

Section 4 Companies' overseas expansion and the benefits for the Japanese economy

1. Review of the impact of companies' overseas expansion on the Japanese economy

This subsection will show, by means of a review using an analysis method taking account of causal relationships, that Japanese companies' overseas expansion bring benefits to the Japanese economy not only through profits, employment, investment, productivity, and wages but also through the promotion of exports in surrounding regions. In doing that, we will take an overview of the analyses conducted in the past by the Ministry of Economy, Trade and Industry and the Cabinet Office.

In the past, the Ministry of Economy, Trade and Industry verified the impact of companies' overseas expansion on themselves in the White Paper on Small and Medium Enterprises in Japan (2010 and 2012) and the White Paper on International Economy and Trade (2012). Those white papers compared companies that started export or foreign direct investment for the purpose of owning overseas subsidiaries in particular fiscal years and companies that did not so in terms of changes in the number of employees and the productivity level after starting export or foreign direct investment. It was found that companies that started export or foreign direct investment in some of the fiscal years adopted as the starting years of export or foreign direct investment (reference years) were recording a higher rate of growth in the number of employees and the productivity level several years later than companies that did not. However, regarding the analyses so far conducted by the Ministry of Economy, Trade and Industry, there is room for reconsidering the method of verifying the effects of companies' overseas expansion from three viewpoints. First, as those analyses merely looked at companies that started export or foreign direct investment in some particular fiscal years (in FY2001, for example), they do not prove that the same effects can be observed in the case of companies that started those activities in other years. Second, as the analysis results represent nothing more than the calculations based on collected data, they do not prove the presence of a causal relationship between the start of export or foreign direct investment and the increase in the number of employees. Third, the analyses did not sufficiently exclude the effects of selection bias, which refers to a “bias that arises from differences in the potential trends of the groups compared,”²³³ and as a result, it is possible that this bias undermined the validity of the comparison by causing the differences in employment and productivity to be overestimated or underestimated.

On the other hand, the Cabinet Office verified a causal relationship regarding the effects that the start of export may have on companies' total factor productivity and employment in the FY2019 Annual Report on the Japanese Economy and Public Finance. The Cabinet Office conducted a difference-in-difference analysis using a regression approach after controlling the effects of selection bias using the propensity score matching method. As a result, it was found that the rate of change in the number of employees in the first six years after the starting year of export and in the level of total factor productivity in the second, third, fifth, and sixth year from the reference year compared with the year before the reference year at companies that started export was higher by a statistically significant margin than the rate of change at companies that did not.

²³³ Quoted from Yasui, S. (2020), “KOUKA KENSHOU NYUUMON TADASHII HIKAKU NO TAMENO INGA SUIRON/KEIRYOUKEIZAIGAKU NO KISO” (Gijutsu-Hyoron Co., Ltd.), p.6.

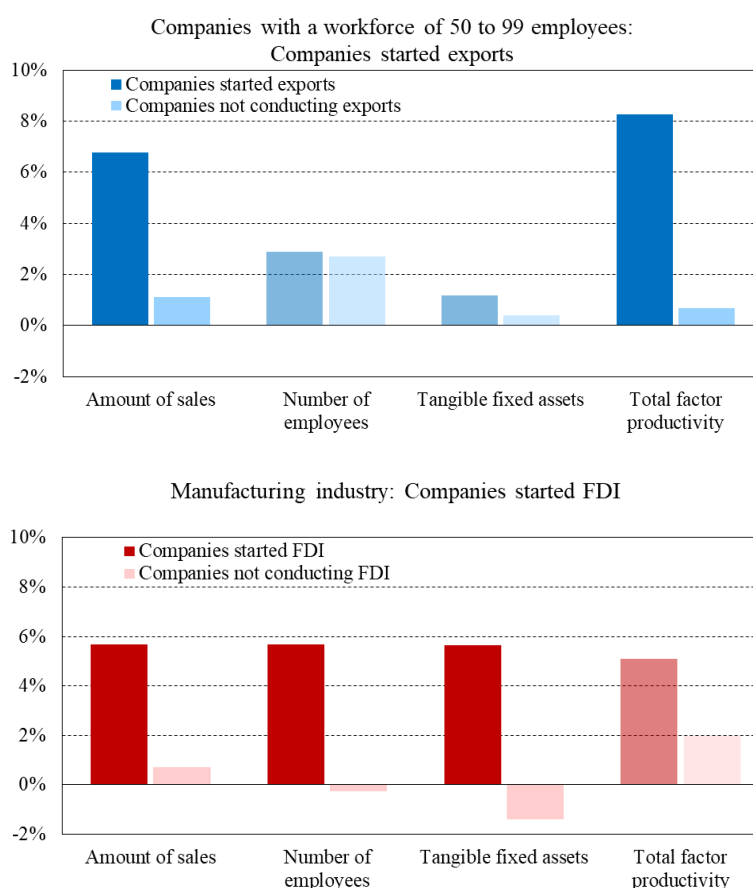
This white paper will seek to identify causal relationships and verify the impact of companies' overseas expansion on their profits, employment, investment, productivity, and wages after excluding the effects of selection bias to the greatest possible extent while using the analysis method adopted in the Annual Report on the Japanese Economy and Public Finance as a reference. Specifically, first, we extracted data concerning the number of employees, the amount of sales, the value of capital stocks,²³⁴ total factor productivity,²³⁵ the number of domestic subsidiaries (only in the case of companies that started foreign direct investment), the starting year of export, the starting year of foreign direct investment, industry category, and company size (only in the case of companies that started export) from the Basic Survey of Japanese Business Structure and Activities and the Basic Survey on Overseas Business Activities, both of which were compiled by the Ministry of Economy, Trade and Industry. Based on the data, we made assumptions, including the calculation of companies' probability of starting export or foreign direct investment in a particular year through logistic regression using those data. From among groups of companies whose probability of starting export or foreign direct investment in a particular year is similar, pairs were formed between companies that actually started export or foreign direct investment in a reference year and companies that did not do so in that year within the same industry. Regarding the pairs of companies thus formed, we conducted a difference-in-difference analysis using a regression analysis concerning changes in the number of employees, the amount of sales, the value of capital stocks, total factor productivity, and compensation per employee in the first five years (in case of companies that started exports) or ten years (in case of companies that started foreign direct investment) from the reference year compared with the year before the reference year after controlling the effects of the year, industry category and company size (only in the case of companies that started export). In the verification, we conducted estimation using the data for FY1998-FY2020 in the case of companies that started export and the data for FY1995-FY2020 in the case of companies that started foreign direct investment (as for the details of the analysis, see Attached Note 5).

