

Section 3 Japanese companies' involvement in overseas markets and challenges in promoting overseas expansion

The previous section examined the risks and challenges associated with Japanese companies' global business activities, focusing mainly on procurement behavior. This section will look at Japanese companies' close involvement in overseas markets and the challenges that companies must overcome in order to achieve overseas expansion in accordance with their own circumstances. More specifically, by analyzing transactional relationships between companies, the first half of this section will make clear that most domestic companies are indirectly involved in overseas markets even if they do not engage in direct exports. The second half, focusing attention on exports, will consider the challenges that stand in the way of overseas expansion for each different type of company classified by the level of engagement in exports—companies engaging in direct exports, companies engaging in indirect exports, and companies not engaging in exports—based on the results of a company survey.

1. Involvement in overseas markets as viewed through intercompany transactions

(1) Direct exports and indirect exports

Here, focusing attention on exports as an avenue of involvement in overseas markets, we will look at what percentage of companies are involved in overseas markets. In doing that, we will consider not only the case of companies directly engaging in exports but also the case of companies indirectly engaging in exports. For example, when a certain company supplies parts and materials for production to a manufacturing company engaging in exports, or when it supplies products to an export trading company, that company may be considered to be involved in overseas markets.

Figure II-2-3-1 shows the types of companies classified by the level of engagement in exports. Companies actually implementing export procedures are classified as “direct exporters” and companies that have transactional relationships that lead to “direct exporters” are classified as “indirect exporters.” More specifically, companies that sell to “direct exporters” are classified as “first-tier indirect exporters,” and companies that sell to the first-tier type are classified as second-tier indirect exporters, with the classification continued in the same vein until the fourth-tier indirect exporter type.²¹⁶ “Others” are those whose involvement in overseas markets is weak, or for which the domestic market is the main business base.

²¹⁶ Strictly speaking, fifth- and lower tier indirect exporters may also be involved in overseas markets. However, because those indirect exporters are farther away from overseas markets and also because they include only a limited number of companies of the sort that will be later examined, indirect exporters as defined in this analysis are first- to fourth-tier indirect exporters. Due to data constraints concerning companies' transactional relationships, the data analyzed here cover not only the supply of parts and materials in the production process flow but also the provision of production facilities (facility investment). As a result, our analysis looks at exports in the broad sense of the term, including capital investment, from the viewpoint of the chain of business processes leading to overseas markets.

Figure II-2-3-1. Types of companies by the level of engagement in exports

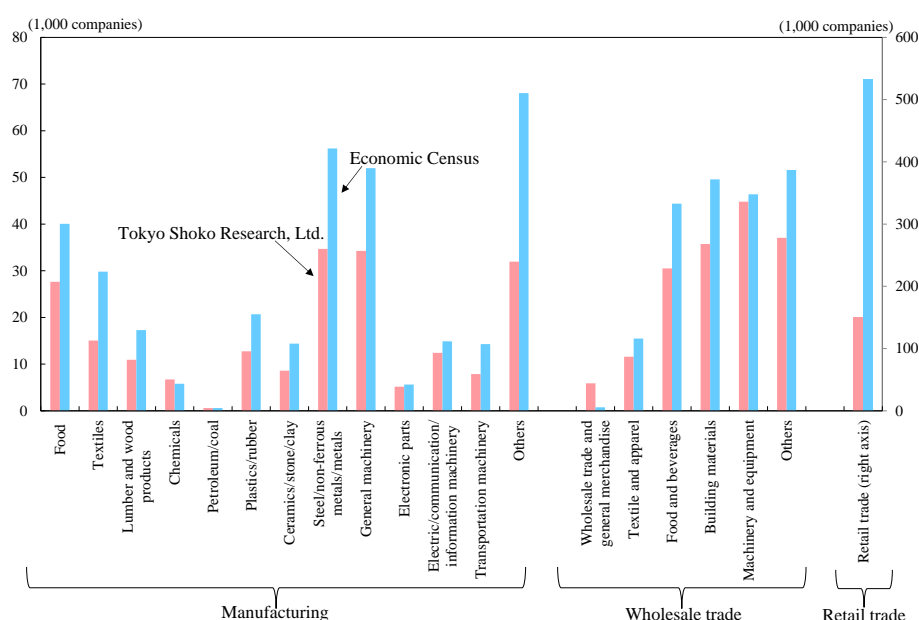
- (1) Direct exporters
Companies selling to clients, including those overseas
- (2) Indirect exporters
 - [i] First-tier indirect exporters
Companies selling to direct exporters (except cases where the companies are direct exporters)
 - [ii] Second-tier indirect exporters
Companies selling to first-tier indirect exporters
(except cases where the companies are direct exporters/first-tier indirect exporters)
 - [iii] Third-tier indirect exporters
Companies selling to second-tier indirect exporters
(except cases where the companies are direct exporters/first-/second-tier indirect exporters)
 - [iv] Fourth-tier indirect exporters
Companies selling to third-tier indirect exporters
(except cases where the companies are direct exporters/first-/second-/third-tier indirect exporters)
- (3) Others
Companies not falling under the definitions of direct exporters or indirect exporters above

Source: METI.

For the analysis, the corporate database, TSR Corporate Correlation File (*TSR KIGYOU SOUKAN FAIRU*) owned by Tokyo Shoko Research, Ltd. is used. The database includes not only corporate information (industry sector, number of employees, sales, etc.) but also data concerning intercompany transactions (suppliers, sales clients, the presence or absence of export, etc.). We classified around 520,000 companies in the manufacturing and wholesale/retail trade industries whose information is recorded in the database and whose transactional relationships can be traced into direct exporters, first- to fourth-tier indirect exporters, and others.

Before showing the results of the classification, we will first provide an overview of the data distribution. Figure II-2-3-2 shows a comparison of the distribution of data from the TSR corporate database by industry sector with data from the Economic Census for Business Activity. The TSR corporate database covers around 60% of the companies in the manufacturing industries that are covered by the Economic Census. Although there are some differences between these two datasets in terms of the coverage rate across different sectors of the manufacturing industries, it appears that there are no excessive differences or unevenness in data distribution by industry sector. The coverage rate is around 80% for the wholesale trade industry and around 30% for the retail trade industry.

Figure II-2-3-2. TSR Corporate Correlation File and Economic Census for Business Activity



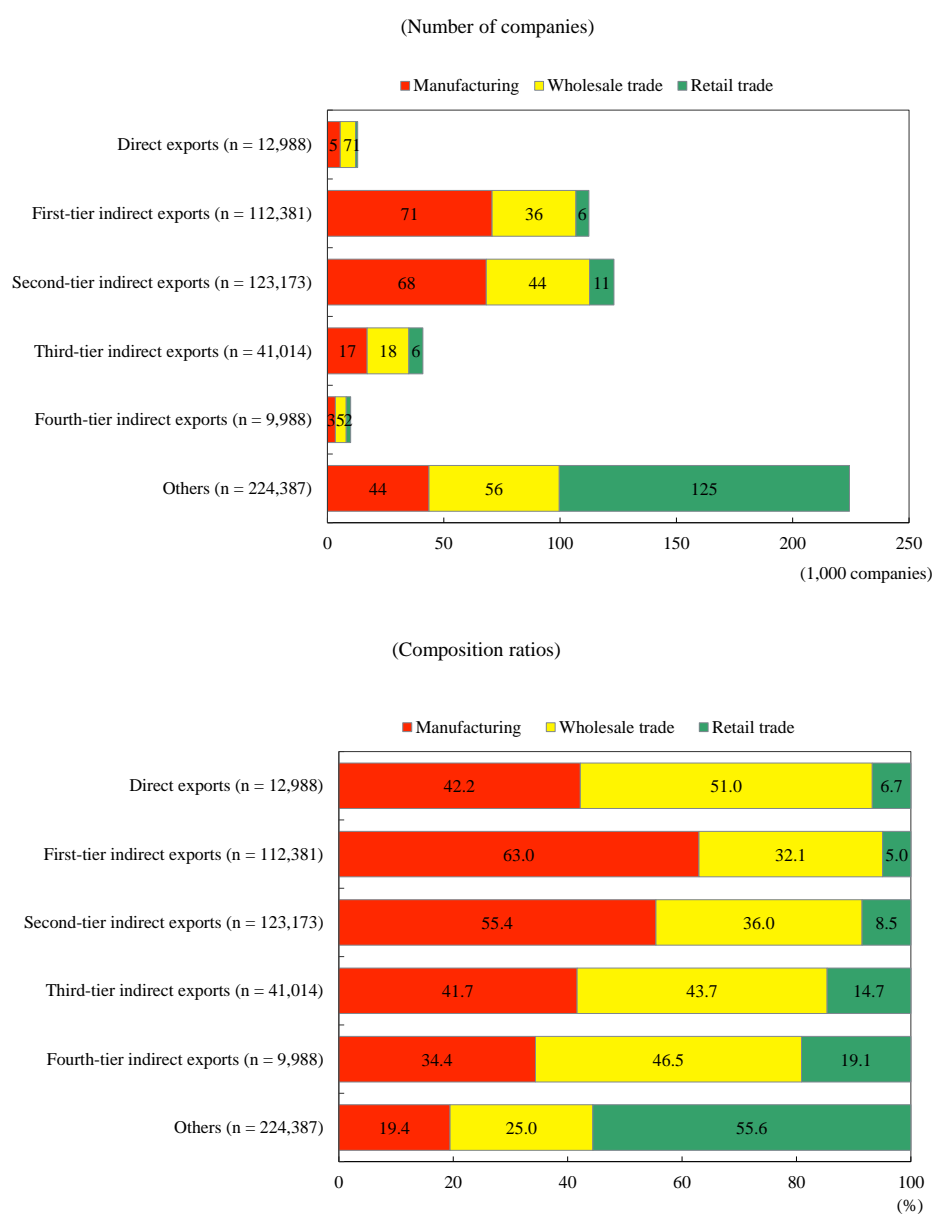
Note: The number of companies based on the Economic Census show the data as of June 1, 2021, while the those based on Tokyo Shoko Research, Ltd. show the data as of December 2023.

Source: *TSR KIGYOU SOUKAN FAIRU* (Tokyo Shoko Research, Ltd.), *2021 Economic Census for Business Activity* (MIC and METI).

