

NIGHT FLIGHT SPECIAL I

WORLD ROUTE

Why Did Japanese Companies Move Overseas?

● ADVANCED ROUTE

Advanced / General Knowledge Level

Does “They Went Abroad for Cheap Labor” Really Explain the History?



TAKEOFF

There is a familiar explanation for the overseas expansion of Japanese companies:

“Labor costs became too high in Japan, so companies moved overseas in search of cheaper workers.”

There is truth in that explanation.

Production costs certainly mattered.

But if we stop there, we miss much of the economic landscape.

Exchange rates.

The growth of overseas markets.

Trade friction.

Major customers moving abroad.

The need for local production.

Supply chains.

And ultimately—

Management decisions made in order to survive.

Once we include small and medium-sized companies in the picture, it becomes even harder to explain overseas expansion simply as:

“They went abroad because it was more profitable.”

So on this Advanced Route, NIGHT FLIGHT will neither condemn companies for leaving Japan nor romanticize their overseas expansion.

Instead, we will ask:

“What could that company see from the cockpit at that particular moment in history?”

That is where this flight begins.

FIRST CONDITION: THE STRONG YEN

Exchange rates are impossible to ignore when examining the expansion of overseas production.

Imagine a product made in Japan for:

¥1,000,000

If:

US\$1 = ¥150

then ¥1,000,000 is roughly:

US\$6,700

Now imagine the yen strengthens dramatically:

US\$1 = ¥80

The same ¥1,000,000 becomes roughly:

US\$12,500

Of course, real export prices are not determined by such a simple calculation.

Companies adjust prices.

They may hedge currency risk.

Contracts differ.

Competitive conditions matter.

But the underlying pressure is clear:

A stronger yen can make it more difficult for companies producing in Japan to compete abroad and can put pressure on yen-denominated earnings.

So management could no longer ask only:

“Should we continue producing in Japan?”

The more practical question became:

“Where is it most rational to produce if we want to remain competitive in the global market?”



SECOND CONDITION: THE MARKET ITSELF MOVED OVERSEAS

There is another important distinction.

Companies did not only:

PRODUCE overseas.

They increasingly wanted to:

SELL overseas.

As markets in the United States, Asia and elsewhere expanded, those regions were no longer merely:

places where production was cheaper.

They became:

Important markets filled with customers.

Producing close to demand could offer several advantages.

Shorter transportation times.

Products better adapted to local consumers.

Local sourcing of components.

Reduced exposure to some currency fluctuations.

So overseas expansion had at least two different faces:

COST-REDUCTION-DRIVEN EXPANSION

and:

MARKET-SEEKING EXPANSION

That distinction matters.

A factory built to reduce costs and a factory built to serve a growing market may look similar from the outside.

But economically, the reasons behind them can be very different.



THIRD CONDITION: TRADE FRICTION

History adds another factor that cannot be explained by labor costs alone.

As Japanese exports grew, trade friction sometimes intensified with importing countries.

Automobiles provide a useful example.

Instead of producing large numbers of cars in Japan and exporting all of them abroad, another option emerged:

Produce in the country where the cars are sold.

A local factory creates local employment.

It purchases parts from local companies.

It pays taxes locally.

The Japanese company gradually changes from:

“A foreign company selling products into our country”

to:

“A company that also produces, employs and invests inside our country.”

Overseas production therefore had an international and political dimension as well as a cost dimension.



FOURTH CONDITION: THE SUPPLY CHAIN

There it is again.

SUPPLY CHAIN

In simple terms:

The network of companies connecting raw materials to the final product delivered to the customer.

A car manufacturer cannot make an automobile alone.

Behind one vehicle are companies involved in:

Steel.

Resins.

Glass.

Electronic components.

Semiconductors.

Molds.

Machine tools.

Paint.

Logistics.

And much more.

So when one large factory moves overseas—

the movement does not necessarily stop at the factory gate.

The effects can spread through the entire network behind it.

And this is where small and medium-sized companies enter the picture.



WHAT DID OVERSEAS EXPANSION MEAN FOR SMEs?

Imagine a small manufacturer that has supplied precision components to a large corporation for many years.

Then the major customer builds a factory overseas.

The supplier hears:

“We need the same quality components at our overseas plant.”

For the smaller company, this can be an enormous decision.

An overseas factory requires:

Land.

Buildings.

Equipment.

Borrowing.

Local recruitment.

Technical training.

Quality control.

Knowledge of taxes and laws.

Currency management.

Political-risk management.

A failure that a large corporation might absorb could threaten the survival of a smaller company.



