

The Making of New Innovative Japan: Road Map to Great Recovery

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(full text)

“Vision without a task is only a dream. A task without a vision is but drudgery. But vision with a task is a dream fulfilled.” (Anonymous)

Introduction

What kind of Japan should we hope to see in the future? To answer this question, we must first look back at what Japan has successfully achieved in the past and what it has failed to do. By looking at the gap between Japan’s achievements and shortcomings, we can objectively lay out where Japan should head to in the long term.

Throughout their history, the Japanese have good reasons to be proud of. Japan is the first economic miracle outside the Western soil. It held the prestige of being the second largest economy in the world for roughly 40 years despite its lack of natural resources. What makes Japan tick is the vibrant export-oriented industries, primarily the electronics and automobiles. Japan is still recognized worldwide for its unrivaled technological prowess, highly literate population, exquisite cuisine, low crime rate, clean and orderly communities, and long life expectancy. Few decades ago, the country perfectly looked so welcoming and full of promises that Professor Ezra F. Vogel of Harvard University even published a groundbreaking book in 1979 called, “Japan as Number One,” highlighting some valuable lessons that America needs to learn from Japan.

Thirty years later, the picture looks different; optimism over Japan’s imminent path was at low ebb. For one, Japan is long stuck in an asset price bubble, leading to more than twenty years of economic doldrums. The Lost Decades (失われた 20 年) witnessed a period of aging population, fragile healthcare system, declining competitiveness, stagnant wage structure, high suicide rate, bureaucratic bottlenecks, fledgling political leadership, and a

ballooning public debt (200% as a ratio of GDP), which is the highest among the most developed countries.

The challenges of 21st century Japan are already daunting but the country was further pushed to its limits after the recent triple disaster of earthquake, tsunami, and nuclear breakdown. The biggest postwar crisis created new problems altogether and exacerbated the old ones. All is not lost though for Japan. If there's one best sign of hope for the "Land of the Rising Sun," it is the hidden spirit of local responsiveness and camaraderie unleashed by the tragedy. The Japanese people impressed the world for their strength and composure amid the ruins. Their calm disposition and collectivist mindset to help and encourage one another as well as the absence of looting or crime of any sort were just astounding.

The fact that the tragedy unites the people is a good starting point toward recovery. Japan has a long history of resilience from catastrophes; huge disasters such as earthquakes actually serve as an impetus for long overdue reforms. The Ansei Edo quake in 1855 ended the long years of isolation during the Tokugawa period. The Kanto earthquake in 1923 marked the era of militarism. Similarly, the present crisis poses a critical turning point for Japan to overhaul the society, where the politically impossible suddenly become outright urgent and necessary. Japan must not waste this opportunity to rebuild not just the devastated cities but the entire nation as a whole. As what Bill George toughly advised, "Never waste a good crisis."

For one, the post-quake reconstruction effort estimated at around 20-25 trillion yen will certainly boost the economy. The rebuilding of vital infrastructure attracts enormous investments. It will generate many jobs, both domestic and overseas. However, the critical days ahead go beyond physical recovery. When the debris has been cleared and new structures rebuilt, the long-term fixing must kick-off. But the million dollar question is—how?

New Innovative Japan

Innovation is undoubtedly the core engine that propelled Japan to the peak of economic growth during the 1970s. Innovation has its roots from the Latin word, *innovationem*. The word came from the word, *inno* which means “new” and *innovare*, which means “to renew or change.” Simply put, innovation implies introducing something new or the creation of something better than what has already been there, whether it is a product, process or idea. If innovation serves Japan well during its glorious days, it remains to be the key tool in igniting substantial positive changes in the future.

Today, Japan needs to innovate than any other country because it does not have much natural resources and its population is aging rapidly. The kind of innovation that Japan needs though is a holistic one, that is, both technological and non-technological innovation. Specifically, I outline three main visions for Japan as it takes off toward a great recovery: Entrepreneurial Japan, Green Japan, and Global Japan. These visions are not mutually exclusive; they are, as a matter of fact, interconnected and interrelated. Green Japan involves the promotion of green technology to achieve both economic and environmental sustainability. It is related to Entrepreneurial Japan as entrepreneurship will be used as a tool to market eco-friendly products and services. Global Japan, on the other hand, entails instilling a multicultural mindset, encouraging migration, and reinforcing the use of English for communication. This vision is crucial for Entrepreneurial Japan to succeed as Global Japan could change the conservative ways of the corporate world. The three visions – Entrepreneurial Japan, Green Japan, and Global Japan – fall under the overarching theme, New Innovative Japan.

