobile requires thousands upon thousands of parts.

Metal components.

Plastic components.

Electronic components.

Screws.

Molds.

Machine tools.

Paint.

And much more.

Behind one automobile is an enormous network of companies.

So when a major manufacturer moves production overseas, suppliers may hear:

“We need you to supply the same quality parts locally.”

Now the supplier faces a difficult choice.



THE RISK OF GOING — AND THE RISK OF NOT GOING

Building an overseas factory is expensive.

A company must:

Find land.

Build the factory.

Install machinery.

Hire local employees.

Transfer technical skills.

Understand local laws and taxes.

Manage exchange-rate risk.

Adapt to a different language and culture.

For a small or medium-sized company, every one of these can be a major burden.

So:

Going overseas is risky.

But does that mean staying in Japan is safe?

Not necessarily.

If a major customer increases overseas production, domestic orders may decline.

Then:

Sales fall

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Factory work declines

↓

Maintaining employment becomes difficult

So another risk appears.

In other words:

Going can be dangerous.

Not going can be dangerous too.

Some companies had to make decisions inside that uncomfortable space.

EXCHANGE RATES ENTER THE COCKPIT

Now another instrument lights up:

THE EXCHANGE RATE

Imagine two situations.

US\$1 = ¥150

and:

US\$1 = ¥80

For a company producing goods in Japan and exporting them overseas, a stronger yen can affect price competitiveness and the value of overseas earnings when translated back into yen.

Companies therefore had to consider:

“Should we continue producing in Japan and exporting?”

or:

“Would it make more sense to produce closer to the overseas market?”

Of course, companies do not decide where to build factories based on exchange rates alone.

But a prolonged period of yen strength can become one factor encouraging companies to consider overseas production.

SIDE ROUTE

There It Is: “Strong Yen / Weak Yen”

Another economic term has appeared on the radar.

No problem.

We already know what to do.

SELECT YOUR ALTITUDE

● Beginner → ● Intermediate → ● Advanced

Why does a stronger yen sometimes make exporting more difficult?

Why can a weaker yen help exporters but create other problems?

That is another SIDE ROUTE for another flight.

IT WASN'T ONLY ABOUT “MAKING THINGS CHEAPER”

There was another major reason for overseas expansion:

Overseas markets themselves were growing.

Suppose more people in the United States and Asia begin buying Japanese cars.

One option is:

Build every car in Japan and ship it overseas.

But as sales volumes increase, another idea becomes attractive:

“Why not build the cars closer to the customers?”

Local production can sometimes:

Shorten transportation times.

Respond more easily to local demand.

Expand relationships with local companies.

Reduce some exposure to currency fluctuations.

So overseas expansion was not only about:

Lowering costs.

It was also about:

Moving closer to growing markets.

That is a very different motivation.

COMPANIES DO NOT MOVE ALONE

Now we come to an important idea:

SUPPLY CHAIN

There it is again—another economic term. (笑)

But the idea is simple.

A supply chain is the network of companies connected to the production and delivery of a product.

Think about an automobile:

Steel company

↓

Parts manufacturer

↓

Electronics manufacturer

↓

Automobile manufacturer

↓

Logistics company

↓

Dealer

Many companies are connected.

No single company builds the entire automobile alone.

That means when a major manufacturer changes where it produces, the effects can travel through the network.

So:

Major company expands overseas

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Suppliers may also expand overseas

This is one reason why the overseas movement of large Japanese corporations could pull smaller companies along with them.



SMALL COMPANIES WERE NOT NECESSARILY LOOKING FOR AN “ADVENTURE”

This is one of the most important points of this NIGHT FLIGHT.

Overseas expansion can be described as an exciting story:

“A Japanese company took on the world!”

And for some companies, that may be exactly what happened.

But not for all of them.

For a small manufacturer, building an overseas factory can be an investment large enough to determine the future of the entire company.

Borrow money.

Buy machinery.

Send employees overseas.

Train local workers.

And after doing all that—

there is still no guarantee that the orders will continue.

So another way to understand the story is:

Some small and medium-sized companies did not go overseas because they wanted an adventure.

They went because protecting their business required them to take one.

That distinction matters.



THE SCHOOL CONSOLIDATION EXAMPLE

Let's return to our school analogy.

Imagine a town where the number of children keeps declining.

Classrooms become empty.

There are fewer students.

Maintaining several schools becomes expensive.

So the town consolidates its schools.

At that time, the decision may be completely reasonable.

Then twenty years pass.

A large factory is built in the town.

Young families move in.

Suddenly, the number of children rises sharply.

And now:

“We don't have enough classrooms!”

Does that prove the school consolidation twenty years earlier was a mistake?

Not necessarily.

Because:

The conditions twenty years ago were different from the conditions today.

Corporate decisions work the same way.



THE COMPANY DIDN'T NECESSARILY CHANGE — THE CONDITIONS DID

What conditions surrounded Japanese companies during the period of overseas expansion?

Among them were:

A strong yen

Growing overseas markets

Major customers expanding abroad

Differences in production costs

Globalization

Under those conditions, having production bases overseas could be a rational choice.