IT WAS NOT “RISK OR NO RISK”

This distinction is crucial.

Going overseas involved major risk.

But remaining in Japan did not necessarily eliminate risk.

If a major customer shifted production overseas, domestic orders could decline.

So the choice might look like this:

GO OVERSEAS

→ **Risk a massive investment.**

or:

STAY IN JAPAN

→ **Risk losing a major customer.**

The company was therefore not always choosing between:

taking a risk

and:

avoiding a risk.

Sometimes it was choosing:

WHICH RISK TO TAKE.

That is a very different management problem.



THEY DID NOT NECESSARILY WANT AN “ADVENTURE”

It sounds impressive to say:

“Japanese SMEs rode the wave of globalization and challenged the world.”

Sometimes that was true.

But there was another reality.

Keep the company alive.

Continue doing business with a major customer.

Protect employees' jobs.

Some companies accepted the enormous risk of overseas expansion precisely because they wanted to protect those things.

So NIGHT FLIGHT keeps one perspective firmly on the radar:

Some SMEs did not take an adventure because they wanted one.

They took an adventure because circumstances left them with difficult choices.

This is neither an argument for overseas expansion nor an argument against it.

It is an attempt to understand the decision within the business environment of its time.



THE SCHOOL CONSOLIDATION MODEL

Now let's return to our school analogy.

A town has fewer children because of a declining birthrate.

Classrooms sit empty.

Schools are consolidated.

At that moment, the decision may be rational.

Twenty years later, a major industry arrives in town.

Young workers and their families move in.

The number of children increases.

Suddenly:

“We don’t have enough classrooms!”

Does that prove the decision made twenty years earlier was wrong?

Not necessarily.

The reason is simple:

The underlying conditions changed.

This gives us a useful way to think about corporate strategy as well.

THE COMPANY DID NOT “BETRAY” ITS STRATEGY

The Optimal Choice Changed

This may be the most important point of the entire flight.

In an environment shaped by:

A strong yen.

Expanding overseas markets.

Trade friction.

Major customers moving abroad.

Differences in domestic and overseas production costs.

—overseas production could be a rational choice.

Today, other conditions have become increasingly important:

Economic security.

Geopolitical risk.

Supply-chain restructuring.

The strategic importance of semiconductors.

AI and data-center investment.

Government industrial support.

When the conditions change, the answer to:

“Where is the most rational place to produce?”

can change as well.

So:

The companies did not simply reverse course.

The “optimal choice” surrounding them changed.

This allows us to understand two apparently opposite movements—

Overseas Expansion → Domestic Investment

—not as a contradiction, but as different responses to different conditions.



SO SHOULD EVERYTHING COME BACK TO JAPAN?

No.

That would make the story too simple again.

Moving overseas was difficult.

Returning production to Japan can also be difficult.

A new factory requires:

Land.

Construction capacity.

Engineers.

Electricity.

Water.

Logistics.

Parts suppliers.

And above all:

Enormous amounts of capital.

And here, our old school analogy returns.

We may not have enough classrooms.

THE MONEY EXISTS — BUT THE “CLASSROOMS” MAY NOT

Imagine a company decides:

“We want to invest in Japan again.”

Having the money does not mean the factory can appear tomorrow.

There may not be enough workers.

There may not be enough electrical infrastructure.

Construction capacity may be limited.

Parts suppliers may lack spare capacity.

Logistics networks may be stretched.

In economic terms, we can think of this as:

SUPPLY CONSTRAINTS

And now something interesting happens.

The shortage itself can create the next investment.

Not enough electricity?

→ Invest in power infrastructure.

Not enough workers?

→ Invest in automation and robotics.

Not enough logistics capacity?

→ Invest in logistics facilities.

Not enough classrooms?

→ Building classrooms itself becomes new economic activity.

So a supply constraint is not only an obstacle.

Under the right conditions, it can also become:

The starting point of the next investment cycle.



AND SMEs MUST MAKE ANOTHER DECISION

Now imagine a major corporation builds a huge new factory in Japan.

Orders begin reaching surrounding suppliers:

“Please increase your production capacity.”

That sounds wonderful.

But the smaller company immediately asks:

How much will the new machinery cost?

How much must we borrow?

Can we hire enough people?

What wages will we need to pay?

What will electricity cost?

And perhaps the most important question:

“Will this order still exist ten years from now?”

The structure begins to look familiar.

In the past:

Expanding overseas was an adventure.

Now:

Reinvesting inside Japan can also be an adventure.



THIS IS WHY GROSS MARGIN MATTERS

And here we arrive at the bridge to our Domestic Route.