I. Entrepreneurial Japan

To revive the economy, Japan has to rekindle its entrepreneurial drive and that entails putting innovation at the heart of its overall national policy. Japan was once a leader in innovation as proven by the rise of giant firms such as Honda, Toyota, Sony, and the like. Starting from small ventures,

these companies robustly conquered the global market through constant improvisation of products, processes, and services. This is not to say that Japan is not innovating anymore; it still owns the most number of patents in the world and invests greatly on research and development (R&D). However, today's competition demands that Japan has to keep up with the pace because it has more challengers now than in the past. Sony largely capitalized on the invention of transistor radio and Walkman in the 1970s but Apple got the lead in the 21st century with the creation of iPod. The technological revolution in the Silicon Valley has set the bar high and this should serve as a wake-up call for Japan to further think outside of the Bento box in order to compete with the ranks of technology leaders.

To realize this goal, Japan has to strengthen the link between the academe and its major industries to enable start-ups to execute their ideas and create jobs. Enhancing university-industry technology transfer requires making patent commercialization easier in the universities and offering a plenty of room for a network of venture incubators and business start-up programs for budding entrepreneurs.

Innovation is more than just being a technological powerhouse. Japan's remarkable track record of innovation cannot be heightened and sustained without implementing social and organizational changes in its business culture. For one, Japan must accept the fact that the rules of the game have changed; new challenges cannot be overcome by old strategies. The mammoth corporations cannot tap the best minds if they continue to provide lifetime employment and seniority-based promotion. The once innovative business leaders who enjoy these benefits are now too risk-averse and just satisfied with the status quo whereas the young, bold, and promising newcomers cannot put their radical and creative ideas into action because they are too constrained by the rigid hierarchical structure that puts considerable value on loyalty and tenure instead of competence. Thus, Japan has to find a way to overhaul the corporate world such that people, young and old, would be driven to pursue new ideas and challenge old mentalities.

An old saying goes that "the biggest risk that we will ever take is not taking one at all." In Japan's case, innovation is compromised because of aversion to

risk. Risk-taking constitutes the lifeblood of an entrepreneurial economy; always playing it safe runs counter to this idea. Risk aversion is embedded in the Japanese psyche due to the concept of saving face. For instance, when the best graduates leave their stable jobs and venture into entrepreneurship and failed, second chances are hard to come by and the social stigma is reinforced by the corporate sphere as firms feel hesitant to reabsorb “unsuccessful” entrepreneurs in their labor force. Worst, suicide is even deemed to be the quick escape from the social disgrace. In the United States, small-time businesses are well appreciated for their efforts, whether they succeed or not. The Japanese have yet to learn how to think this way and embrace the reality that success in business is often preceded by a series of failures.

Though Japan owns the most number of patents in the world, they are mostly held by huge firms. An enabling policy that provides more space for small and medium-sized enterprises to grow – boosting post-industrial export industries by focusing more on ideas and services – is already long overdue. History shows that it is in the most trying times that the most brilliant ideas come out. However, to foster innovation amid the chaos and crisis, Japan has to nurture a more positive attitude toward entrepreneurship. Every time I ask my Japanese friends about their dream career, all they aspire for is to be loyal and hardworking employees for the most prestigious Japanese companies. The idea of putting up a business to secure one’s future and help other people hardly crossed their minds. Besides, self-employment is yet to be accepted as a desirable job in Japan. Such cultural aversion to money-making thwarts innovation.

Cultural hurdles to innovation cannot be solved overnight; that’s why the new generation needs to be well educated about entrepreneurship as early as possible. The Japanese education system has excessively focused on teaching students to strictly follow rules and orders to the point of ignoring the importance of asserting one’s individualism. Successfully incorporating entrepreneurship in the Japanese education curriculum necessitates tackling the subject beyond the context of income generation and leaning toward the standpoint of nation building. It should break some myths about entrepreneurship such as the common misconception of putting it as a

second-rate career option of selfish money-seekers. The education system must present entrepreneurship not as an abstract concept but as a vocation itself, a social activity, and a way of life. It should recognize entrepreneurs as innovators, critical thinkers, and change makers. This kind of paradigm shift is crucial in harnessing the entrepreneurial genius of the Japanese youth.