(2) Number of companies by export type

The results of the classification of companies by export type shows that behind direct exporters, there is a much larger number of indirect exporters (Figure II-2-3-3). In particular, each of the numbers of first-tier indirect exporters and second-tier indirect exporters is around 10 times as large as the number of direct exporters. The number of third-tier indirect exporters is around three times as large as the number of direct exporters, and the number of fourth-tier indirect exporters is almost the same as the number of direct exporters. The combined number of overall exporters, including direct exporters and the four tiers of indirect exporters, is 23 times as large as the number of direct exporters. Naturally, products delivered to exporters may not necessarily be exported, with only a certain proportion of products actually exported, but the number of companies involved in overseas markets through indirect exports is larger than it appears to be on the surface. If first- and second-tier indirect exporters are classified by industry, companies in the manufacturing industry account for more than half of the total number. This indicates that manufacturing companies are the main exporters and are closely involved in overseas markets through production processes. On the other hand, given that companies in the wholesale/retail trade industry also engage in exports directly, or indirectly as first-, second-, third-, or fourth-tier indirect exporters, they play an important role in intercompany transactions.

Figure II-2-3-3. Number of companies by export type



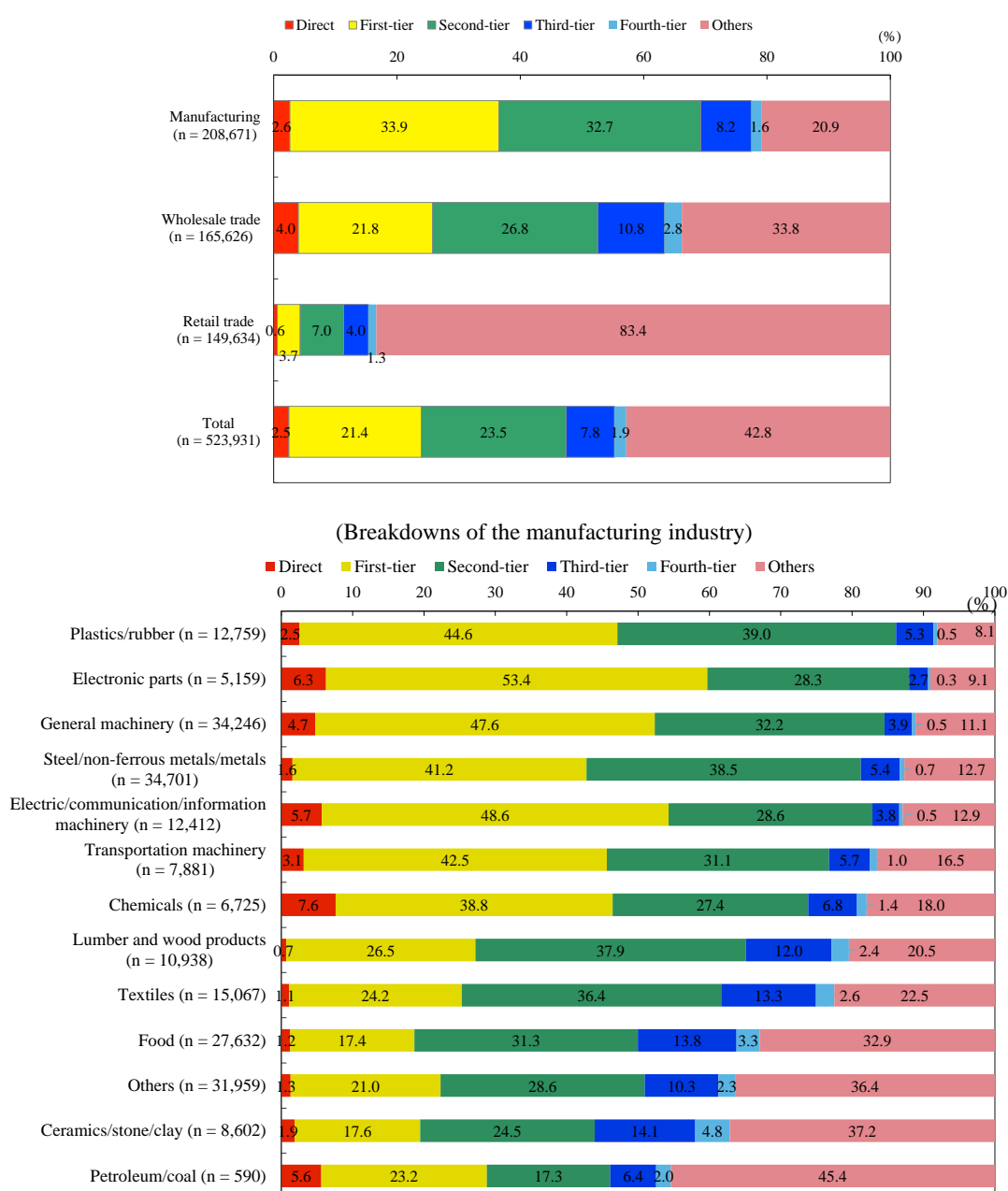
Source: *TSR KIGYOU SOUKAN FAIRU* (Tokyo Shoko Research, Ltd.).

Figure II-2-3-4 shows the percentage of companies involved in overseas markets by industry. In the case of the manufacturing industry, direct exporters account for a very small portion of the total number. However, each of the first-tier type and second-tier type of indirect exporters makes up 30% of the total in the manufacturing industry. The combined number of direct exporters and first-tier and second-tier indirect exporters account for two-thirds of the total in the manufacturing industry, and the combined number of all exporters, including direct exporters and first-tier to fourth-tier indirect exporters, make up around 80% of the total. In the wholesale trade industry, around 70% engage in exports directly or indirectly. On the other hand, in the retail trade industry, only 20% engage in exports directly or indirectly, meaning that for most retail trade companies, the domestic market is the main business base.

Around 60% of the total number of companies in the manufacturing and wholesale and retail trade industries that are registered in the database are involved in overseas markets.

In the manufacturing industry, the percentage of companies involved in overseas markets is large in raw materials sectors, such as plastics/rubber, steel/nonferrous metals/metals, and machinery sectors, including electronic parts, general machinery, electric/communication/information machinery, and transportation machinery. In those sectors, the percentage of third- and fourth-tier indirect exporters is small, with direct exporters and first- and second-tier indirect exporters accounting for around 80% of the total number. This indicates that the system of division of work in production processes has been well developed, creating strong relationships between companies along the supply chain flow.

Figure II-2-3-4. Shares of companies by export type (major industries)

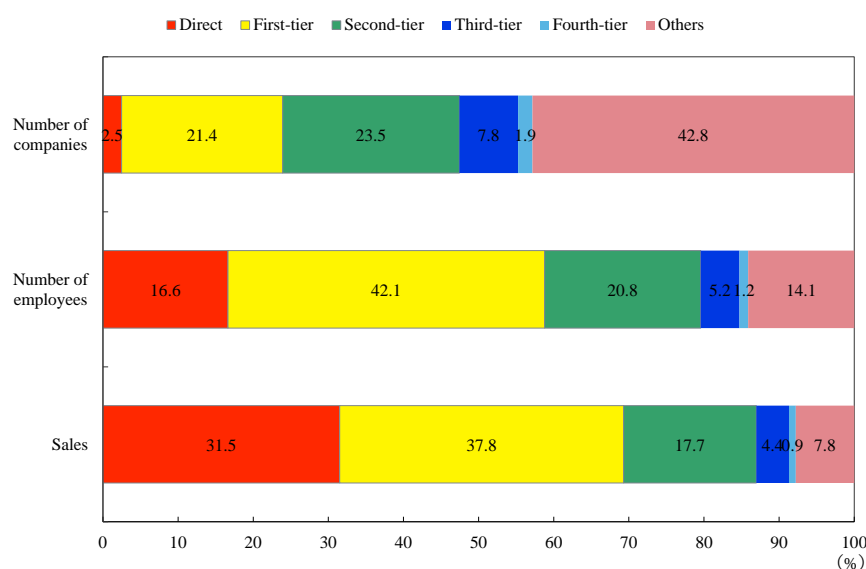


Source: *TSR KIGYOU SOUKAN FAIRU* (Tokyo Shoko Research, Ltd.).

(3) Companies' performance by export type

Above, we looked at Japanese companies' involvement in overseas markets in terms of the number of companies engaging in exports. However, when we consider the effects of exports on employment and the economy in Japan, it is also necessary to look at the number of employees and the value of sales at companies engaging in exports directly or indirectly. Companies involved in overseas markets account for a larger share in terms of the number of employees and the value of sales than in terms of the number of companies. While the share is around 60% in terms of the number of companies, it is around 80% in terms of the number of employees and around 90% in terms of the value of sales (Figure II-2-3-5). In particular, the share of direct exporters is much higher in terms of the number of employees and the value of sales than in terms of the number of employees. The share of first-tier indirect exporters in terms of the number of employees or in terms of sales is also around double the share in terms of the number of companies.