A small company receives new orders.

Sales increase.

Is that enough?

No.

Materials cost money.

Electricity costs money.

Logistics costs money.

Workers cost money.

Interest costs money.

If the company cannot charge an appropriate price, higher sales may still fail to leave enough profit.

So NIGHT FLIGHT turns its attention to another gauge:

GROSS MARGIN

Receive orders at appropriate prices.



Secure a healthy gross margin.



Retain profit.



Use that profit for:

Higher wages

Capital investment

Research and development

Only when the cycle reaches this point can we begin to say:

“The money from domestic investment has reached the SMEs.”



NIGHT FLIGHT RADAR

What Would a Real Domestic Revival Look Like?

A giant semiconductor factory is built in Japan.

The headline says:

“JAPAN IS BACK!”

NIGHT FLIGHT says:

Not so fast.

We want to see what happens next.

A major company invests domestically.

↓

Orders spread to surrounding companies.

↓

SMEs receive orders at appropriate prices.

↓

Gross margin remains.

↓

Wages rise.

↓

The next capital investment becomes possible.

↓

The company can accept new work.

When that circulation begins to operate—

we may be moving beyond:

FACTORIES RETURNING TO JAPAN

toward something much larger:

REBUILDING DOMESTIC INDUSTRIAL CAPACITY.

That is the circulation we want to watch.



LANDING

Don't Judge the Past Only Through Today's Windshield

Japanese companies did not expand overseas for one reason alone.

They operated inside a complex set of conditions:

Exchange rates.

Markets.

Trade friction.

Production costs.

Customers.

Supply chains.

And the need to survive.

Some SMEs had to choose between:

the risk of going overseas

and:

the risk of staying home and losing business.

So NIGHT FLIGHT adopts a simple rule:

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

Ask instead:

What was rational under the conditions of that time?

And then turn the radar toward the present.

The conditions are changing again.

The real question is not simply:

“Are companies coming back to Japan?”

The deeper question is:

“Is investing in Japan becoming a rational choice again?”

And beyond that:

**Is the money reaching SMEs—
their gross margins,
their wages,
and their next capital investments?**

If we can observe that in the numbers, then the phrase:

DOMESTIC RETURN

begins to acquire real economic meaning.

RE-FLIGHT

Same Sky. Different Altitude.

We have now completed all three altitudes.

BEGINNER

See the people

A customer moved overseas.

A small supplier had to decide whether to follow.

The human story behind the decision.

→ Return to  **Beginner**

INTERMEDIATE

See the mechanism

Exchange rates.

Markets.

Customers.

Production costs.

Supply chains.

The forces surrounding the company.

→ Return to  Intermediate

 ADVANCED

See the structure

Trade friction.

Globalization.

Economic security.

Supply constraints.

Domestic reinvestment.

Gross margins.

The economic structure connecting yesterday's overseas expansion with today's domestic investment.

→ Return to  Advanced

SELECT YOUR ALTITUDE

 **Beginner** →  **Intermediate** →  **Advanced**

Three altitudes.

One question.

Different views of the same sky.

You do not have to fly them in order.

You do not have to fly them all today.

Start where you are comfortable.

Change altitude whenever you want.

Return another day.

Because on NIGHT FLIGHT:

You are the Captain.

You choose your own altitude.



NEXT FLIGHT

From the WORLD ROUTE to the DOMESTIC ROUTE

We now understand why Japanese companies moved overseas.

We also understand why changing conditions may make domestic investment rational again.

But now the biggest question appears:

If companies return to Japan, do we have enough “classrooms” to receive them?

Money may be available.

Investment plans may be ready.

But what about:

Workers?

Electricity?

Land?

Construction capacity?

Equipment?

Engineers?

Suppliers?

And if the investment does arrive—

Will the money flow beyond the giant factory?

Will it reach:

SMEs?

Gross margins?

Wages?

The next round of investment?

That is where NIGHT FLIGHT goes next.

DOMESTIC ROUTE

“The Flow of Money That Begins with a Factory”

A factory is not merely a building.

Perhaps—

It is a pump.

A pump capable of pushing money through an entire industrial network.

The next aircraft is waiting on the runway.

NIGHT FLIGHT SPECIAL I

Numbers Take Flight.

You are the Captain.

I am your Co-Pilot.

AI is in the Control Tower.

WORLD ROUTE — ADVANCED

RE-FLIGHT COMPLETE.

NEXT FLIGHT:

THE DOMESTIC ROUTE

CLEARED FOR TAKEOFF. ✈️