

# RECLAIMING JAPAN'S GLOBAL EDGE: HARNESSING STRENGTHS AND OVERCOMING CHALLENGES IN THE 21ST CENTURY

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In the 21st century, Japan's role in the global business landscape has experienced significant shifts. This paper examines Japan's strengths, such as technological prowess, high-quality standards, and robust educational systems, which have historically bolstered its competitive edge. However, Japan faces pressing challenges, including a declining workforce due to an aging population, excessive regulation, a shortage of global talent, and lagging digitalization.

Technological innovation remains a cornerstone of Japan's global business strategy. Companies like Toyota and Sony exemplify Japan's commitment to maintaining technological leadership. However, to sustain this edge, increased investment in research and development and fostering open innovation through collaboration with domestic and international entities are essential.

Labor market reforms are critical to addressing Japan's demographic challenges. Enhancing the participation of women, seniors, and foreign workers, coupled with education system reforms, can mitigate the adverse effects of a shrinking workforce. Promoting flexible working arrangements and improving labor market flexibility are necessary steps.

Deregulation and improvements in the business environment are vital for fostering innovation and new business ventures. Simplifying administrative procedures and creating supportive startup legal frameworks can enhance Japan's entrepreneurial landscape. Encouraging a corporate culture that embraces change and flexibility is also crucial.

Nurturing global talent through enhanced language education, study abroad programs, and better integration of foreign workers can improve Japan's international competitiveness. Equally important is advancing digital transformation within companies by strengthening IT infrastructure and digital skills.

The paper concludes that addressing these challenges while leveraging Japan's inherent strengths can revitalize its presence in the global business context. Strategic investments in technology, labor market reforms, deregulation, global talent development, and digital transformation are imperative for Japan to reclaim its influential role worldwide.

*Key Words: Technological Innovation, Digital Transformation, and Labor Market Reforms*

## 1. INTRODUCTION

### (1) Background

Japan's role on the global business stage has undergone significant changes in the 21st century. Having experienced rapid economic growth, Japan now faces new challenges. This paper analyzes

Japan's strengths and challenges and considers strategies for revitalizing its presence in the global business context.

### (2) Research Objectives & Significance

This research investigates Japan's capacity to regain its competitive edge in global business by leveraging its technological strengths and addressing

its demographic and regulatory challenges based on the Management Survey. This research is significant because it is beneficial to understand the latest management views and perspectives regarding the revitalization of Japan's economy. These dynamics are crucial for policymakers and business leaders aiming to revitalize Japan's economy.

### **(3) Research Hypothesis – Japan's Strengths & Challenges**

Regarding Japan's strengths in global business, there are four main potential strengths, as shown below.

- (a) Technological Prowess and Innovation
- (b) High-Quality Standards
- (c) High Educational Standards
- (d) Safety and Infrastructure Development

- (a) Technological Prowess and Innovation  
Japan is globally recognized for its technological prowess and innovation. Particularly in manufacturing, Japan's advanced technology underpins its competitive edge. Companies like Toyota, Sony, and Panasonic consistently develop new technologies that lead the market. For example, Toyota's hybrid technology and Sony's digital camera technology are notable examples of this innovation.
- (b) High Quality Standards  
Japanese products are renowned for their quality, both domestically and internationally. The precision in machinery, electronics, and the automotive industry's quality control is unparalleled. This commitment to quality strengthens the brand power of Japanese companies. Products such as Sharp's LCD televisions and Canon's cameras are globally acclaimed for their high standards.
- (c) High Educational Standards  
Japan boasts high educational standards, resulting in a skilled workforce. Education in engineering, science, and technology fields supports corporate innovation. Additionally, the high level of essential academic ability sustains Japan's competitiveness. A recent study shows that Japanese students' performance in PISA tests ranks among the best in the world. (Mathias Cormann, 2022)
- (d) Safety and Infrastructure Development  
Japan is known for its safety and well-

developed infrastructure. The country's transportation infrastructure, including bullet trains, subways, and buses, operates punctually and efficiently, providing a solid foundation for business activities.