Figure II-2-4-1 shows the results of verification of the effects of the start of export or foreign direct investment on companies' growth through a difference-in-difference analysis by company size category (companies with a workforce of 50 to 99 employees, companies with a workforce of 100 to 299 employees and companies with a workforce of 300 or more employees) in the case of companies that started export and by industry category (manufacturing industries and non-manufacturing industries) in the case of companies that started foreign direct investment. Here, let us look at the rate of change in the amount of sales, the number of employees, the value of capital stocks, and total factor productivity in the fifth year from the reference year compared with the year before the reference year at companies with a workforce of 50 to 99 employees that started export and at companies in manufacturing industries that started foreign direct investment (as for the details of the analysis, see Attached Note 5).

²³⁴ The value of capital stocks was obtained by deflating the value of the tangible fixed assets in the Basic Survey of Japanese Business Structure by the capital investment deflator, a component of the GDP deflator.

²³⁵ Total factor productivity was calculated through the Levinsohn and Petrin method.

Figure II-2-4-1. Effects of start of overseas expansion (growth rates after five years)



Note: From among groups of companies that have a close probability of starting exports or FDI in a particular year calculated based on the number of employees, the amount of sales, the value of capital stock, total factor productivity, the number of domestic subsidiaries, the starting year of export or FDI, industry category, company size, etc., pairs were formed between companies that actually started exports or FDI and companies that did not start do so. Based on this, a difference-in-differences analysis was conducted using the propensity score matching method concerning changes in the number of employees, the amount of sales, the value of capital stock, total factor productivity, and compensation per employee from one year prior to the start of exports or FDI, whose results are shown in the figures. The bar graphs show the averages for each group. Concerning the items for which no statistical significance was found at the level of 5% are illustrated with increased transparency.

Source: *Basic Survey of Japanese Business Structure and Activities, Basic Survey on Overseas Business Activities* (METI).

First, regarding companies with a workforce of 50 to 99 employees that started export, the analysis indicated that the rate of change in the amount of sales and total factor productivity in the fifth year was higher than at companies that did not. Although companies that started export showed significant growth in the amount of sales and total factor productivity in particular, companies that did not do so failed to achieve growth. This finding suggests the importance of supporting export by small companies.

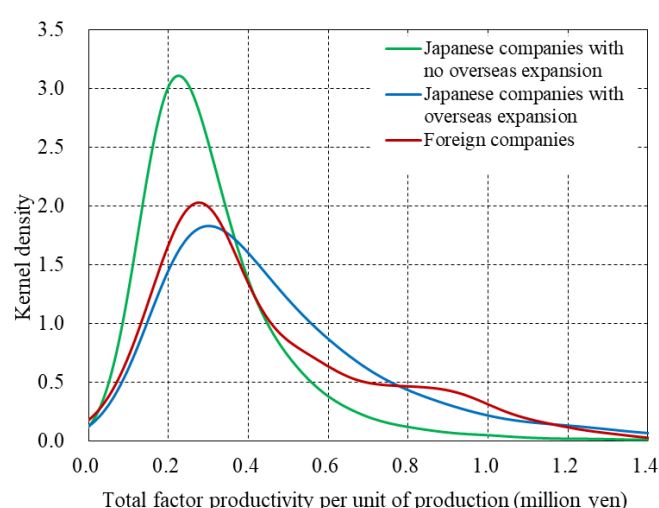
The yen's depreciation provides a good opportunity to start export, so in order to help small and medium-size enterprises (SMEs) and local enterprises that have not until now exported prepare for export and smoothly negotiate specific export deals and conduct export activity, the Ministry of Economy, Trade and Industry, the Small and Medium Enterprise Agency, JETRO and the Organization

for Small & Medium Enterprises and Regional Innovation have been working together since December 2022 in implementing the 10,000 New Exporters Program. Under this program, the following four measures are implemented in an integrated manner: (1) identifying business operators preparing to start export; (2) providing an expert consulting service regarding export; (3) subsidizing the costs of developing products for export and promoting sales; and (4) support matching with export trading companies and participation in e-commerce sites. Through those initiatives, the Ministry of Economy, Trade and Industry will provide full support so that SMEs and local enterprises can achieve further growth through export.

The analysis also indicated that at companies in manufacturing industries that started foreign direct investment, the rate of change in the amount of sales, the number of employees and the value of capital stocks was higher than at companies that did not do. At companies that did not make foreign direct investment, the rate of change in the number of employees and the value of capital stocks was negative. This finding suggests that the contributions made by companies that do not pursue overseas expansion to domestic employment and domestic investment are limited.

With respect to total factor productivity, the start of foreign direct investment did not have significant positive effects. However, a comparison between foreign companies²³⁶ and Japanese companies in terms of the distribution of total factor productivity (Figure II-2-4-2) shows that Japanese companies that make foreign direct investment tend to have a high level of total factor productivity compared with Japanese companies that do not and foreign companies. This finding, coupled with the analysis results shown by Figure II-2-4-1, suggests the possibility that although total factor productivity is an important factor of companies' overseas expansion, we did not observe positive effects of the start of foreign direct investment on total factor productivity because companies that start export tend to have a high level of total factor productivity in the first place.