**Figure II-2-3-5. Shares of companies by export type
(number of companies, number of employees, and sales)**



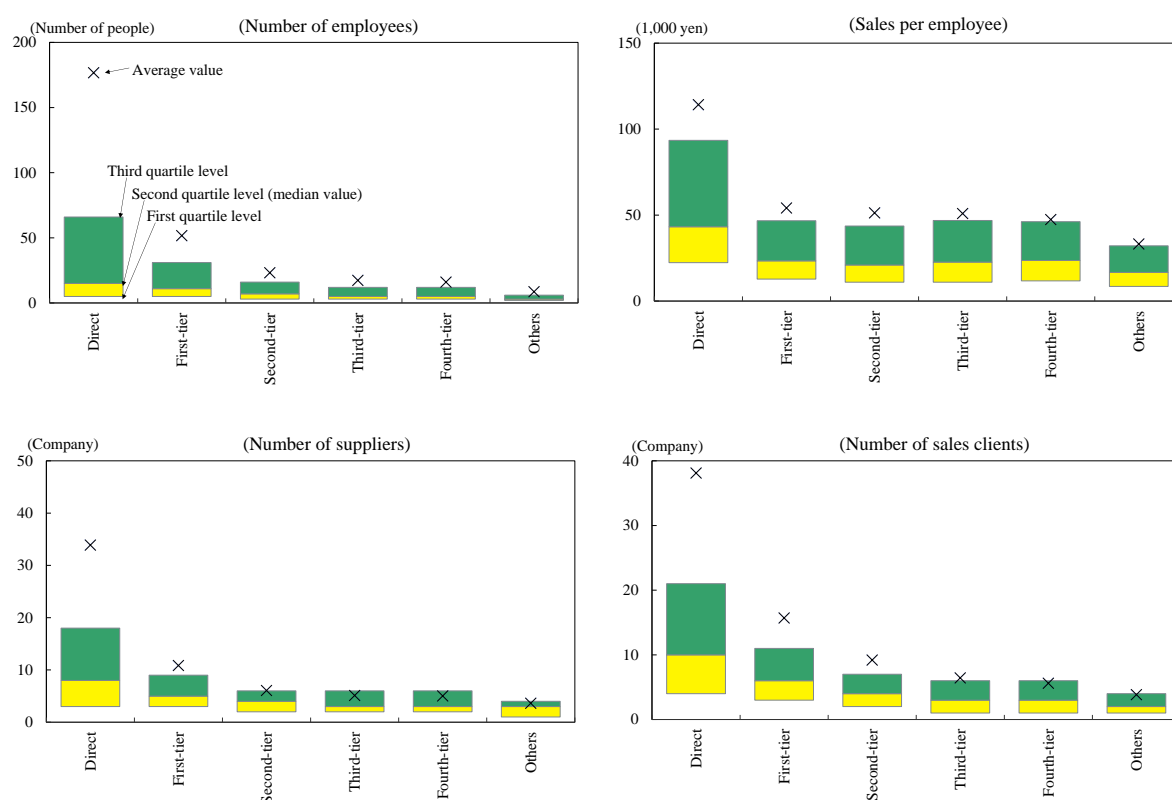
Note: The figure shows the total value for the manufacturing, wholesale trade, and retail trade industries.

Source: *TSR KIGYOU SOUKAN FAIRU* (Tokyo Shoko Research, Ltd.).

The larger share in terms of the number of employees or in terms of the value of sales relative to the share in terms of the number of companies represents the presence of differences in company size across export types. Figure II-2-3-6 shows a comparison of companies by export type. Regarding the number of employees, indirect exporters tend to be small in workforce size compared with direct exporters. Among indirect exporters, those that are farther from overseas markets in the supply chain flow tend to be smaller in workforce size. For example, the average number of employees is clearly smaller among indirect exporters that are farther from overseas markets. When companies are divided into four groups by size within the same export type, the quartile levels of the number of companies also show a similar trend although the trend is not so pronounced as the one that appears in terms of the average number.

When we look at the numbers of sales client companies and supplier companies from the viewpoint of the breadth of business, we find that companies that are closer to overseas markets in the supply chain flow tend to have a larger number of business transaction counterparties, which means more brisk business activity. From the viewpoint of labor productivity, the value of sales per employee is clearly higher at direct exporters than at indirect exports,²¹⁷ although there are no clear differences between different tiers of indirect exporters. In the case of “others,” which are not engaging in export, on average, the value of sales per employee is lower than sales of direct exporters and indirect exporters. However, attention should be paid to the point that even among indirect exporters and companies not engaging in export, there are companies that can match direct exporters and indirect exporters closer to overseas markets in terms of workforce size and productivity.

Figure II-2-3-6. Companies' performance by export type



Note: The figure shows the total value for the manufacturing, wholesale trade, and retail trade industries.
Source: *TSR KIGYOU SOUKAN FAIRU* (Tokyo Shoko Research, Ltd.).

To sum up the above findings, among Japanese companies that are not directly engaging in exports, many are involved in overseas markets directly or indirectly, which means that developments in overseas markets affect a broad range of Japanese companies. Access to overseas markets is also related to employment and business performance. Generally speaking, direct exporters have a higher level of

²¹⁷ It has been pointed out that companies engaging in direct exports have a high level of productivity because if companies are to supply products to overseas markets, a sufficiently high level of productivity to secure profit even while incurring necessary fixed costs is required.

productivity than indirect exporters. Among indirect exporters, those that are closer to overseas markets tend to be larger in workforce size and do business with more transaction counterparties. On the other hand, if we look at individual companies, we find that among companies not directly engaging in exports, there are those that can match direct exporters in terms of productivity and workforce size. If those companies gain closer access to overseas markets through direct exports, for example, that may create a business opportunity. That is also true when companies not engaging in exports, either directly or indirectly, start exports.

However, in fact, companies may face various problems when starting exports. In the next paragraph, we will divide companies into direct exporters, indirect exporters and companies not engaging in exports (non-exporters) and explain the results of analysis of their future business plans and reasons for starting exports, and the challenges faced by them in starting exports.

2. Challenges in the way of overseas expansion

Here, based on a questionnaire survey, we will consider the challenges and problems that are in the way of companies' business expansion, focusing particularly on export activity. For the analysis, the questionnaire survey (REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSHA),²¹⁸ conducted by Tokyo Shoko Research, Ltd. was used. The survey asked respondents about the status of their overseas operations, future business plans, and the challenges and problems faced by them, focusing on export activity.

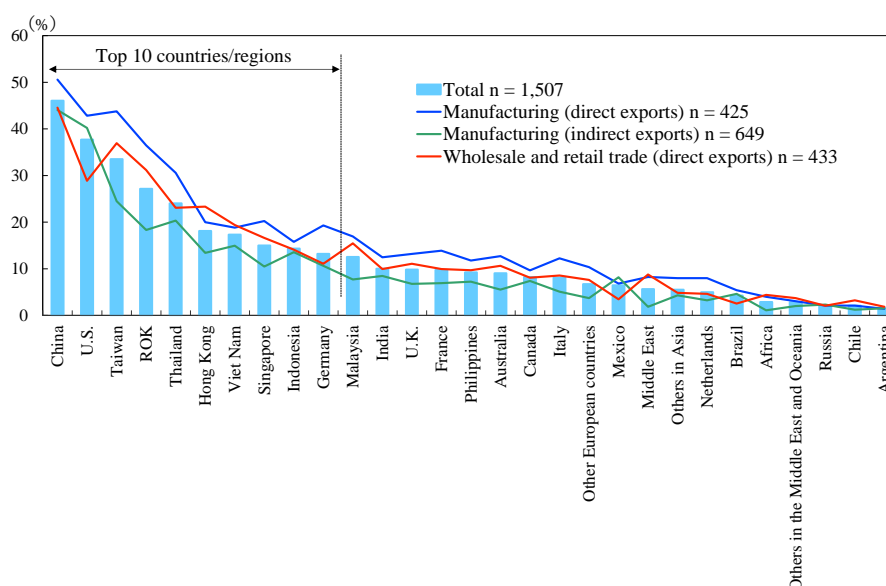
(1) Major export destination countries/regions and export clients

First, in order to capture the profiles of companies, let us look at Japanese companies' export destination countries/regions and export clients. When direct and indirect companies were asked about their major export destinations, the largest percentage cited China. Around half of the respondent companies were engaging in exports to China, although there are differences by industry and by export type (Figure II-2-3-7). The United States was the second most frequently cited destination, with more than 40% engaging in exports to the United States in the manufacturing industry. Taiwan, the ROK, and Thailand followed in that order. With Asian countries/regions occupying eight of the top ten positions, it is clear that many Japanese companies engage in exports to Asia. Among other major export destinations are European countries, including Germany, which was placed 10th, the United Kingdom, France, and Italy, and Australia, Canada, and Mexico. If we look at the results by industry and export type, we also find a similar trend, with China and other Asian countries/regions cited by many as major export destinations, although the rankings of individual countries/regions may differ somewhat. Direct

²¹⁸ Questionnaire survey period: January-February 2024; the survey subjects: from among the companies registered in the database of Tokyo Shoko Research, we selected those that are located in Japan, do not have overseas subsidiaries, and fit the following profiles: (i) engaging in direct exports (the manufacturing and the wholesale/retail trade industry); (ii) engaging in indirect exports (the manufacturing industry); (iii) engaging in neither direct nor indirect exports (the manufacturing industry); survey method: sending and collecting the questionnaire by postal mail; the number of companies to which the questionnaire was sent: 11,750 companies; the number of companies that gave a valid response: 3,035 companies; the recovery rate: 25.8%. For use in data tabulation, data on such items as the industry sector and the number of employees were obtained from Tokyo Shoko Research's corporate database.

exporters in the manufacturing industry engage in exports to the broadest range of countries/regions, followed by direct exporters in the wholesale/retail trade industry, and indirect exporters in the manufacturing industry.

Figure II-2-3-7. Major export destinations of respondent companies



Note: Multiple answered were allowed. The graph shows the total value for manufacturing companies (direct and indirect exports) and wholesale and retail trade companies (direct exports) from the top.

Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSA* (Tokyo Shoko Research, Ltd.).