As for Japan's global business challenges, four potential challenges are below.

- (a) Lag in Digitalization
- (b) Declining Workforce and Aging Population
- (c) Excessive Regulation & Lack of Flexibility
- (d) Shortage of Global Talent

- (a) Declining Workforce and Aging Population  
Japan faces a significant challenge with its declining workforce and aging population. A recent study shows that as of 2021, 28.7% of Japan's population is 65 or older (Cabinet Office, 2021). This demographic shift poses difficulties for companies securing labor and raises concerns about declining productivity—additionally, the increase in social security costs due to aging burdens the overall economy.
- (b) Excessive Regulation & Lack of Flexibility  
Japan's business environment is often criticized for its stringent regulations and bureaucratic processes. These factors hinder the establishment of new businesses and the promotion of innovation. For instance, launching a new product requires numerous approvals and procedures, slowing companies' ability to respond swiftly. Moreover, corporate culture tends to be conservative, showing low flexibility to change.
- (c) Shortage of Global Talent  
Enhancing international competitiveness requires globally-minded talent. However, Japanese companies often need more foreign workers and culturally diverse personnel, indicating slow progress in internationalization. For instance, more English communication skills are required to improve international expansion efforts.
- (d) Lag in Digitalization  
Digital advancement is crucial in global business, yet Japan lags. Particularly among small and medium-sized enterprises (SMEs), inadequate IT infrastructure and a shortage of

digital talent pose challenges. Consequently, efficient business operations and adopting new business models take time.

## 2. PROBLEM STATEMENT

Japan's global business presence has waned due to a declining workforce, stringent regulations, a lack of international talent, and slow digital transformation. Despite its strengths in technology and quality standards, these challenges hinder Japan's ability to compete internationally. Addressing these issues is essential for Japan to reclaim its influential role on the global stage. This research clarifies the answers to the question, "What would be the potential strategies for Japan's revitalization of Global Business?" based on the Management Survey.

## 3. RESEARCH METHODOLOGY

### (1) Approach

The research adopts a qualitative methodology, focusing on comprehensive Literature Reviews and a Management Survey.

### (2) Data Sources

Data is sourced from government publications, industry reports, academic journals, and the Management Survey results.

### (3) Analysis

Based on the Management Survey Results, thematic analysis is conducted to identify patterns and insights related to technological innovation, demographic changes, regulatory impacts, global talent acquisition, and digital transformation.

### (4) Evaluation

Strategies are evaluated based on their potential to address identified challenges and leverage Japan's strengths.

## 4. LITERATURE REVIEW

Several works of literature / past studies discuss potential strategies for Japan's revitalization of global business from five perspectives: Technological Innovation, Demographic Challenges, Regulatory Environment, Global Talent, and Digital Transformation.

### (1) Technological Innovation

A recent study shows Japan's historical leadership in manufacturing and technological advancements emphasizes the need for sustained Research & Development (R&D) investment (Ministry of Economy, Trade and Industry, 2023).

### (2) Demographic Challenges

A recent study indicates that Japan's aging population critically impacts labor supply and productivity (Yoshio, 2022).

### (3) Regulatory Environment

A recent study suggests Japan's regulatory framework inhibits rapid business innovation and flexibility (Cosmas, 2023).

### (4) Global Talent

A recent study points to a significant gap in Japan's ability to attract and retain global talent, which impacts its international competitiveness (Aileen et al., 2021).

### (5) Digital Transformation

A recent study shows that Japan lags behind other advanced economies in digitalization, affecting operational efficiency (Cosmas, 2023).

## 5. MANAGEMENT SURVEY RESULTS

### (1) Management Survey Questions

Below are five Management Survey questions to clarify the potential strategies for Japan's revitalization of global business from five perspectives: Technological Innovation, Demographic Challenges, Regulatory Environment, Global Talent, and Digital Transformation.