Figure II-2-4-2. Comparison of total factor productivity

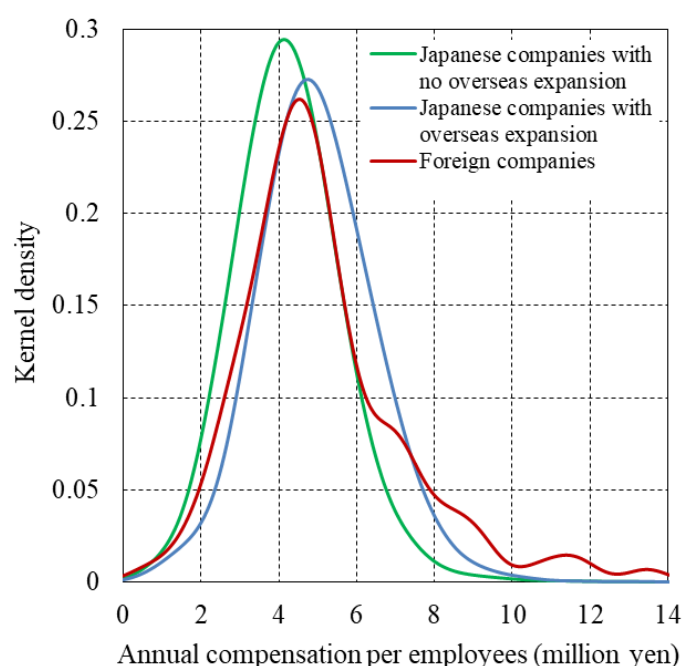


Source: *Basic Survey of Japanese Business Structure and Activities* (METI).

²³⁶ Based on the definition of foreign companies in the Basic Survey of Japanese Business Structure and Activities by the Ministry of Economy, Trade and Industry, foreign companies as referred to here are those with a foreign capital ratio higher than 33.3%.

A comparison between Japanese and foreign companies in manufacturing industries in terms of the distribution of compensation per employee (Figure II-2-4-3) shows that the level of compensation per employee at Japanese companies that make foreign direct investment tend to be high compared with the level at Japanese companies that do not. While the productivity level at Japanese companies that make foreign direct investment tend to be higher than the level at foreign companies, foreign companies tend to pay a higher level of compensation per employee than Japanese companies that make foreign direct investment.

Figure II-2-4-3. Comparison of compensation per employee



Source: *Basic Survey of Japanese Business Structure and Activities* (METI).

The above findings reaffirmed that supporting companies' overseas expansion is important because not only starting export but also starting foreign direct investment promotes the growth of Japanese companies, thereby generating positive effects on the Japanese economy.

In the above analysis, we verified the effects of companies' overseas expansion on themselves. However, companies' overseas expansion may affect not only their own domestic business establishments but also the regions around those establishments. When goods are manufactured at a certain business establishment, it is presumed that materials are procured from business establishments located in the surrounding region, with the manufactured goods shipped domestically and exported. Therefore, when the overseas production ratio rises at manufacturing companies that own overseas subsidiaries (hereinafter referred to as "global companies"), other companies' business establishments that are located around those companies' domestic establishments are presumed to be affected as a result.

Indeed, Kiyota, Nakajima, and Takizawa (2022)²³⁷ analyzed data on domestic business establishments in manufacturing industries classified by region and by industry using the Basic Survey of Japanese Business Structure and Activities, the Basic Survey on Overseas Business Activities, and the Census of Manufacture, all of which are compiled by the Ministry of Economy, Trade and Industry and showed that the progress made in offshoring activity in a certain industry in a certain region²³⁸ has the effect of increasing employment in the same industry in the region when the negative impact of competition imports with China on employment has been controlled. Therefore, in order to examine in more detail the complementary relationship between the rise in global companies' overseas production ratio and shipments in domestic regions while looking at this from the same perspective, we sorted the data concerning business establishments located around each global company's²³⁹ domestic business establishments by connecting METI's abovementioned three surveys with more detailed geographical data. Based on the data, we verified the impact of the rise in global companies' overseas production ratio on exports from the regions around those companies' domestic business establishments. More specifically, when we conducted estimation²⁴⁰ with regard to the data for FY2012-FY2019 while controlling the effects of foreign demand²⁴¹ and the value of shipments from the regions (as for the details of the analysis, see Note 6), the estimation indicated that when the overseas production ratio has risen at global companies with capital of 1 billion yen or higher, the value of exports from the regions within a radius of 5 kilometers from those companies' domestic establishments (hereinafter referred to as the "surrounding regions")²⁴² increases (Figure II-2-4-4). This finding suggests the possibility that a rise in global companies' overseas production ratio may be increasing exports from domestic regions through increases in procurements from business establishments located in the regions around their domestic business establishments.

²³⁷ Kiyota K. and K. Nakajima, TAKIZAWA Miho (2022), "Local Labor Market Effects of Chinese Imports and Offshoring: Evidence from Matched-Foreign Affiliate-Domestic Parent Domestic Plant Data in Japan," RIETI Discussion Paper Series 22-E-013.

²³⁸ "Offshoring" as referred to here is an increase in employment at overseas subsidiaries.

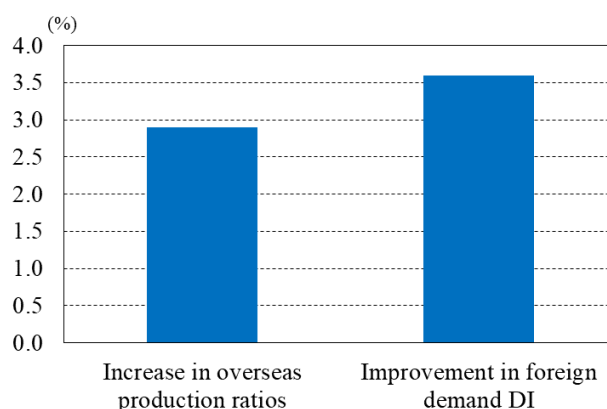
²³⁹ In the estimation, a global company refers to a company with capital of one billion yen or higher and with an overseas production ratio of higher than zero.

²⁴⁰ In this analysis, it is assumed that in cases where the areas of the regions around two or more core business establishments are overlapping because of the proximity between those core business establishments, the effects that the core establishments have on the surrounding regions are independent from each other. However, in reality, in the areas that include the regions around two or more business establishments of global companies, there may be cases where this assumption is not valid, such as when the effects from a certain business establishment is so strong as to offset the effects from other business establishments. Therefore, the estimation results obtained from this analysis may contain some biases. In addition, in this analysis, only the impact of a certain business establishment on the whole of the surrounding region is estimated, with no consideration given to the impact on individual business establishments located there.

²⁴¹ Using the "Overseas Supply & Demand Conditions for Products" in the Short-Term Economic Survey of Enterprises in Japan by the Bank of Japan.

²⁴² The number of employees at business establishments with a capital of one billion yen or higher are excluded from the compilation of data regarding business establishments located within a radius of 5 kilometers.