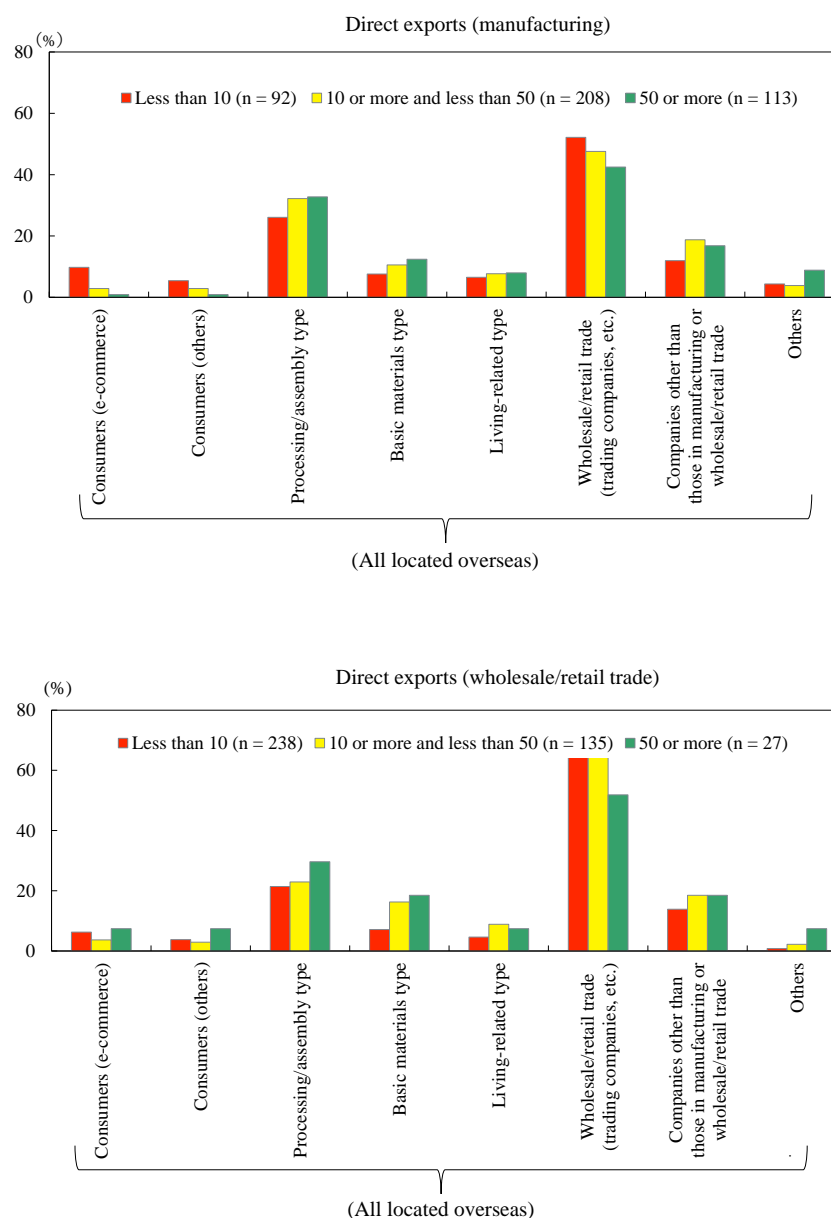
Next, we will look at export clients, i.e., companies to which exporters deliver goods. First, one characteristic point concerning direct exporters is (i) that the wholesale/retail trade industry, including trading companies located abroad, accounts for the largest share as an export client, followed by the processing/assembly-type manufacturing industry (Figure II-2-3-8). In particular, when exporters are wholesale/retail trade companies, foreign wholesale/retail trade companies account for a large share as export clients. When we look at the results by exporters' workforce size, we find another characteristic point—(ii) that larger exporters are more likely than smaller exporters to deliver goods to the processing/assembly-type and other manufacturing industries, while smaller exporters are more likely to deliver goods to the wholesale/retail trade industry.

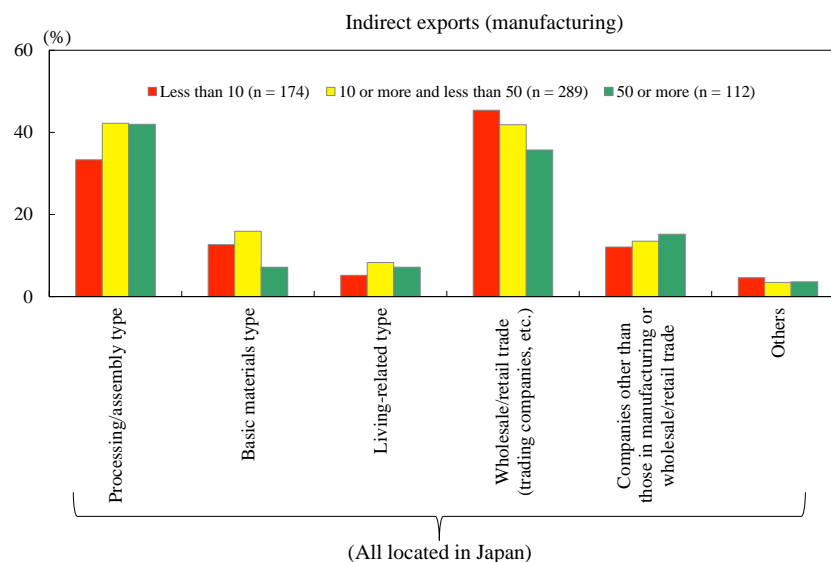
In the case of manufacturing companies engaging in indirect exports, one characteristic point is (i) that the domestic wholesale/retail trade industry and processing/assembly-type manufacturing industry account for almost equal shares as delivery destinations. Another characteristic point is (ii) that by exporters' workforce size, generally speaking, larger exporters are more likely to deliver goods to processing-type manufacturing companies, while smaller exporters are more likely to deliver goods to wholesale/retail trade companies. Consequently, the processing/assembly-type manufacturing industry

accounts for the largest share as an export client for large-size companies, and the wholesales/retail trade industry accounts for the largest share as an export client for small companies.

As to why exporters deliver goods to the processing/assembly-type manufacturing industry, one presumable reason is that they participate in production activity by supplying materials and parts along the value chain flow. On the other hand, as to why exporters deliver goods to the wholesale-retail trade industry, they may be exporting goods through trading companies possessing market information and export-related knowhow. In particular, small exporters are expected to use wholesale/retail trade companies as intermediaries for exports.

Figure II-2-3-8. Major export clients (by exporters' workforce size)





Note 1: The figure shows the shares of respondent companies by workforce size that replied the industry as their major export clients. Multiple answers were allowed.

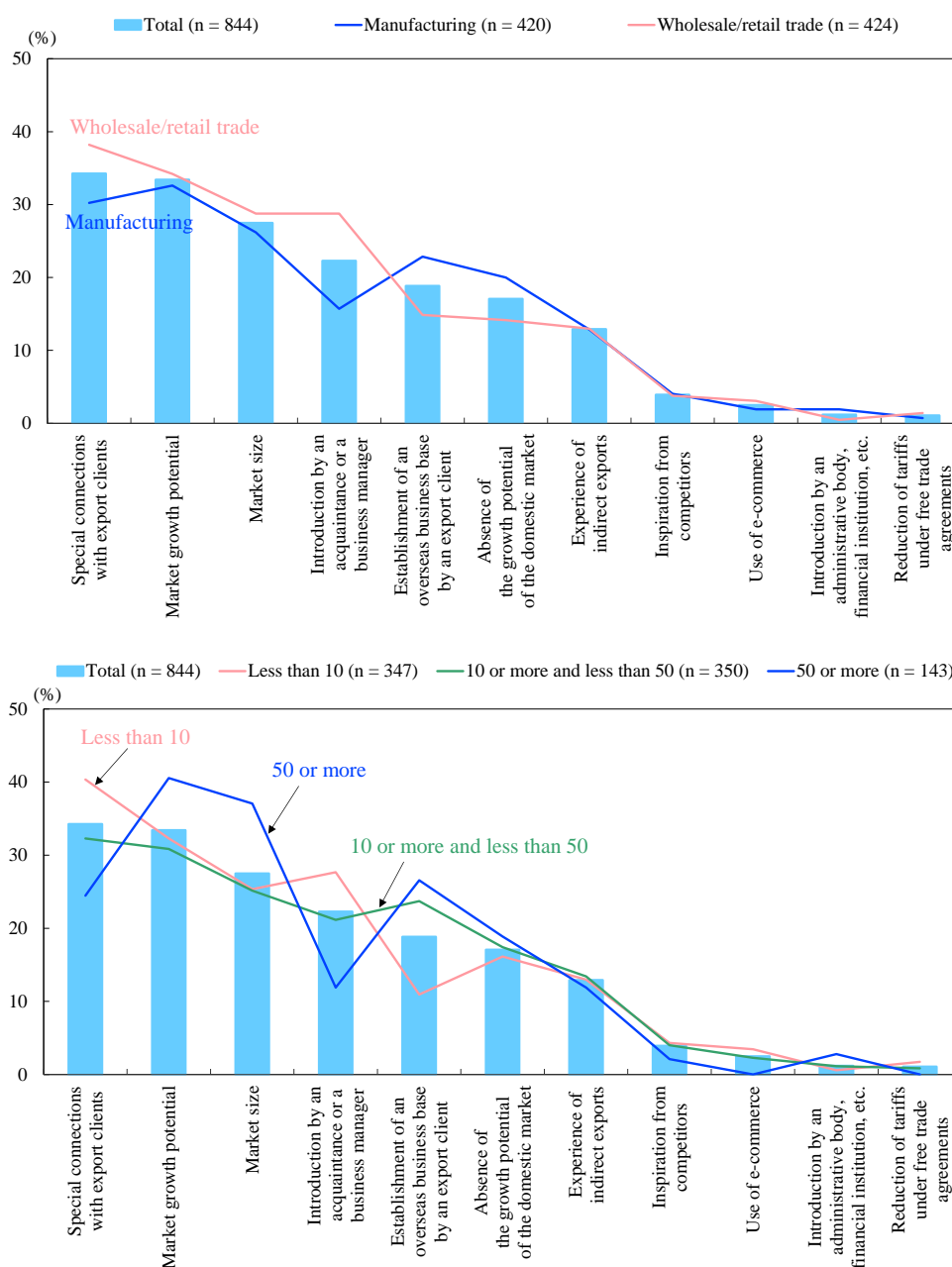
Note 2: Business locations of the export clients are outside Japan as for direct exports and inside Japan as for indirect exports.

Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSA* (Tokyo Shoko Research, Ltd.).

(2) Future business plans and challenges for direct exporters

Below, we will look at future business plans and the challenges perceived by export type. First, when direct exporters in the manufacturing industry were asked why they started direct exports, many respondents chose “Market growth potential,” “Special connections with export clients,” “Market size,” and “Establishment of an overseas business base by an export client” (Figure II-2-3-9). In the case of the wholesale/retail trade industry, many chose “Market growth potential,” “Market size,” “Special connections with export clients” and “Introduction by an acquaintance or a business manager.” By workforce size, “Special connections with export clients” and “Introduction by an acquaintance or a business manager” were chosen by many companies with a workforce of 10 employees or less, suggesting the possibility that in the case of small companies, connections between individual companies and people, and serendipitous meetings may play an important role. On the other hand, in the case of companies with a workforce of 50 or more employees, “Market growth potential,” “Market size,” and “Establishment of an overseas business base by an export client” frequently act as an incentive for starting exports.