But today, other conditions are becoming more important:

Economic security

The experience of semiconductor shortages

Geopolitical risk

Supply-chain restructuring

Semiconductor investment inside Japan

AI and data centers

Industrial policies adopted by governments around the world

So the question itself has changed.

And:

When the question changes, the answer may change too.

This does not necessarily mean companies betrayed their previous strategy.

The companies did not simply change.

The conditions surrounding them changed.

That is the central idea of this flight.

AND THAT IS WHY “DOMESTIC RETURN” APPEARS ON THE RADAR

During one period, producing overseas offered important advantages.

But when conditions change, certain industries may once again find advantages in producing inside Japan.

Semiconductors are an easy example to watch.

But here we encounter another problem.

It sounds simple to say:

“Then bring the factories back to Japan.”

Reality is more complicated.

To increase production inside Japan, we need:

Engineers.

Construction companies.

Electricity.

Water.

Land.

Parts suppliers.

Logistics.

And suddenly—

We discover that we may not have enough classrooms.

The factory may want to come.

The investment may be available.

But does Japan have enough capacity to receive it?

That becomes the next question.



RETURNING HOME CAN ALSO BE AN ADVENTURE

This matters especially for small and medium-sized companies.

Imagine a major customer saying:

“We are increasing production in Japan. Please install new equipment so you can supply us.”

That sounds like good news.

And it is.

But the supplier immediately begins calculating.

How much will the new machinery cost?

How much must we borrow from the bank?

Can we hire enough workers?

Can we raise wages?

How many years will these orders continue?

What happens if the orders disappear after only a few years?

The company could be left with:

Debt and machinery — but no orders.

So we reach another important conclusion:

Overseas expansion was an adventure.

Returning to domestic production can also be an adventure.



AND THAT BRINGS US TO “FAIR PRICING”

Now we arrive at the bridge to our Domestic Route.

Suppose a small company receives more orders from a major manufacturer.

That sounds positive.

But what if the supplier can accept those orders only at prices that leave very little profit?

Sales may increase.

But sufficient profit may not remain.

Without profit:

Wages cannot rise.

New machinery cannot be purchased.

Research and development becomes difficult.

The company cannot prepare for the next opportunity.

So if we want to know whether domestic revival is really working, it is not enough to ask:

“Did a major corporation build a factory?”

We also need to ask:

Are surrounding small and medium-sized companies receiving fair prices?

Are they retaining healthy profits?

Can they raise wages?

Can they make the next investment?

Only then does domestic investment begin to circulate through the wider economy.

LANDING

The Decision Was Shaped by More Than Labor Costs

Why did Japanese companies move overseas?

Not simply because:

“Labor was cheaper.”

The decision could involve many conditions:

Exchange rates

Growth of overseas markets

Customers expanding abroad

Production costs

Supply chains

For some small and medium-sized companies, the reality was not:

“We want to go overseas.”

It was:

“We may have to go overseas if we want to protect our business.”

And now the conditions are changing again.

So perhaps the most important rule is:

Do not judge yesterday’s decision only by today’s conditions.

There were reasons that belonged to that time.

And when the conditions change—

Corporate decisions change too.

RE-FLIGHT

Would You Like to Change Altitude?

BEGINNER

Follow one small factory

A major customer moved overseas.

Why did the supplier follow?

→ Return to  **Beginner**

INTERMEDIATE

Follow the forces around the company

Exchange rates.

Growing overseas markets.

Customers.

Production costs.

Supply chains.

This is the altitude we flew today.

→ Return to  **Intermediate**

ADVANCED

Read the economic structure

Foreign Direct Investment.

Industrial hollowing-out.

Global supply chains.

Economic security.

Reshoring and domestic investment.

What happens when the structure itself begins to change?

→ Continue to  Advanced

SELECT YOUR ALTITUDE

 Beginner →  Intermediate →  Advanced

There is no need to rush.

Fly at the altitude that suits you today.

If you want to understand the story—

fly Beginner.

If you want to understand the mechanism—

fly Intermediate.

And when you want to see the whole economic structure—

Climb to Advanced.

Because on NIGHT FLIGHT:

You are the Captain.

You choose your own altitude.

NEXT FLIGHT

A New Question Appears

Now we understand why Japanese companies expanded overseas.

So the direction of our question reverses:

Why is investment in Japan beginning to attract attention again?

And there is another question.

Even if companies want to increase production in Japan—

Are there enough “classrooms” to receive them?

From here, NIGHT FLIGHT changes course:

Domestic Return

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Capital Investment

↓

Small and Medium-Sized Companies

↓

Gross Margin

↓

Wages

The WORLD ROUTE is beginning to connect with the DOMESTIC ROUTE.

The next aircraft is waiting.

NIGHT FLIGHT SPECIAL I

Numbers Take Flight.

You are the Captain.

I am your Co-Pilot.

AI is in the Control Tower.

WORLD ROUTE — INTERMEDIATE

RE-FLIGHT COMPLETE.

NEXT FLIGHT — CLEARED FOR TAKEOFF. 