Figure II-2-4-4. Impact of an increase in the overseas production ratio of global companies on the value of exports from business establishments located in the region around the global companies' domestic business establishments



Note: The data were estimated by a fixed effects model with panel data using the value of exports from the region as a dependent variable and the overseas production ratio of global companies, foreign demand DI, and the value of shipments from the regions as independent variables. With regard to the overseas production ratio and the foreign demand DI, the average increase in the value of exports in accordance with the overseas production ratios and the foreign demand DI for the same period was estimated by multiplying the average and the coefficient in terms of the changes from 2012 to 2019. For the foreign demand DI, the “Overseas Supply & Demand Conditions for Products” in the Short-Term Economic Survey of Enterprises in Japan was used.

Source: *Basic Survey of Japanese Business Structure and Activities, Basic Survey on Overseas Business Activities, Census of Manufacture, Indices of Industrial Domestic Shipments and Imports* (METI), *Short-Term Economic Survey of Enterprises in Japan* (BOJ).

2. Companies' overseas expansion and the benefits for the Japanese economy

The previous subsection confirmed that companies' overseas expansion is important given that companies expanding overseas are recording higher rates of growth than companies not expanding overseas in terms of productivity, the amount of sales, the number of employees, and wages. This subsection will look at various business approaches that may be adopted by domestic business establishments according to their objectives and the effects that those approaches are expected to have on six types of capital related to corporate activity. Next, based on a questionnaire survey conducted by JETRO in FY2022 on Japanese companies' overseas expansion, we will identify the current status of and challenges for Japanese companies' overseas expansion. In addition, we will indicate the future direction of efforts to promote Japanese companies' overseas expansion.

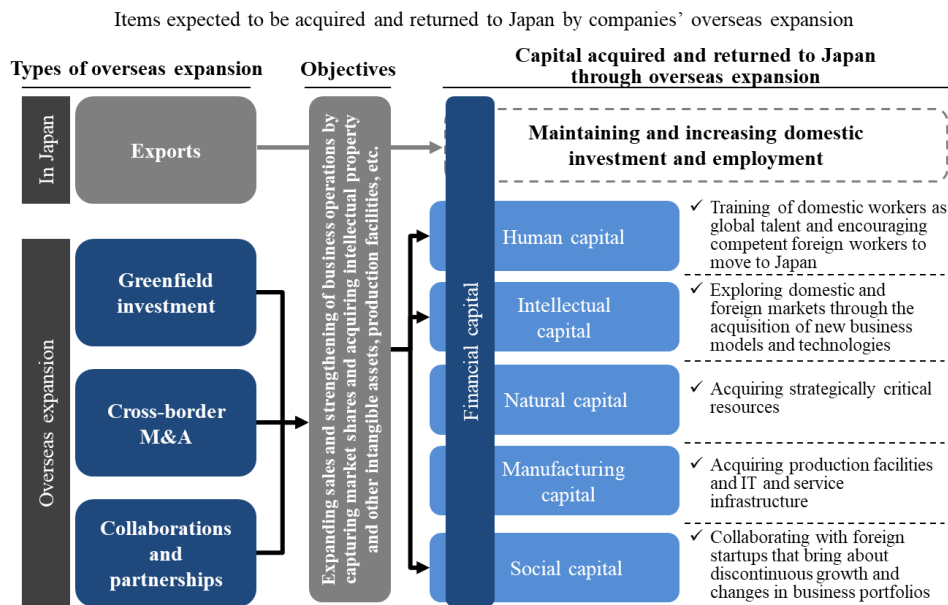
(1) Objectives of companies' overseas expansion and expected effects

The categories of companies' overseas expansion, their objectives, and the types of capital that are expected to be acquired and returned to Japan through overseas expansion can be summarized as shown in the figure below (Figure II-2-4-5).

First, the possible objectives of companies' overseas expansion include expanding sales and strengthening business operations by capturing market shares and acquiring intellectual property and other intangible assets and production facilities. Broadly, overseas expansion can be divided into two categories: exporting from domestic establishments and conducting business operations abroad.

Exporting is expected to maintain and increase domestic investment and employment. On the other hand, conducting business operations abroad include approaches such as “green field investment,” which refers to establishing new companies as part of overseas expansion, “cross-border M&A,” which refers to the acquisition of existing foreign companies, and “collaborations and partnerships.” Let us examine capital that is expected to be acquired and returned to Japan through those approaches as classified into the following six types: “human capital,” “intellectual capital,” “natural capital,” “manufacturing capital,” “social capital,” and “financial capital.” Regarding “human capital,” overseas expansion is expected to promote the training of domestic workers as global talent and lead to the acquisition of competent foreign workers. As for “intellectual capital,” overseas expansion is expected to help explore new domestic and foreign markets through the acquisition of new business models and technologies. With regard to “natural capital,” overseas expansion is expected to lead to the building of resilient global value chains, which was mentioned in the previous chapter, and the acquisition of strategically critical resources that are important from the viewpoint of economic security. Regarding “manufacturing capital,” overseas expansion is expected to lead to the acquisition of production facilities and IT and services infrastructure. Regarding “social capital,” overseas expansion is expected to bring about discontinuous growth and changes in business portfolios, which will be mentioned in the next chapter, and lead to collaborations with foreign startups. “Financial capital” is expected to be acquired and returned to Japan regardless of whether overseas expansion is pursued through export from domestic establishments or through overseas establishments.

Figure II-2-4-5. Capital expected to be acquired and returned to Japan by companies’ overseas expansion



Source: METI.