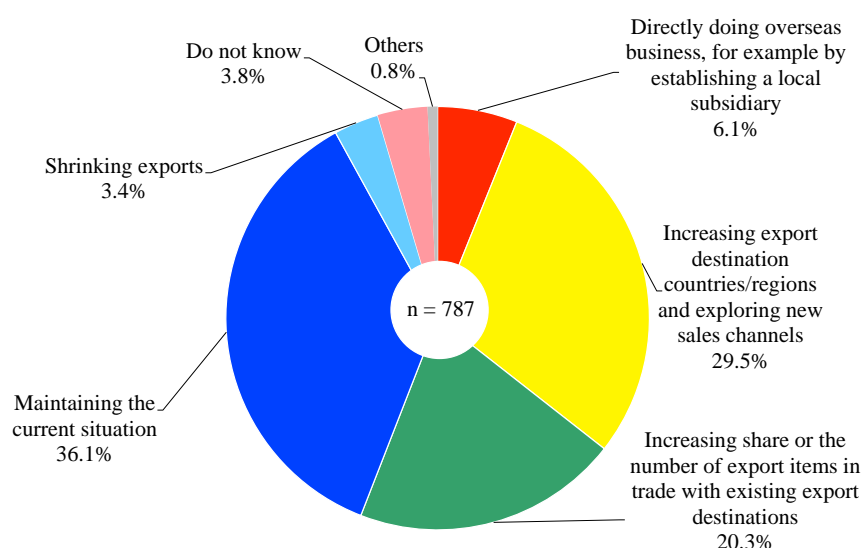
Figure II-2-3-9. Reasons for starting direct exports (direct exporters)



Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSA* (Tokyo Shoko Research, Ltd.).

As for the question about future business plans, the largest percentage of respondents chose the reply “Maintaining the current situation” (36.1%) (Figure II-2-3-10). Meanwhile, three replies indicating a positive stance toward future business expansion—“Increasing export destination countries/regions and exploring new sales channels” (29.5%), “Increasing share or the number of export items in trade with existing export destinations” (20.3%), and “Directly doing overseas business, for example by establishing a local subsidiary” (6.1%)—together accounted for more than 50%. A small percentage of respondents chose the reply “Shrinking exports” (3.4%).

Figure II-2-3-10. Future business expansion (direct exporters)



Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSA* (Tokyo Shoko Research, Ltd.).

Table 2-3-11 shows major challenges perceived by exporters. When we look at the challenges perceived by exporters at each stage of business expansion, we find that around half of companies considering directly doing overseas business, including those that chose the reply “Establishing local subsidiaries,” perceived a broad range of challenges, including: “Managing volatility risk concerning demand, product price, exchange rate, and other items” (47.9%), “Securing a reliable supply chain” (43.8%), “Developing products for overseas markets” (37.5%), “Shortage of market information” (33.3%), and “Shortage of information on regulations, institutional systems, and business practices” (31.3%). Given that all those challenges were cited by more than 30%, exporters need to address a great variety of challenges. Likewise, companies that chose “Exploring a new export destination” when asked about future business plans also indicated concerns over many items, including “Developing new products for overseas markets” (39.7%), “Shortage of information on regulations, institutional systems, and business practices” (37.5%), and “Securing a reliable supply chain” (34.9%). Companies that chose “Expanding share in trade with existing export destinations” also displayed concerns over a broad range of items, including “Managing volatility risk concerning demand, product price and exchange rate, and other items” (40.3%), “Developing products for overseas markets” (35.2%), and “Securing financial and human resources and expanding supply capacity” (32.7%).

On the other hand, companies that chose “Shrinking exports” regarding future business plans cited “Managing volatility risk concerning demand, product price and exchange rate and other items” (28.0%), “Geopolitical and security risks” (24.0%), and “Securing a reliable supply chain” (20.0%) as challenges.

Table II-2-3-11. “Future business expansion” and “perceived challenges in achieving overseas business expansion” (direct exporters)

(Unit: %)

	(a) Developing products for overseas markets	(b) Shortage of market information	(c) Shortage of information on regulations, institutional systems, and business practices	(d) Shortage of information on import and export systems	(e) Shortage of funds and know-how for research	(f) Expanding supply capacity, including securing financial and human resources	(g) Reliable supply chains	(h) Geopolitical and security risks	(i) Intellectual property-related risks	(j) Volatility risk concerning demand, product price, exchange rate, and other items
Total	28.5	23.1	21.6	14.7	12.3	23.2	26.3	14.0	13.5	33.3
[i] Establishing local subsidiaries (n = 48)	37.5	33.3	31.3	25.0	14.6	29.2	43.8	22.9	18.8	47.9
[ii] Exploring a new export destination (n = 232)	39.7	34.1	37.5	23.7	18.5	26.3	34.9	16.4	20.3	34.5
[iii] Expanding share in trade with existing export destinations (n = 159)	35.2	26.4	20.8	10.7	10.7	32.7	32.1	11.9	15.7	40.3
[iv] Maintaining the current situation (n = 283)	18.4	13.4	10.6	8.8	8.1	16.3	15.9	11.3	8.1	28.6
[v] Shrinking exports (n = 25)	4.0	8.0	8.0	12.0	8.0	4.0	20.0	24.0	0.0	28.0
[vi] Do not know (n = 30)	10.0	13.3	6.7	10.0	13.3	23.3	10.0	13.3	6.7	20.0

Note 1: As for future business plans, respondents chose one answer. As for perceived challenges, they chose multiple answers. The data were aggregated targeting companies that answered both questions.

Note 2: The expressions in the table regarding future business plans and perceived challenges are simplified.

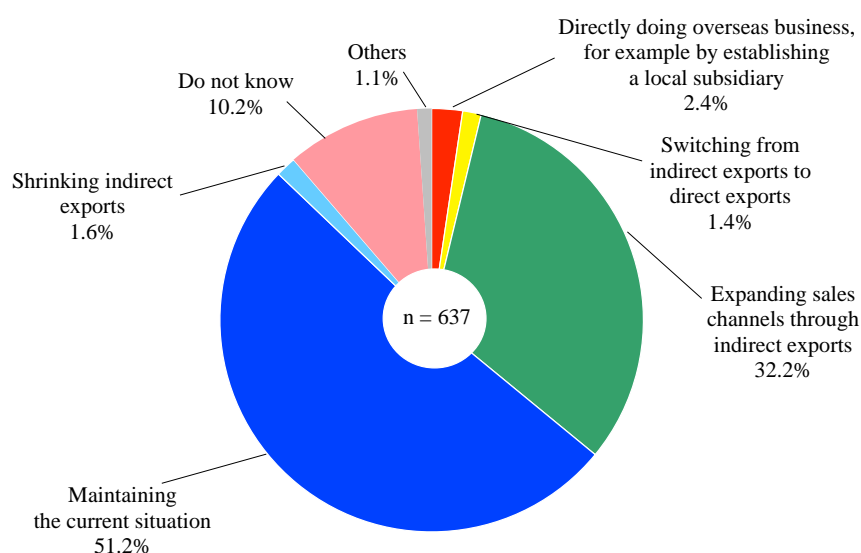
Note 3: Questions with high response rates are highlighted: the 20% range in yellow, the 30% range in green, the 40% range in blue, and the 50% range and above in dark blue.

Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSA* (Tokyo Shoko Research, Ltd.).

(3) Future business plans and challenges for indirect exporters

Next, let us look at indirect exporters. As to the question about future business plans, around half chose “Maintaining the current situation” (51.2%) (Figure II-2-3-12). “Expanding sales channels through indirect exports” (32.2%) was the second most frequently chosen reply, followed by “Do not know” (10.2%). Replies indicating a positive stance, such as “Directly doing overseas business, for example by establishing a local subsidiary” (2.4%) and “Switching from indirect exports to direct exports” (1.4%), and a reply indicating a negative stance, such as “Shrinking indirect exports” (1.6%) were chosen by small percentages of respondent companies.

Table II-2-3-12. Future business expansion (indirect exporters)



Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSA* (Tokyo Shoko Research, Ltd.).

The questionnaire asked respondents about the reason for not engaging in direct exports. In the case of companies considering expanding business in some way or other, including those that chose “Establishing local subsidiaries,” those that chose “Switching to direct exports,” and those that chose “Expanding indirect exports,” more than half of respondent companies in each of those three groups, cited “Securing human resources and improving in-house structure” and “Shortage of information or knowhow” (Table II-2-3-13). “Costs and risks outweigh the benefits” and “Lack of negotiation power” were also cited by many in all those groups. Among companies considering “Switching to direct exports,” many chose “Shortage of financial resources for investment” and “Inability to secure production capacity.”

In the case of companies that chose “Do not know” regarding future business plans, around 30% of respondents cited “Securing human resources and improving in-house structure” and “Lack of information or knowhow,” indicating that these two items are important for those companies when determining future business plans. On the other hand, among companies that chose “Shrinking indirect exports” regarding future business plans, many cited “Costs and risks outweigh the benefits” and “Lack of negotiation power” as reasons.

The questionnaire had a free comments section. Among companies that chose “Do not know” regarding future business plans, some companies commented that their plans are affected by their parent companies.