#### [Q1] Technological Innovation

To what extent does your company prioritize research and development (R&D) investment to foster innovation and maintain a competitive edge in the global market?

- 1 - Not at all prioritize
- 2 - Slightly prioritized
- 3 - Moderately prioritized
- 4 - Highly prioritized
- 5 - Extremely prioritized

#### [Q2] Demographic Challenges

How effective do you believe your company's current policies are in addressing labor shortages by encouraging the participation of women, seniors, and foreign workers?

- 1 - Not effective at all
- 2 - Slightly effective
- 3 - Moderately effective
- 4 - Very effective
- 5 - Extremely effective

**[Q3] Regulatory Environment**

How significant do you consider the impact of government regulations on your company's ability to innovate and quickly respond to market changes?

- 1 - Not significant at all
- 2 - Slightly significant
- 3 - Moderately significant
- 4 - Very significant
- 5 - Extremely significant

**[Q4] Global Talent**

How well does your company's talent acquisition strategy support recruiting and retaining globally-minded and culturally diverse employees?

- 1 - Not supportive at all
- 2 - Slightly supportive
- 3 - Moderately supportive
- 4 - Very supportive
- 5 - Extremely supportive

**[Q5] Digital Transformation**

How advanced is your company's digital transformation strategy in adopting new technologies like AI, IoT, and digital platforms to enhance operational efficiency?

- 1 - Not advanced at all
- 2 - Slightly advanced
- 3 - Moderately advanced
- 4 - Very advanced
- 5 - Extremely advanced

These survey questions are provided to the potential survey respondents, including executives and management in Japanese companies, via Amazon Mechanical Turk and CloudResearch from July 29<sup>th</sup> to August 18<sup>th</sup>, 2024.

**(2) Management Survey Respondents**

In total, 83 respondents answered to this Management Survey. The following are the survey respondents' demographic data.

**[By Industry]**

Manufacturing: 25 respondents (30%)

IT & Telecommunications: 17 respondents (20%)  
 Financial Services: 12 respondents (15%)  
 Retail & Consumer Goods: 8 respondents (10%)  
 Healthcare: 8 respondents (10%)  
 Energy & Utilities: 4 respondents (5%)  
 Transportation & Logistics: 4 respondents (5%)  
 Other Industries: 5 respondents (5%)

**[By Division]**

Executive (C-suite): 21 respondents (25%)  
 Operations: 17 respondents (20%)  
 Human Resources: 12 respondents (15%)  
 R&D: 12 respondents (15%)  
 Finance & Accounting: 8 respondents (10%)  
 Marketing & Sales: 7 respondents (8%)  
 IT & Digital Transformation: 4 respondents (5%)  
 Other Divisions: 2 respondents (2%)

**[By Position]**

C-Level Executives: 21 respondents (25%)  
 Senior Management: 25 respondents (30%)  
 Middle Management: 29 respondents (35%)  
 Other Management: 8 respondents (10%)

In summary, Manufacturing and IT&Telecom are the sectors most represented, reflecting Japan's strong focus on technology and production. Many respondents are from the Executive (C-suite) and Operations, indicating a strategic focus in the survey's design. The survey mainly targets Senior and Middle Management, providing insights from those with direct decision-making authority.

**(3) Results of the Management Survey (Q1)**

**[Question]**

To what extent does your company prioritize research and development (R&D) investment to foster innovation and maintain a competitive edge in the global market?

**[Answer]**

1 - Not at all prioritized: 5%  
 2 - Slightly prioritized: 15%  
 3 - Moderately prioritized: 30%  
 4 - Highly prioritized: 35%  
 5 - Extremely prioritized: 15%

Most Management (65%) moderately to highly prioritize R&D investment, indicating a recognition of its importance but with room for greater emphasis.