A comprehensive entrepreneurship policy goes beyond the practical integration of entrepreneurship in the education system and the academe-industry synergy. It should also consider reforming the tax incentive system that has long favored the giant firms over start-ups. For instance, banks require SMEs a huge collateral or guarantor when borrowing. Because of the rigid personal guarantees imposed on small business owners, they become personally liable for all losses in case of failure. On the contrary, large companies can easily apply for financial support, which explains why most of the Japanese patents are concentrated in a few huge firms. The government also needs to rethink its policy on “zombie” or the “living dead” companies because they drain the public coffers and inflict huge burden to taxpayers. When big failing companies constantly receive bailouts from the government as a life support to protect jobs, human capital is not maximized and the loans could have been given to small enterprises.

Lastly, streamlining bureaucratic procedures and lessening the costs of registering businesses, applying for venture capital loans, tax deductions, and the like would greatly encourage innovation. Today’s most innovative countries are those that are able to simplify their processes and do away with silly regulations because it has been proven, time and again, that excessive red tape stifles organizational growth.

II. Green Japan

Japan has the huge opportunity to set the best example in positioning for a green recovery. It can use the nuclear crisis to shift toward a more eco-centric development model by making nuclear power a less attractive source of energy and harnessing the potential of renewable energy sources such as wind and solar power.

To reach this end, eco-innovation is the means. Eco-innovation is technically defined as “the creation of novel and competitively priced goods, processes, systems, services, and procedures designed to satisfy human needs and provide a better quality of life for everyone with a life-cycle minimal use of natural resources (materials including energy and surface area) per unit output, and a minimal release of toxic substances.”¹ Thus, eco-innovation brings new ideas and practices to the market that seek to conserve resources and curb the use of harmful materials in the production, consumption, and disposal process. If Japan can turn the present energy crisis from a threat into opportunity through the promotion of green technology, it can trigger a ripple effect around the world in advancing green growth.

This vision is certainly no pipedream for Japan as it is way more technologically advanced than other countries that have been badly struck by disasters. For example, Japan’s automakers lead the race in producing hybrid cars such as the Toyota Prius, the first mass-produced hybrid vehicle and considered one of the cleanest cars based on toxin emissions. Honda and Komatsu have developed hydrogen fuel cell car and hybrid heavy machinery, respectively. Clean diesels, electric vehicles, and other environmentally friendly autos are all part of Japan’s green drive with the great potential of creating huge markets. More cities are becoming incubators of energy-efficient technologies. For instance, Fukuoka is home to small firms that are exploring more efficient production of hydrogen and solar power and the recycling of used oil. Fukuoka has been considered as one of the most liveable cities in the world because of its green physical footprints such as the use of green roofs that maintain room temperature at comfortable levels.

Recovering from the devastation offers the opportunity to rebuild the most energy-efficient cities. Tohoku can serve as the good starting point; it can set the trend for implementing a new energy policy geared toward self-reliance, energy conservation, and sustainability. Beyond transforming Tohoku as green technology hub, the government should explore the idea of turning Tohoku into a vital economic zone to facilitate free trade, regional integration, and competitiveness. However, this requires considerable

¹ Systematic Eco-Innovation Report (2008) by Technopolis Group for the Europe INNOVA Sectoral Innovation Watch

transfer of power to local authorities to make public policy making more responsive to the needs of the local community. In such case, political will is necessary to move away from a Tokyo-centric governance toward a more decentralized political system to empower local governments to play more active roles in local development.

One of the functions that can be devolved to local governments is to determine which form of energy is best suited to them, depending on their geographical characteristics, financial standing, and other relevant factors. For instance, Tohoku can convert its farmlands contaminated of nuclear leaks into fields of solar panels. Okinawa could also benefit greatly from its plentiful sunlight by generating energy from solar power. Hokkaido could experiment on tapping its rich deposits of natural gas. Mountainous areas with fewer cases of severe weather conditions can build huge wind mills. Since totally getting rid of nuclear power is still not feasible as nuclear power remains to be a crucial energy source, local government must be equipped with better ways of making nuclear energy safer through improved oversight and precautionary measures. These initiatives are envisaged to reinforce a new lifestyle that is less dependent on nuclear power and offers vast opportunities for domestic economic development, specifically green growth.

III. Global Japan

In August 2011, Steve Jobs resigned as the CEO of Apple. A few days after, Naoto Kan – Japan’s sixth prime minister in five years – also resigned. Bloomberg columnist William Pesek noted in his article titled, “Steve Jobs Trumps CEO of \$5 trillion Economy” why Jobs’ resignation got more global attention than Kan’s. According to Pesek, “Investors know that, for better or worse, things are about to change at Apple. They can’t say the same about Japan.” This increasing pessimism over the possibility of a renewed Japan is downplaying Japan’s global presence.