Table II-2-3-13. “Future business expansion” and “reasons for not engaging in direct exports” (indirect exporters)

(Unit: %)

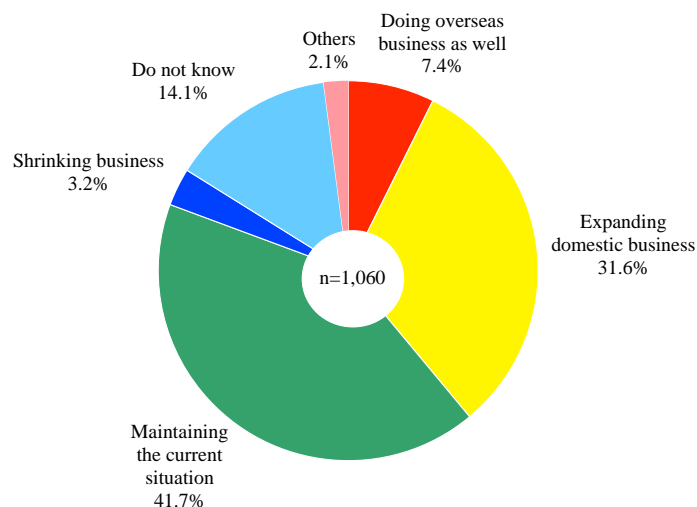
	(a) Products intended for domestic use	(b) Shortage of information and knowhow	(c) Inability to secure production capacity	(d) Shortage of financial resources for investment	(e) Securing human resources and improving in-house structure	(f) Costs and risks outweighing the benefits	(g) Lack of negotiation power
Total	6.8	36.6	18.9	17.9	43.3	36.0	30.3
[i] Establishing local subsidiaries (n = 15)	6.7	53.3	13.3	13.3	60.0	33.3	26.7
[ii] Switching to direct exports (n = 8)	0.0	50.0	37.5	62.5	62.5	37.5	25.0
[iii] Expanding sales channels through indirect exports (n = 203)	3.0	55.7	20.7	23.2	57.6	42.9	39.4
[iv] Maintaining the current situation (n = 310)	10.0	26.1	20.0	14.8	36.5	35.2	25.5
[v] Shrinking indirect exports (n = 10)	0.0	20.0	0.0	10.0	20.0	40.0	40.0
[vi] Do not know (n = 61)	6.6	26.2	11.5	14.8	31.1	21.3	26.2

Note/Source: Same as those shown in Table II-2-3-11.

(4) Future business plans and challenges for non-exporters

Lastly, we will look at the case of non-exporters, that is, companies not engaging in either direct or indirect exports. As to future business plans, the largest percentage chose “Maintaining the current situation” (41.7%), which was followed by “Expanding domestic business” (31.6%). In short, the companies that chose either of these two replies, which indicate emphasis on domestic business, together accounted for around 70% of all non-exporters (Figure II-2-3-14). While the percentage of respondents that chose “Shrinking business” (3.2%) was small, no small percentage chose “Do not know” (14.1%). Less than 10% chose “Doing overseas business as well” (7.4%).

Figure II-2-3-14. Future business expansion (non-exporters)



Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUZA* (Tokyo Shoko Research, Ltd.).

As to the reasons for not engaging in direct exports, many cited “Products are for domestic use,” a reply indicating that their products are not suited to exports (Table II-2-3-15). In particular, among companies that chose “Expanding domestic business” and “Maintaining the current situation,” around half cited that reason. This can be understood to mean that those companies are making an appropriate market selection in light of the characteristics of products. On the other hand, among companies that chose “Doing overseas business as well,” while relatively many cited “Products are for domestic use”(29.9%) as a reason for not engaging in direct exports, a larger percentage cited “Shortage of information and knowhow” (53.2%) or “Securing human resources and improving in-house structure” (41.6%). Among other reasons cited by relatively many respondents were “Shortage of financial resources for investment” (31.2%) and “Inability to secure production capacity” (26.0%). In short, the non-exporters’ perception of the challenges is similar to the perception of challenges by indirect exporters that chose “Switching to direct exports” regarding future business plans. Among those companies, one expressed interest in resuming the export activity that it has suspended due to factors such as the COVID-19 pandemic and geopolitical conflicts. Among companies that chose “Shrinking business,” the largest percentage cited “Securing human resources and improving in-house structure” as a reason. Among companies that chose “Do not know” regarding future business plans, that reason was the second most frequently cited one, after products’ unsuitability for export (“Products are for domestic use”).

Table II-2-3-15. “Future business expansion” and “reasons for not engaging in direct exports” (non-exporters)

	(a) Products intended for domestic use	(b) Shortage of information and knowhow	(c) Inability to secure production capacity	(d) Shortage of financial resources for investment	(e) Securing human resources and improving in-house structure	(f) Costs and risks outweighing the benefits	(g) Facing a difficulty in coordinating with existing sales clients (e.g., a trading company)
Total	42.1	16.3	16.0	11.3	18.6	16.0	5.2
[i] Doing overseas business as well (n = 77)	29.9	53.2	26.0	31.2	41.6	14.3	6.5
[ii] Expanding domestic business (n = 326)	51.5	19.6	15.6	12.0	20.6	22.1	5.5
[iii] Maintaining the current situation (n = 426)	44.6	8.2	15.3	7.0	12.0	12.0	4.5
[iv] Shrinking business (n = 32)	15.6	9.4	12.5	12.5	18.8	9.4	6.3
[v] Do not know (n = 138)	29.7	15.9	15.2	11.6	21.7	15.2	6.5

Note/Source: Same as those shown in Table II-2-3-11.

As for future business plans and the reasons for not engaging in indirect exports, as in the case of direct exporters, many cited “Products are for domestic use” (Table II-2-3-16). In particular, among companies that chose “Expanding domestic business” and “Maintaining the current situation,” around half cited that reason. On the other hand, among companies that chose “Doing overseas business as well,” while around 30% cited “Products are for domestic use,” a larger percentage, around 50%, chose “Inability to find a sales/delivery client (e.g., a trading company).”

**Table II-2-3-16. “Future business expansion” and “reasons for not engaging in indirect exports”
(non-exporters)**

	(a) Products intended for domestic use	(b) Inability to find a sales client (e.g., a trading company)	(c) Inability to secure production capacity	(d) Facing a difficulty in coordinating with existing sales clients (e.g., a trading company)
Total	45.0	9.5	16.3	6.1
[i] Doing overseas business as well (n = 76)	31.6	47.4	23.7	10.5
[ii] Expanding domestic business (n = 309)	56.6	10.0	19.1	6.5
[iii] Maintaining the current situation (n = 413)	45.5	3.1	14.0	4.8
[iv] Shrinking business (n = 31)	22.6	0.0	12.9	9.7
[v] Do not know (n = 133)	33.8	9.8	15.0	6.0

Note/Source: Same as those shown in Table II-2-3-11.

To sum up the above findings, in the case of direct exporters, regarding future business plans, slightly under 40% said they would continue current export activity, while more than half indicated a positive stance toward business expansion, such as increasing export destinations, expanding share in trade with existing export destinations, or establishing a local subsidiary. However, direct exporters recognize various challenges that they must overcome in order to expand export activity, including “Managing volatility risk concerning demand, product price, exchange rate, and other items,” “Developing products for overseas markets,” “Securing a reliable supply chain,” “Securing human and financial resources and expanding supply capacity,” “Shortage of market information,” and “Shortage of information on regulations, institutional systems, and business practices.”

Among indirect exporters, some were considering establishing a local subsidiary or switching to direct exports, and around 30% were considering expanding export channels through indirect exports. Among the reasons cited widely by those companies for not engaging in direct exports were “Securing human resources and improving in-house structure” and “Shortage of information and knowhow.” Among companies considering expanding sales channels through indirect exports, many cited “Costs and risks outweigh the benefits” as a reason.

In the case of companies not engaging in either direct or indirect exports, many cited their products’ unsuitability for export, but some of those companies showed interest in doing overseas business as well. Around half cited “Securing human resources and improving in-house structure,” and “Shortage of information or knowhow in the case of companies that showed interest in engaging in direct exports and “Inability to find a sales client” in the case of companies that showed interest in engaging in indirect exports. “Securing human resources and improving in-house structure” was cited by many among companies that replied that they were planning to shrink business or that they did not know what to do when asked about future business plans.

If those challenges and problems, including securing human resources, lack of information, business matching, and addressing risks associated with starting exports, can be overcome, that will provide a chance for Japanese companies to achieve further business expansion. Meanwhile, the yen depreciation

trend in recent years provides a good opportunity for non-exporters to start exports. Therefore, starting in December 2022, the Ministry of Economy, Trade and Industry, the Small and Medium Enterprise Agency, JETRO and the Organization for Small & Medium Enterprises and Regional Innovation, together with chambers of commerce and industry, are implementing the 10,000 New Exporters Support Program, providing an integrated set of support measures, including (i) discovering business operators aiming to start exports for the first time; (ii) making available prior export consultation service by professionals; (iii) providing subsidies to cover the cost of developing products for export and sales promotion; and (iv) assisting matching with export trading companies and the opening of shops on e-commerce sites, so that small and medium-size enterprises (SMEs) and regional companies that have so far not been involved in exports can seize this opportunity to make necessary preparations and promptly proceed with specific business negotiations and exports. Through these activities, the government will provide full-fledged support in order to enable SMEs and regional companies can achieve further growth through exports.

(5) Supplementary analysis based on a decision tree regarding the relationship between future business plans and challenges in expanding overseas business