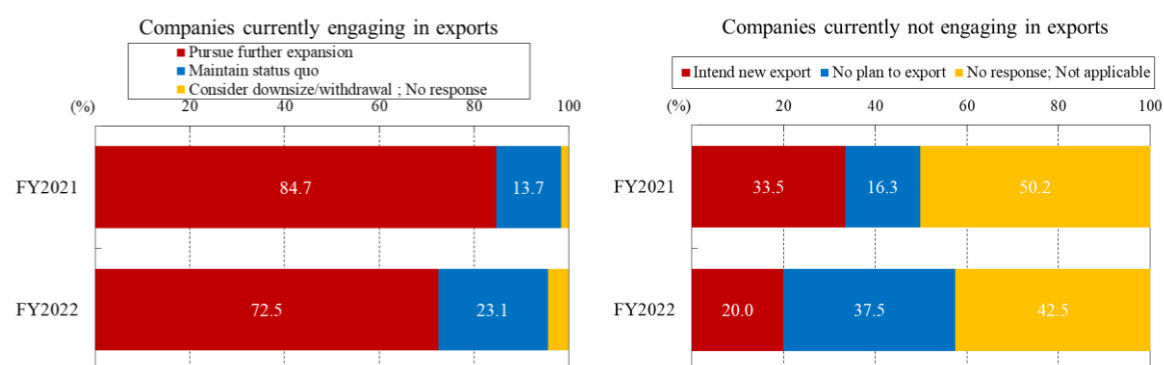
(2) Challenges related to companies’ overseas expansion

In light of the abovementioned objectives of companies’ overseas expansion and business approaches to overseas expansion as well as the benefits expected from overseas expansion, we will identify the

current status of Japanese companies' overseas expansion and the challenges faced by them while looking at some of the results of a questionnaire survey conducted by JETRO in FY2022 with Japanese companies strongly interested in overseas business.

First, let us look at the replies to questions concerning the trend in companies' exports. The survey asked both companies currently engaging in export and companies currently not engaging in export about their policy on export for the next three years. Among the companies currently engaging in export, the percentage of those that replied that they were "planning to expand export" decreased compared with the survey in the previous fiscal year. Among the companies currently not engaging in export, the percentage of those that replied that they were "planning to start export" decreased compared with the survey in the previous fiscal year, while the percentage of those that replied that they were "not planning to start export" in the future increased. (Figure II-2-4-6).

Figure II-2-4-6. Results of questionnaire survey on companies' export policies

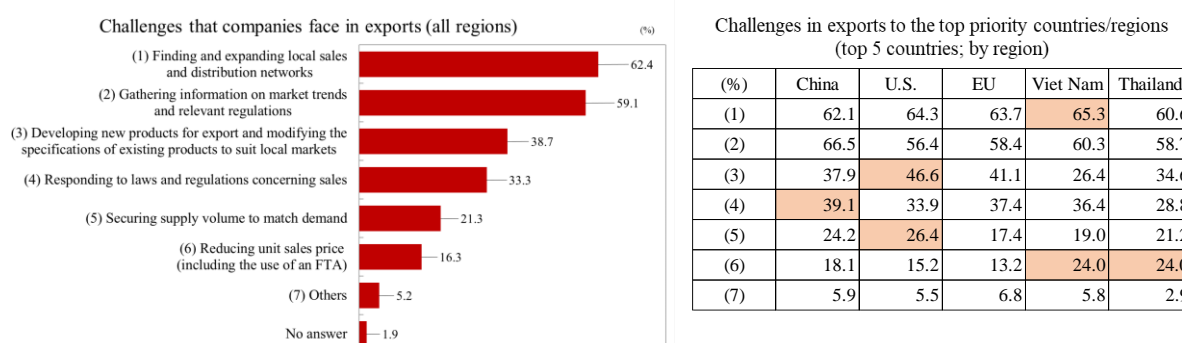


Source: *FY2022 Survey on the International Operations of Japanese Firms -JETRO Overseas Business Survey-* (JETRO).

Among the reasons cited for those replies are the COVID-19 crisis, the impact of Russia's aggression against Ukraine, the exchange rate trend, the global inflation trend, difficulty of procuring parts due to the semiconductor shortage and the difficulty of pursuing further expansion because the production capacity mostly matches the export volume. This indicates that the current situation of heightened uncertainty is making it difficult to make decisions on active investment and that the supply of intermediate goods and production capacity are not keeping up with demand, resulting in a tight supply-demand balance.

As for the challenges faced by companies when exporting to the top priority country or region, "(1) finding and expanding local sales and distribution networks" and "(2) gathering information on market trends and relevant regulations" were cited as the main challenges. When we look at the survey results by country/region, those two activities were among the challenges cited by many companies (Figure II-2-4-7).

