

June 8, 2006

## **Japan's Innovation Strategy (Executive Summary)**

Yorihiko Kojima  
Chairman, Committee on Japan's Innovation Strategy  
(President and CEO, Mitsubishi Corp.)

### **1. Strong Sense of Urgency regarding Japan's Current Situation**

The world is currently evolving around increasingly strong trends such as globalization and digitalization, with many countries facing various challenges ranging from environmental problems to dwindling natural resources. In such circumstances, Japan, which has little natural resources and a rapidly aging population, is more likely than most countries to feel the effect of such trends, and its society faces numerous issues which need to be overcome. But, there is little sense of crisis within Japan, and it is feared that if it does not begin to face up to these issues, Japan will slowly but surely begin to decline. Led by the efforts of Prime Minister Koizumi to revitalize Japan by shaking up the status quo, signs of change can be seen within Japan. However, due to the recent resurgence of the Japanese economy, support towards reform is beginning to fade and the future of Japan can be said to be hanging in balance. Therefore, Japan needs to continue its efforts to transform its society, and at the same time, find the strength to overcome the various issues it now faces.

### **2. Why Innovation is Important Now**

In order for Japan to regain its past vitality, it must foremost focus on strengthening its ability to innovate. Innovation is the core engine that enables society's continued and sustainable growth, and is an essential element for Japan in creating new growth, considering its declining population and capital. The core function of innovation is to overcome the past, tackle current challenges, and to create value for the future, and it requires diversity, an open and global mindset, a willingness to collaborate and the ability to communicate.

### **3. Japan and Innovation**

Although it is often said that Japan is not as innovative as the US, clear examples of innovation can be found in various instances in Japan's history, as well as in the values underling traditional Japanese arts such as Noh. At the same time, Japanese innovations in fields such as environmental technology and energy conservation are highly regarded worldwide. Furthermore, many so called Japanese characteristics are suited in enabling innovation. Therefore, it can be said that Japan can be innovative, but that its ability to do so has been hampered in recent years.

One main factor that is impeding Japan's ability to innovate is its rigid social structure which deters change, a side effect of Japan's successful post-war economic revival. Another factor is Japan's homogeneous society, which resents those who stand out and is at the root of an often closed and jealous mind-set.

### **4. 3 Strategies Towards Building a Society which Encourages Innovation**

In the same way Japanese sports, such as professional baseball and Sumo, revitalized themselves by actively absorbing new ideas and people from outside, in order to become more innovative, Japan needs to urge its citizens to be more independent and to change their mind-set. To make this happen, Japan's society (social norms/convention/customs) first needs to change, as it strongly influences how people think and act, and we would like to suggest 3 strategies in doing so.

The first strategy is to build an open society. To liberate Japan's innovative abilities, it must tear down the many walls that exist within its society. In order to do so, Japan must open itself up, such as by further relaxing restrictive policies, and at the same time sever its ties from past shackles. Furthermore, to encourage innovation, it must welcome and reward new challenges, and provide equal opportunities to those who wish to.

The second strategy is to build a diverse society. Specifically, it will be necessary to actively assimilate various types of people, such as woman and foreigners, who till now did not have the opportunity to play an active part within Japan.

Doing so will mean that values, as well as people will differ, and it will be necessary to create a more tolerant social structure and mind-set.

In addition, in the mid-long term, it will be necessary to overhaul Japan's education system so that it can develop people who can think for themselves and communicate smoothly with others. In doing so it will be necessary to improve the quality of teachers, but will also require a more multi-dimensional educational system, where corporations, local communities, and family members collaborate in providing a solid education.

The third strategy is to build an attractive society that people can be proud of. In order for innovation to occur, it is necessary to have a clear and engaging goal. Therefore, as Japan does not yet know which direction it heading, it will be necessary for people to discuss and share a common goal/vision in order to be able to overcome painful reforms which are still necessary. One such vision would be to aim to become a nation which can achieve sustained growth by providing intellectual leadership to the world, built on top of diverse human resources.

To achieve this, Japan must first rediscover its strengths and assets, such as its heritage in craftsmanship/manufacturing, and based on this, create an attractive picture regarding Japan's future which can be shared with the world. "Craftsmanship", "Frontrunner on future issues" and "Soft power" are likely to be key concepts. Also, when discussing such issues, it will be necessary to delve into complex topics such as "disparity" and the balance between growth and quality of life. It will also be necessary in the mid-long term to formulate and pursue its own strategy in foreign policy.

## **5. Actions in Tackling Remaining Issues**

Leaders in various fields must take the lead in pushing forward reform by creating consensus and changing mindsets. Therefore, this committee has decided to extend its activities for another year, and by collaborating with other committees in the Keizai Doyukai, will study specific actions that can be taken to realize the above mentioned strategies.