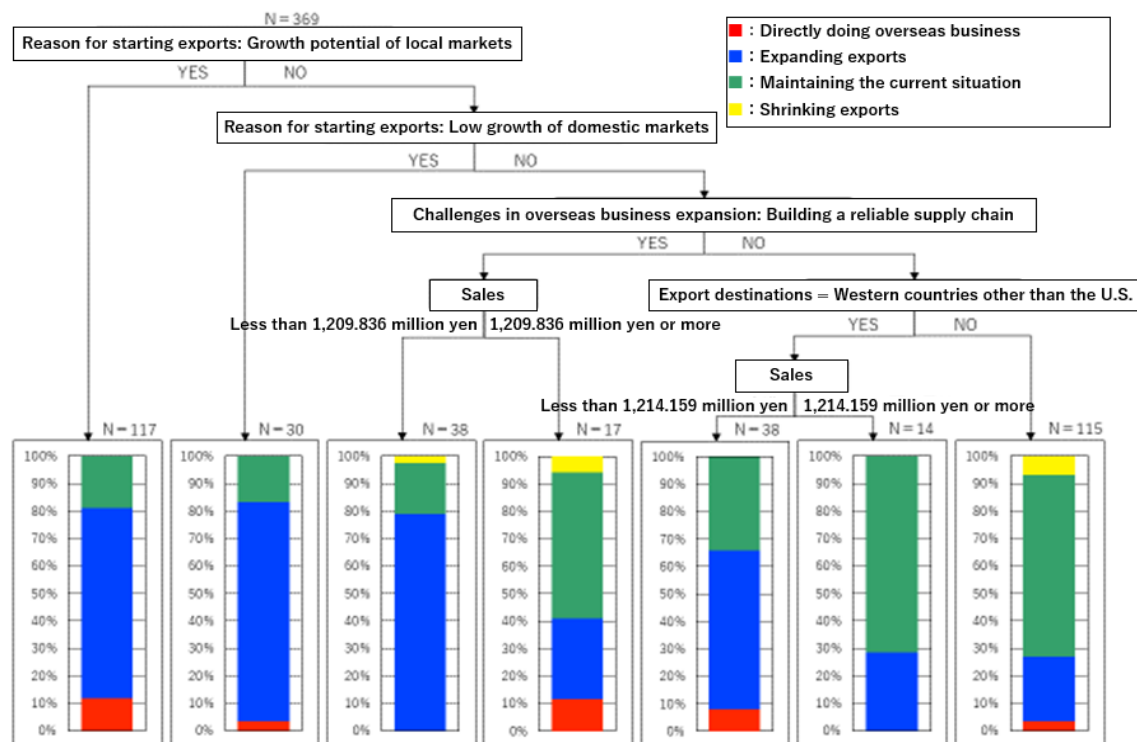
As explained above, according to the results of the questionnaire survey, in each of the groups of direct exporters, indirect exporters and non-exporters, the largest percentage chose “Maintaining the current situation” when asked about future business plans, while a certain number of companies said that they were considering expanding business. Therefore, through multi-layered classification using the decision tree method, we will identify the determinant factors of the approach to the future with respect to each of direct exporters, indirect exporters and non-exporters. First, we divide manufacturing companies engaging in direct exports into four types according to the approach to future business expansion that they chose from among the reply options provided, i.e., “Directly doing overseas business,” “Expanding direct exports (including by finding new export destinations and by expanding exports to existing export destinations),” “Maintaining the current situation,” and “Shrinking direct exports.” The companies are then classified, using the decision tree method, according to the determinant factor of the approach to future business expansion that they chose from among the reply options provided, i.e., the number of export destination countries/regions; the export destination countries/regions (China, NIEs, Asian emerging countries [Thailand, Indonesia, Malaysia, the Philippines, Viet Nam and India], the United States, Western countries other than the United States, Latin America/Oceania, the Middle East, and Africa); the reason for starting direct exports, the challenges in expanding overseas business in the future, the value of sales, and the number of employees. Figure II-2-3-17 shows the results of the classification.

According to the figure, among companies that cited the growth potential of export destination markets as a reason for starting direct exports and companies that did not cite that reason but cited the absence of the growth potential of the domestic market, more than 80% chose replies indicating a positive stance toward future business expansion, such as “Directly doing overseas business” and “Expanding direct exports.” Next, among companies that did not cite either the growth potential of the export destination market or the absence of the growth potential of the domestic market as a reason for starting direct exports and that cited the need to build a reliable supply chain as a challenge that must be

overcome in order to achieve overseas business expansion, around 80% chose a reply indicating a proactive approach in the case of those whose value of sales was less than around 1.2 billion yen. Meanwhile, in the case of those whose value of sales was around 1.2 billion yen or higher, the percentage of those that chose a reply indicating a positive approach was only around 40%, with around 50% choosing “Maintaining the current situation.” Among companies that did not cite either the growth potential of export destination markets or the absence of the growth potential of the domestic market as a reason for starting direct exports and that did not cite the need to build a reliable supply chain as a challenge, around 70% chose “Maintaining the current situation” regarding the approach to future business expansion in the case of those that did not engage in exports to Western countries other than the United States, or those that engaged in exports to Western countries other than the United States and whose value of sales was around 1.2 billion yen or higher. On the other hand, in the case of those that engaged in exports to Western countries other than the United States, and whose value of sales was less than around 1.2 billion yen, around 60% chose a reply indicating a positive approach to future overseas business expansion.

The above findings indicate that among manufacturing companies engaging in direct exports, those that started direct exports for the purpose of business expansion in markets with high growth potential had a strong tendency to consider expanding overseas business mainly by increasing direct exports. Companies that did not attach importance to the growth potential of markets when they started exports and cited the need to build a reliable supply chain as a challenge that stood in the way of future overseas expansion, and whose value of sales was less than around 1 billion may have cited that as a challenge because they were considering expanding overseas business in the future. We also found that among companies considering expanding overseas business in the future, there were no pronounced differences in terms of the reasons and challenges cited between those that were considering to do so by directly doing business overseas and those that aimed to expand direct exports. On the other hand, the findings indicate that among companies that did not attach importance to market growth potential and that did not cite building a reliable supply chain as a challenge in the way of future overseas business expansion, or companies whose value of sales was large, there was a strong tendency to consider maintaining the current situation regarding overseas business.

Figure II-2-3-17. Characteristics of approaches to future business expansion for direct exporters by response



Note: METI used an approach to future business expansion (direct overseas expansion, expansion of direct exports, maintaining of the current situations, and shrinking business) as a dependent variable and the following as independent variables: the number of export destination countries/regions, export destination countries/regions (China, NIEs [Hong Kong, the ROK, Taiwan, and Singapore], Asian emerging countries [Thailand, Indonesia, Malaysia, the Philippines, Viet Nam, and India], the U.S., Western countries other than the U.S., Latin America/Oceania, the Middle East, and Africa [multiple answers allowed]), reasons for starting direct exports (multiple answers allowed), perceived challenges in overseas business expansion (multiple answers allowed), sales, and the number of employees. When conducting the decision tree-based classification, it set the complexity parameter (cp) to 0.01, the maximum depth to 5, the minimum number for branching to 20, and the minimum number of individuals falling under each category to 10, and used the Gini coefficient to calculate the branching point.

Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSA* (Tokyo Shoko Research, Ltd.).

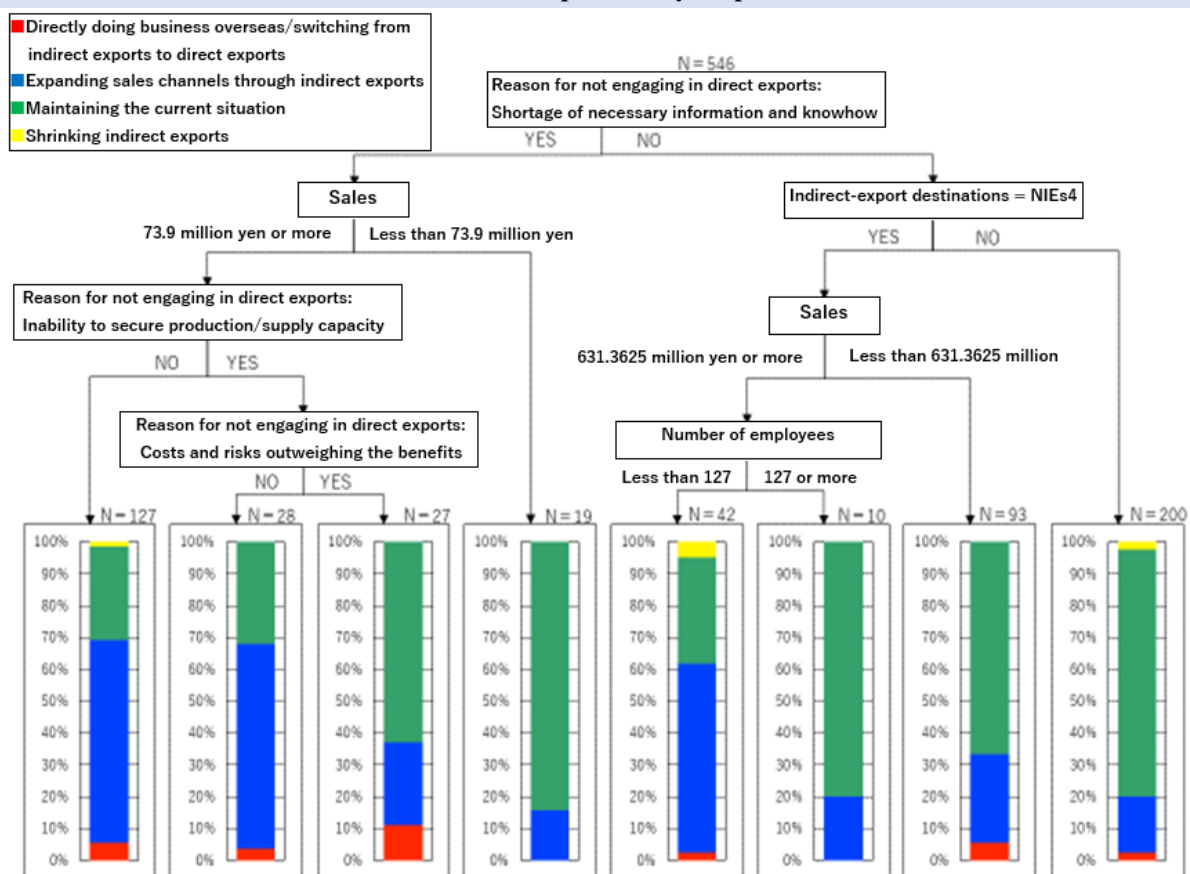
Next, we divide manufacturing companies engaging in indirect exports into four types according to the approach to future business expansion that they chose from among the reply options provided, i.e., “Directly doing business overseas/switching from indirect exports to direct exports,” “Expanding sales channels through indirect exports,” “maintaining the current situation,” and “shrinking indirect exports.” The companies were then classified, using the decision tree method, according to the determining factor of the approach to future business expansion that they chose from among the reply options, i.e., the

number of countries/regions that are destinations of indirect exports, the countries/regions that are destinations of indirect exports (China, NIEs, Asian emerging countries [Thailand, Indonesia, Malaysia, the Philippines, Viet Nam and India], the United States, Western countries other than the United States, Latin America/Oceania, the Middle East, and Africa), the reason for not engaging in direct exports, export type (which tier of indirect exporter), the value of sales, and the number of employees. Figure II-2-3-18 shows the results of the classification.