Figure II-2-4-7. Challenges that companies face in exports

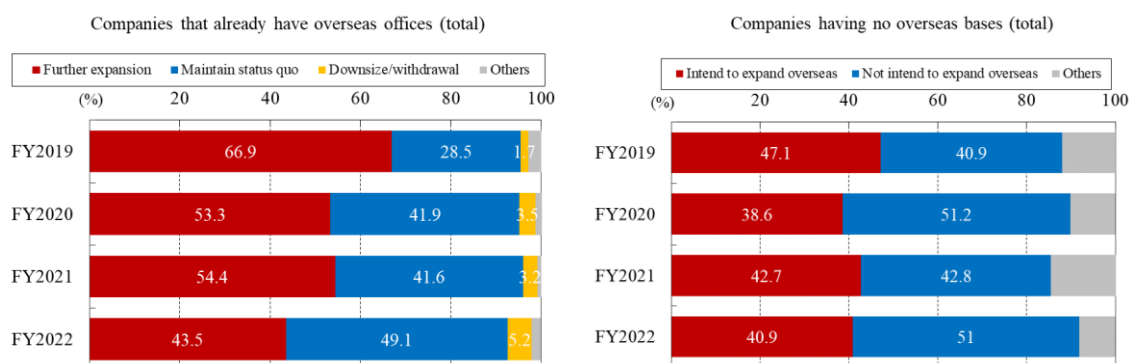


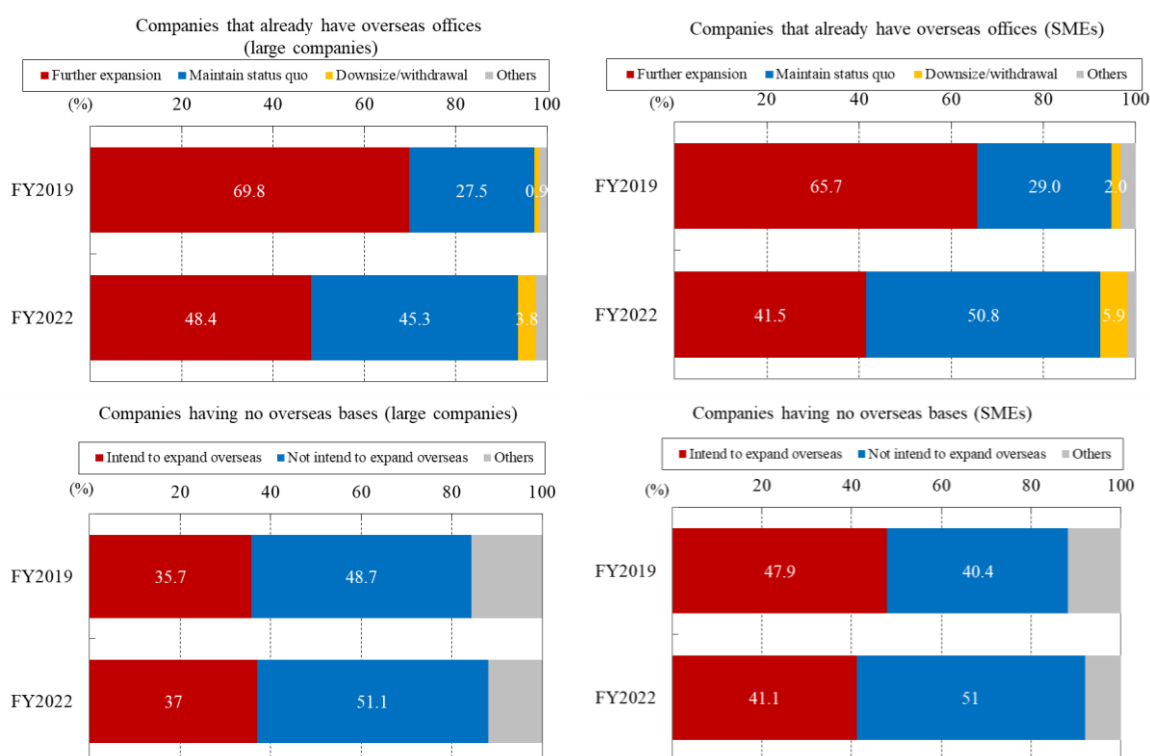
Source: *FY2022 Survey on the International Operations of Japanese Firms -JETRO Overseas Business Survey-* (JETRO).

By country/region, we can see that regarding China, the percentage of companies that cited “(4) Responding to laws and regulations concerning sales” was high, while regarding the United States, the percentage of companies that cited “(3) Developing new products for export and modifying the specifications of existing products to suit local markets,” and “(5) Securing supply volume to match demand” was high compared with the replies regarding other countries. The percentage of companies that cited “(1) Finding and expanding local sales and distribution networks” was highest for Vietnam. For Vietnam and Thailand, the percentage of companies that cited “(6) Reducing unit sales price (including the use of an FTA)” was high. From the above, we can see that the challenges faced by companies differ across countries and regions.

Next, let us look at the replies to questions concerning companies’ overseas expansion. The survey asked both companies that already have overseas establishments and companies that do not about their policy on overseas expansion for the next three years or so. Among the companies that already have overseas establishments, the percentage of those that replied that they would “pursue further expansion” declined steeply compared with the surveys in the past three years. Among the companies that do not have overseas establishments, the percentage of those that expressed an intention to “start overseas expansion” was around 40%, almost flat compared with the surveys in the past three years (Figure II-2-4-8).

Figure II-2-4-8. Future overseas expansion policy





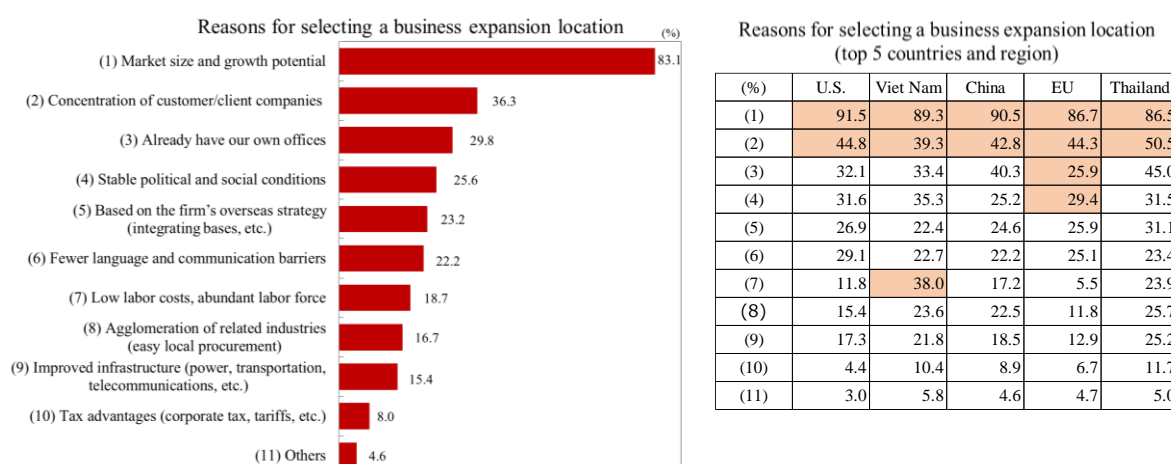
Source: FY2022 Survey on the International Operations of Japanese Firms -JETRO Overseas Business Survey- (JETRO).

Among the companies that already have overseas establishments, there was not much difference between SMEs and large companies in the change in the percentages of those that planned further expansion. Among the companies that do not have overseas establishments, the percentage of those that indicated a plan to start overseas expansion increased slightly in the past three years in the case of large companies but decreased in the case of SMEs.

The reason cited by the highest percentage of companies for deciding the location of overseas business expansion was “(1) Market size and growth potential,” followed by “(2) Agglomeration of customer companies (companies to which products are delivered)” and “(3) Already have our own establishment” (Figure II-2-4-9).

When we look at the respective results concerning the five most favored countries and regions, the two most frequently cited reasons were the same for the top five. As for the distinctiveness of replies by country/region, for Viet Nam, the percentage of companies that cited “(7) Low labor cost and abundant labor force” was particularly high, and for the EU, “(4) Stable political and social situations” was cited as a reason for starting expansion, although the percentage of companies that cited “(3) Already have our own establishment” was not high.