**(4) Results of the Management Survey (Q2)**

**[Question]**

How effective do you believe your company's

current policies are in addressing labor shortages by encouraging the participation of women, seniors, and foreign workers?

[Answer]

- 1 - Not effective at all: 10%
- 2 - Slightly effective: 20%
- 3 - Moderately effective: 35%
- 4 - Very effective: 25%
- 5 - Extremely effective: 10%

There is a mixed response. Most (60%) feel their policies are moderate to very effective, but a significant minority (30%) need improvement.

### **(5) Results of the Management Survey (Q3)**

[Question]

How significant do you consider the impact of government regulations on your company's ability to innovate and quickly respond to market changes?

[Answer]

- 1 - Not significant at all: 5%
- 2 - Slightly significant: 15%
- 3 - Moderately significant: 25%
- 4 - Very significant: 30%
- 5 - Extremely significant: 25%

Many (55%) view government regulations as a significant barrier to innovation.

### **(6) Results of the Management Survey (Q4)**

[Question]

How well does your company's talent acquisition strategy support recruiting and retaining globally-minded and culturally diverse employees?

[Answer]

- 1 - Not supportive at all: 15%
- 2 - Slightly supportive: 20%
- 3 - Moderately supportive: 35%
- 4 - Very supportive: 20%
- 5 - Extremely supportive: 10%

The results show that while some companies are supportive (30%), many still see significant gaps (35% moderately supportive and 35% less supportive).

### **(7) Results of the Management Survey (Q5)**

[Question]

How advanced is your company's digital transformation strategy in adopting new technologies like AI, IoT, and digital platforms to enhance operational efficiency?

[Answer]

- 1 - Not advanced at all: 10%
- 2 - Slightly advanced: 25%
- 3 - Moderately advanced: 30%
- 4 - Very advanced: 20%
- 5 - Extremely advanced: 15%

While 35% are advanced in digital transformation, a considerable number (35%) need to catch up, indicating a need for more robust strategies.

These survey results suggest areas where companies may be doing well, such as R&D investment, but also highlight significant areas for improvement, particularly in labor market reforms, global talent acquisition, and digital transformation.

## **6. CONCLUSION / INSIGHT**

The Literature Reviews and the Management Survey results demonstrate the initial research hypothesis. The following five strategies are identified as potential solutions for Japan's revitalization of global business.

### **(1) Promoting Technology and Innovation**

Increased research and development (R&D) investment is essential to further enhance Japan's technological and innovation capabilities. Additionally, promoting open innovation and strengthening collaboration with domestic and international companies and universities are crucial. For example, bolstering in-house R&D departments and encouraging startup cooperation can drive innovation.

### **(2) Labor Market Reforms**

Addressing labor shortages requires the utilization of women and seniors and the promotion of foreign worker acceptance. Specifically, advancing work style reforms to promote flexible working arrangements is necessary to enhance labor market flexibility. Furthermore, reforming the education system to elevate young people's and foreign workers' skills is also essential.

### **(3) Deregulation and Business Environment Improvement**

Improving the business environment necessitates deregulation and the simplification of administrative procedures. For instance, legal frameworks that support establishing new businesses and enhanced support programs for startups are essential. Moreover, fostering a corporate culture that embraces change and developing flexible

organizational structures is critical.

#### (4) Nurturing Global Talent

Enhancing international competitiveness requires the development of globally-minded talent. Strengthening language education, promoting study abroad programs, and improving systems for accepting foreign talent can advance internationalization. For example, implementing English training programs within companies and encouraging overseas assignments are effective strategies.

#### (5) Advancing Digital Transformation

Promoting digital transformation in companies is critical to improving operational efficiency and creating new business models. Specifically, collaboration between the government and businesses to formulate digital support programs and strengthen support for SMEs is vital. Additionally, enriching digital technology education in educational institutions is necessary.

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