According to the figure, among companies that cited “Shortage of necessary information and knowhow,” but not “Inability to secure production/supply capacity” as a reason for not engaging in direct exports and whose value of sales was around 74 million yen or higher, around 70% chose replies indicating interest in future business expansion, specifically “Directly doing business overseas/switching from indirect exports to direct exports” and “Expanding sales channels through indirect exports,” regarding the approach to future business expansion. Next, among companies whose value of sales was around 74 million yen or higher and that cited “Shortage of necessary information and knowhow” and “Inability to secure production/supply capacity” as reasons for not engaging in direct exports but that did not cite “Costs and risks outweigh the benefits” as a third reason, around 70% were considering future business expansion. On the other hand, among those that cited “Costs and risks outweigh the benefits” as a third reason, only around 40% were considering future business expansion, while around 60% were considering maintaining the current situation. Among companies that cited “Shortage of necessary information and knowhow” as a reason for not engaging in direct exports and whose value of sales was less than around 74 million yen, around 80% were considering maintaining the current situation regarding future business plans. Among companies that did not cite “Shortage of necessary information and knowhow” as a reason for not engaging in direct exports and the destination of whose indirect exports was not NIEs, around 80% were considering maintaining the current situation. Finally, among companies that did not cite “Shortage of necessary information and knowhow” as a reason for not engaging in direct exports, the destination of whose indirect exports was NIEs and whose value of sales was less than around 630 million yen, around 70% were considering maintaining the current situation regarding future business plans. Meanwhile, among those whose value of sales was around 630 million yen or higher and that had a workforce of 127 or more employees, around 80% were considering maintaining the current situation. On the other hand, among those whose value of sales was around 630 million yen or higher and that had a workforce of less than 127 employees, around 60% were considering future business expansion.

The above findings indicate that among manufacturing companies engaging in indirect exports, those whose value of sales is relatively large, that did not engage in direct exports because of a lack of information or knowhow necessary for direct exports, that did not feel difficulty securing production and supply capacities for direct exports, or did not feel that the costs and risks involved in direct exports outweigh the benefits, that engaged in indirect exports to NIEs, and whose workforce size was small, there was a strong tendency to aim to achieve future business expansion mainly through indirect exports. While the proportion of companies considering switching to direct exports or directly doing business overseas was very small, there was not any particular tendency regarding the variables used in this analysis that can be observed among those companies. On the other hand, among companies not

engaging in direct exports due to a lack of information and knowhow necessary for direct exports, those whose value of sales was small showed a strong tendency to consider maintaining the current situation regarding the approach to future business. This tendency was also observed among companies that did not feel a lack of information and knowhow necessary for direct exports, that engaged in indirect exports to NIEs, and whose value of sales and workforce sizes were large, and among companies that did not feel a lack of information and knowhow necessary for direct exports and that did not engage in indirect exports to NIEs.



Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSA* (Tokyo Shoko Research, Ltd.).

Finally, we divide manufacturing companies not engaging in exports into four types according to the approach to future business expansion that they chose from among the reply options provided, i.e., “Doing overseas business as well,” “Expanding domestic business,” “Maintaining the current situation,” and “Shrinking business.” The companies were then classified, using the decision tree method, according to the determinant factor of the approach to future business expansion that they chose from among the reply options, i.e., the reason for not engaging in direct exports, the reason for not engaging in indirect exports, the value of sales, and the number of employees. Figure II-2-3-19 shows the results of the classification.

According to Figure II-2-3-19, among manufacturing companies that chose “Inability to find a sales/delivery client (e.g., a trading company) as a reason for not engaging in indirect exports and that cited “Costs and risks outweigh the benefits” as a reason for not engaging in direct exports, around 20% chose “Doing overseas business as well” regarding the approach to future business expansion and around 50% chose “Expanding domestic business.” On the other hand, in the case of those that did not cite “Costs and risks outweigh the benefits” as a reason for not engaging in direct exports, around 60% chose “Doing overseas business as well” regarding the approach to future business expansion and around 30% chose “Expanding domestic business.”

Among companies that did not cite “Inability to find a sales/delivery client (e.g., a trading company)” as a reason for not engaging in indirect exports, whose value of sales was around 110 million yen or higher, and that cited “Shortage of necessary information and knowhow” as a reason for not engaging in direct exports, around 10% chose “Doing overseas business as well” regarding the approach to future business, while around 60% chose “Expanding domestic business.”

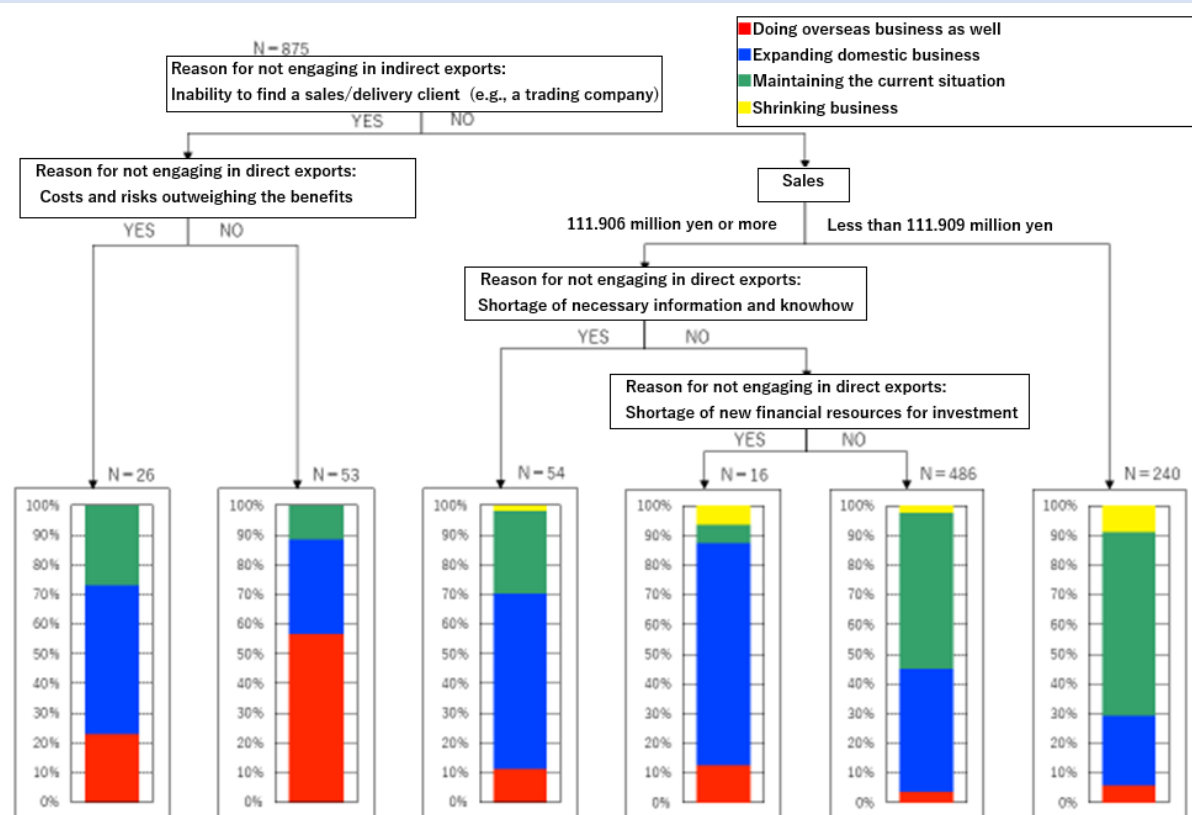
Among companies that did not cite “Inability to find a sales/delivery client (e.g., a trading company)” as a reason for not engaging in indirect exports, whose value of sales was around 110 million yen or higher, and that did not cite “Shortage of information and knowhow” as a reason for not engaging in direct exports, around 10% chose “Doing overseas business as well” regarding the approach to future business and around 70% chose “Expanding domestic business” in the case of those that cited “Shortage of financial resources for investment” as a reason for not engaging in direct exports. In the case of those that did not cite “Shortage of financial resources for investment” as a reason for not engaging in direct exports, around 40% chose “Aiming to expand domestic business” regarding the approach to future business expansion and around 50% chose “Maintaining the current situation.”

Among companies that did not cite “Inability to find a sales/delivery client (e.g., a trading company)” as a reason for not engaging in indirect exports and whose value of sales was less than 110 million yen, around 60% chose “Maintaining the current situation” regarding the approach to future business expansion.

To sum up the above findings, there was a strong tendency to choose “Doing overseas business as well” regarding the approach to future business expansion among non-exporters that cited “Inability to find a sales/delivery client (e.g., a trading company)” as a reason for not engaging in indirect exports

and that did not cite “Costs and risks outweigh the benefits” as a reason for not engaging in direct exports. Among non-exporters that cited “Inability to find a sales/delivery client (e.g., a trading company)” as a reason for not engaging in indirect exports, and that cited “Costs and risks outweigh the benefits” as a reason for not engaging in direct exports, and non-exporters that did not cite “Inability to find a sales/delivery client (e.g., a trading company)” as a reason for not engaging in indirect exports, whose value of sales was large, and that cited either “Shortage of information and knowhow” necessary for direct exports or “Shortage of financial resources for investment” as a reason for not engaging in direct exports, there was a strong tendency to aim to expand domestic business regarding the approach to future business expansion. On the other hand, as for non-exporters that did not cite “Inability to find a sales/delivery client (e.g., a trading company)” as a reason for not engaging in indirect exports, there was a strong tendency to consider maintaining the current situation regarding the approach to future business in the case of those that cited neither “Shortage of information and knowhow” necessary for direct exports nor “Shortage of financial resources for investment” regardless of the value of sales.

Figure II-2-3-19. Characteristics of approaches to future business expansion for companies not engaging in exports by response



Note: METI used an approach to future business expansion (implementation of overseas business, expansion of domestic business, maintaining of the current situations, and shrinking business) as a dependent variable and the following as independent variables: reasons for not engaging in direct exports (multiple answers allowed), sales, and the number of employees. When conducting the decision tree-based classification, it set the complexity parameter (cp) to 0.01, the maximum

depth to 5, the minimum number for branching to 20, and the minimum number of individuals falling under each category to 10, and used the Gini coefficient to calculate the branching point.
Source: *REIWA 5 NENDO WAGAKUNI KIGYOU NO KAIGAI TENKAI NO JITTAI OYOBI KADAI NI KAKARU ANKEETO CHOUSHA* (Tokyo Shoko Research, Ltd.).