Figure II-2-4-9. Companies' reasons for selecting a business expansion location

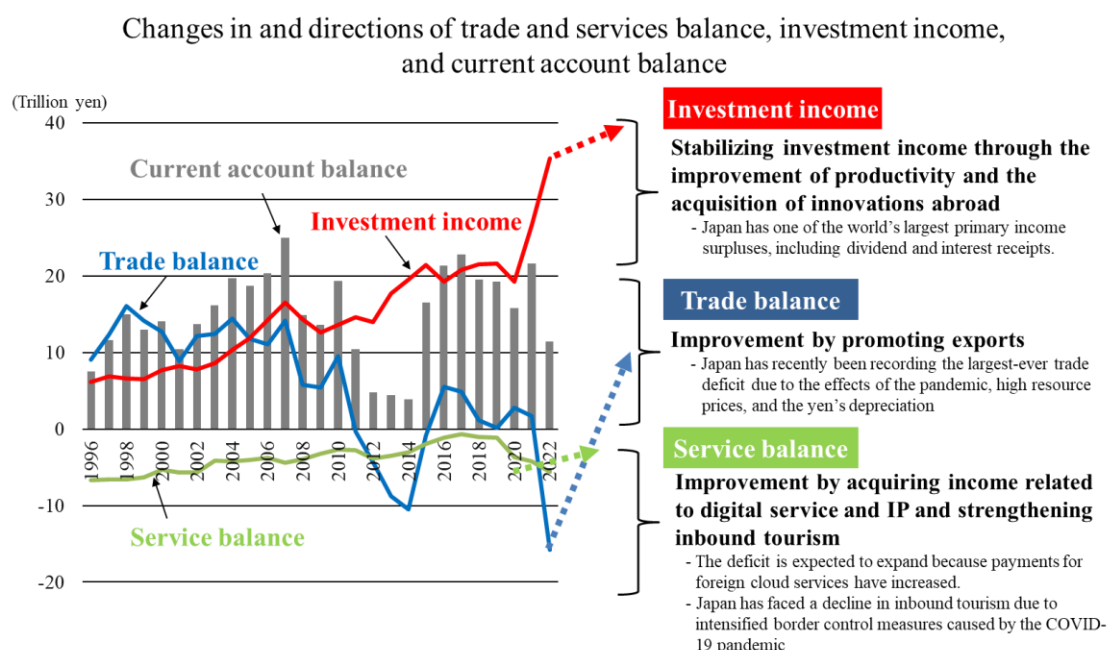


Source: FY2022 Survey on the International Operations of Japanese Firms -JETRO Overseas Business Survey- (JETRO).

(3) Direction of companies' overseas expansion

So far, we have looked at companies' approaches to overseas expansion and the current status of and challenges for expansion. In order for Japan to maintain global competitiveness amid the shrinkage of the domestic market, it is essential to promote an extraordinary level of overseas expansion and "internal internationalization." To do that, it is necessary to reconsider the path for Japan to earn income globally. Regarding Japanese companies' capacity to earn income through overseas expansion, the future direction to be taken can be summarized as below based on the situation of the current account balance and its breakdown (Figure II-2-4-10).

Figure II-2-4-10. Changes in and directions of trade and services balance, investment income, and current account balance

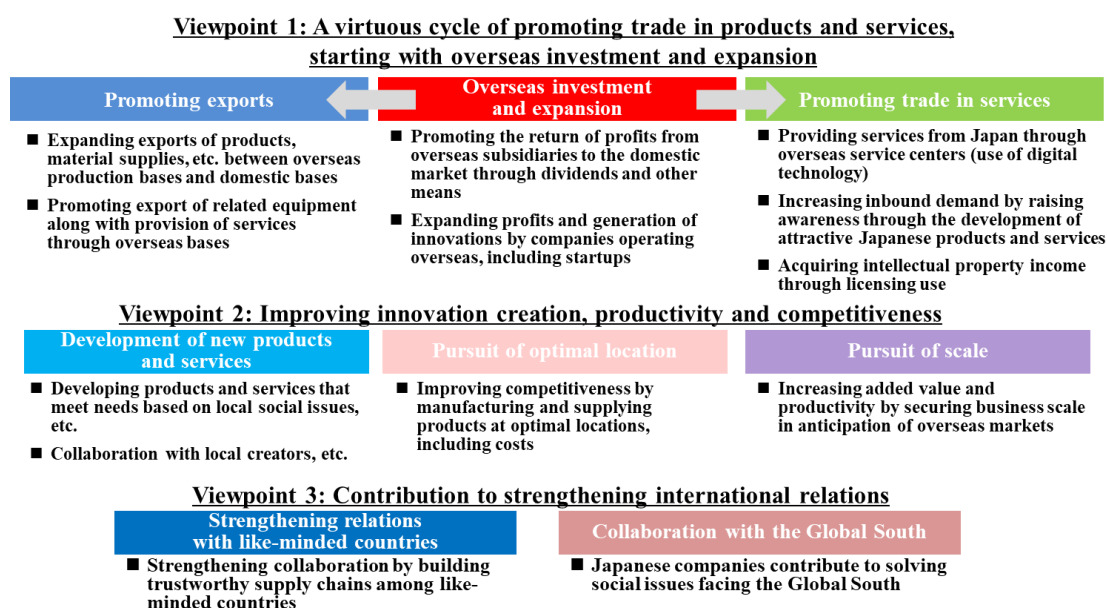


Source: Excerpts from the documents of meetings (April 2023) held by the Committee on New Direction of Economic and Industrial Policies under the Industrial Structure Council, METI.

When it comes to investment income, Japan has one of the world's largest primary income surpluses, including dividend and interest receipts, so it is important to realize further investments in and outside Japan by expanding investment income in a stable manner through the improvement of productivity and the acquisition of innovations abroad. As for the trade balance, Japan has recently been recording the largest-ever trade deficit due to the effects of the pandemic, high resource prices, and the yen's depreciation, so it is necessary to improve this situation by promoting exports. As for the services balance, the deficit is expected to expand not only because Japan has faced a decline in inbound tourism due to the COVID-19 crisis but also because payments for foreign cloud services have increased due to the progress in digitalization triggered by the COVID-19 crisis. Therefore, it is necessary to improve the situation by acquiring income related to digital services and intellectual property and by strengthening inbound tourism.