Unwarranted conservatism, which is prevalent in the businesses, has been preventing Japan from becoming truly global. Japan falls short of having enterprises with global mindset. The status-quo corporate culture cannot

respond to dynamic changes brought by globalization. Security of tenure renders corporate life too predictable and dreary from the foreigners' point of view because no matter how innovative or creative you are, your seniors are always ahead of the pack. It's not easy for foreigners to adjust to a Japanese work environment given the unnecessary double-checking systems. Trusting outsiders is never easy for the Japanese because they have become too comfortable with their own system; outsiders scrutinizing their tried and tested ways are treated with mistrust. This is not how a global workplace works.

Japan's homogenous ethnic composition also makes it difficult for formulating a sound migration policy that encourages highly skilled immigrants to penetrate the Japanese society. To encourage fresh and diverse ideas and foreign investments, Japan cannot be too inward-looking. Allowing foreigners to work and set up businesses might bring new management models that can shake up the status quo. However, opening up to foreign workers requires the creation of a global environment that values cultural diversity, merit and fitness, work-life balance, and gender equality. To make the pro-migration policy helpful in saving the shrinking population, Japan has to remove the need for women to choose between career and motherhood. A generous child-care subsidy program should afford women the opportunity to be productive workers and responsible mothers at the same time.

Another vital requirement to boost Japan's global presence is English language proficiency. English is the de facto language of globalization. Japan has to accept this fact if it wants its voice to be heard at the global stage. The language barrier makes communication tedious for foreigners. Japan is now lagging behind its neighbors such as South Korea when it comes to English proficiency. Grammar-focused teaching and intense memorization of vocabulary are not so helpful in achieving communicative English competency. Whether in home, school or the workplace, English learning can only be easily achieved under a natural enabling environment. Japanese schools cannot claim to be global if they cannot provide English translations of their bulletin board notices and announcements. Universities can't be branded global if foreign students hardly understand their professors who

use English as the medium of instruction. Maximizing the use of multimedia facilities that facilitate English learning in schools and offices would help foster a more pragmatic learning environment for English. Most importantly, the Japanese have to come to terms with the fact that mistakes are nothing to be ashamed of especially when speaking English. After all, it's the effort to get one's message across that truly matters.

In the academic circle, Japan has to catch up with other countries in terms of strengthening international linkages. In an article in Japan Times entitled "Looking Back at Japan as No. 1," Temple University's Institute of Contemporary Asian Studies Director Robert Dujarric noted that "Japan has only a limited global academic footprint" because the number of Japanese students abroad are declining. This means that Japan is not having enough human capital with a global point of view, multicultural experience, extensive overseas network, and superb foreign language skills. Japan needs its professionals abroad because they have the ability to serve as a catalyst for change when they come back as they are already armed with the global mindset and experience that are necessary to accelerate the needed structural reforms in Japanese institutions. If Japan continues to be underrepresented abroad compared to their Asian counterparts, its influence will likely to go down the drain.

Conclusion

Harvard economist Lester Thurow noted that Japan has emerged as the victor in the post-war capitalist system. But he insisted that "those who play a game well and win are usually the last to be willing to notice that the game has changed and that they will have to learn to play a different game." Japan has become too entrenched in the ways of the past that it has failed to take into account the dynamic changes that bring new problems and challenges. The if-it-ain't-broke-don't-fix-it-attitude is already an obsolete strategy. Japan cannot afford to be too loose just like the old times.

The Lost Decades inflicted a great toll in the Japanese economy because Japan was unwilling to adopt a development model that meets the demand

of the changing realities of the global economy. If Japan will not learn any lessons from this, it is doomed to repeat its flaws from the past. The 3.11 catastrophe can either serve as another reason for Japan to delay the long overdue reforms or it can act as an impetus for radical changes. Japan has victoriously built itself from the ashes of the war. It survived the two most destructive atomic bombings. It enjoyed the glorious days of “Japan as No. 1” in the 1970s. This essay had discussed the three innovative approaches that can help Japan get back on its feet: Entrepreneurial Japan, Green Japan, and Global Japan. Although these strategies are not panaceas, they represent the most crucial starting points that require a clear reexamination of Japan’s deeply-ingrained beliefs and values.

China and India are expected to grow their economies further while the US and Europe continue to grapple with economic and financial backlashes. This reinforces the belief that the global power dynamics is gearing more toward the East. Japan can also rise with its emerging Asian peers but only through the exercise of a resilient leadership. Henry Kissinger once said that “leaders must invoke an alchemy of great vision.” Transforming the aforementioned vision into reality is what leadership is all about.