Improvements in the components of the current account balance can be classified from the following three viewpoints as shown in the figure below: “a virtuous cycle of overseas investment and business expansion leading to the promotion of goods and services trade,” “innovation creation and improvement of productivity and competitiveness,” and “contribution to the strengthening of international relationships” (Figure II-2-4-11). Regarding “a virtuous cycle of overseas investment and business expansion leading to the promotion of goods and services trade,” we will promote the return of profits earned by overseas subsidiaries to Japan through dividends and promote exports and services trade by increasing the profits of companies expanding overseas, including startups and by generating innovation. Specifically, measures that may be taken include: expanding trade in products and materials between overseas production bases and domestic establishments; promoting exports of relevant equipment combined with the provision of services, the provision of services from Japan through overseas service facilities (use of digital technology); increasing inbound tourism demand by improving the recognition of tourism in Japan through the provision of attractive Japanese products and services; and promoting services trade through the acquisition of intellectual property income, including licensing fee income.

Figure II-2-4-11. Three viewpoints for promoting overseas expansion of Japanese companies



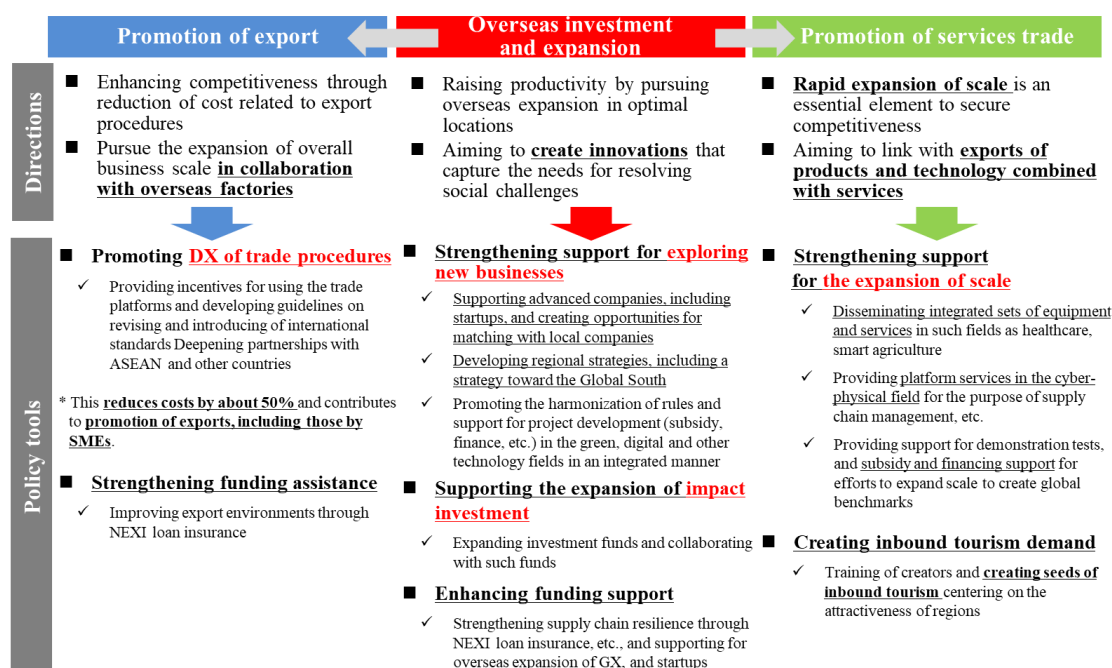
Source: Excerpts from the documents of meetings (April 2023) held by the Committee on New Direction of Economic and Industrial Policies under the Industrial Structure Council, METI.

Regarding “innovation creation and improvement of productivity and competitiveness,” measures that may be taken include developing new products and services, including the development of products that meet the needs that arise from local social challenges and partnerships with local creators. Among other possible measures are enhancing competitiveness by manufacturing and supplying products in the locations that are optimal from the perspective of cost and increasing value added and raising productivity by securing business scales suited to foreign markets.

With respect to “contribution to the strengthening of international relationships,” possible measures include strengthening international collaboration by developing trustworthy supply chains with like-minded countries and ensuring that Japanese companies contribute to the resolution of social challenges faced by the Global South.

The direction of measures and concrete policy tools corresponding to the abovementioned three viewpoints can be summarized as below (Figure II-2-4-12).

Figure II-2-4-12. Directions of measures for promoting overseas expansion



Source: Excerpts from the documents of meetings (April 2023) held by the Committee on New Direction of Economic and Industrial Policies under the Industrial Structure Council, METI.

Regarding the direction of “promotion of export,” it is important to enhance competitiveness through the reduction of cost related to export procedures and to pursue the expansion of overall business scale in collaboration with overseas factories. Policy tools for doing that include providing incentives for using the trade platform, developing guidelines on revising and introducing international standards, and deepening partnerships with ASEAN through those measures. As the digital transformation of trade procedures leads to a cost reduction of around 50%, it contributes to the promotion of exports by SMEs as well. In addition, as a measure to strengthen funding assistance, the “SEED Scheme,” intended to improve the export environment by requiring foreign companies that request support through NEXI’s loan insurance to make active efforts to create and expand transactions with Japanese companies in the future, will be established.

As for the direction of “overseas investment and expansion,” it is important to raise productivity by pursuing overseas expansion in optimal locations and to generate innovation that captures the needs for resolving social challenges. Policy tools for doing that include supporting advanced companies, including startups, and creating opportunities for matching with local companies, developing regional strategies, including a strategy toward the Global South, promoting the harmonization of rules and support for project development (e.g., subsidy and finance) in green, digital, and other technology fields in an integrated manner in order to strengthen support for exploring new businesses. It is also important to support the expansion of impact investment through the expansion of investment funds and collaboration with investment funds, to strengthen supply chain resilience through NEXI’s loan insurance, and to enhance funding support, including support for overseas expansion of GX and startups.

Regarding the direction of “promotion of services trade,” it is essential to expand scale quickly in order to secure competitiveness, and it is also important to link that effort with exports of products and technology combined with services. Policy tools for doing that include strengthening support for the expansion of scale, such as provision of platform services in the cyber-physical field for the purpose of supply chain management, etc., support for demonstration tests, and subsidy and financing support for efforts to expand scale to create global benchmarks. Another policy tool is promoting the training of creators and the creation of seeds of inbound tourism centering on the attractiveness of regions.

By using the abovementioned policy tools in combination, we will pave the way for maintaining and enhancing Japan’s capacity to earn income globally.