

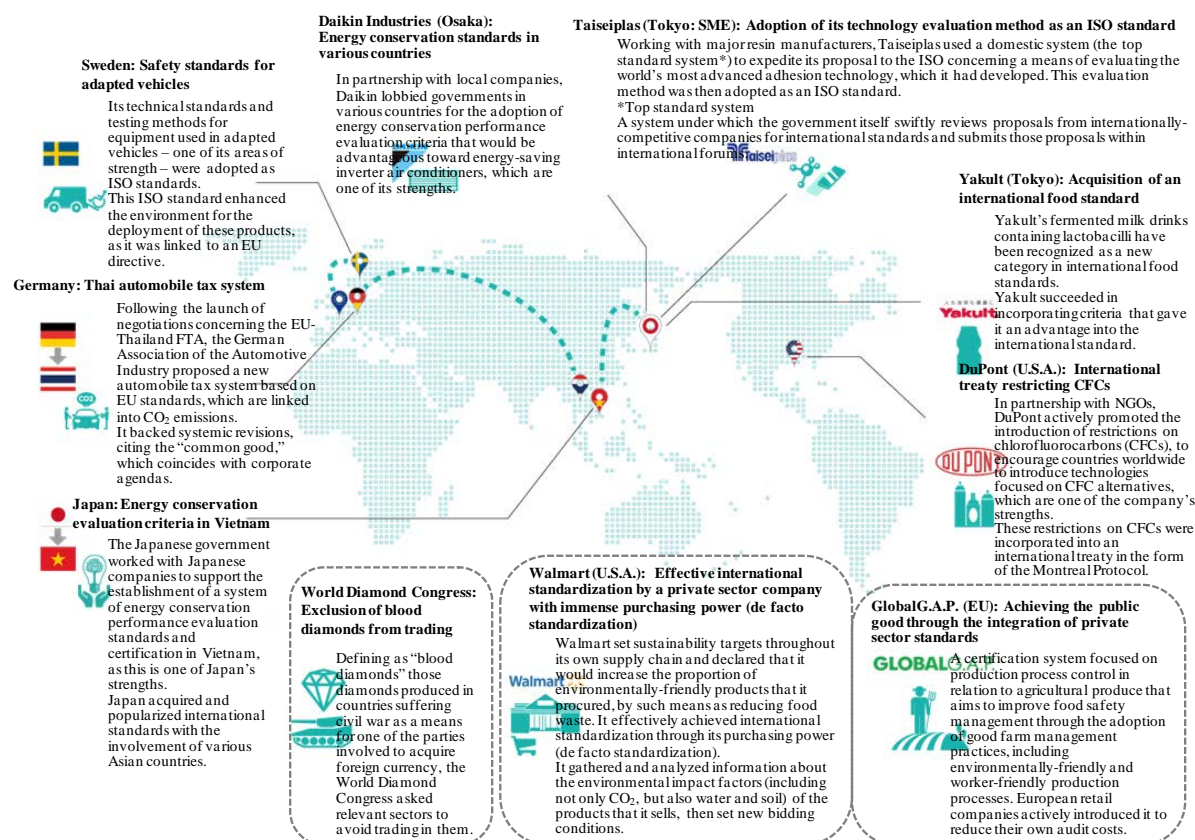
Section 5 Improving the regulatory and institutional environment

To tap into the growth of emerging markets, it is necessary not only to create products that meet actual needs in each counterpart country, but also to develop a competitive environment in each market that is advantageous to our nation's products and technologies. In the intense global competition that has emerged in recent years, prices and technology are not the only factors affecting corporate profits; intellectual property, standards, specifications in the private sector, and the institutions of each country that are used to regulate these also have a major impact. Western countries have conventionally been aware of the importance of institutional development as a factor affecting the competitive conditions of their countries' products, so the public and private sectors actively work together to develop institutions in emerging countries. However, due to its tendency to regard systems as a given condition to which companies should adapt, and its lack of understanding of the importance of establishing institutions, Japan has not necessarily achieved substantial results in this area. In future, as well as adapting to existing institutions, Japan will need to adopt an approach of actively seeking to develop the optimal institutions, in order to create a competitive environment that boosts the advantage that the products and services of Japanese companies have, which will ultimately have a positive effect on their business. In other words, amid the increasing globalization of corporate activity, it is essential to strategically link standards with regulations when developing institutions, and ultimately to increase corporate earnings by introducing standards that Japan has already met as regulations in the counterpart countries.

Figure III-2-5-1 below outlines major examples of countries and companies seeking to shape institutions to secure a competitive advantage for their own products. Institutions are developed for a variety of purposes, including increasing the sales of the company in question, as well as avoiding falling sales, reducing production costs, and avoiding an increase in production costs. It will be necessary to increase the number of examples of success in the field of institutional development in the future. Requirements when engaging in institutional development include sensitivity to global trends in policy and rules, an understanding of the importance of positioning institutional development as a management strategy, the establishment of optimal internal systems, and an effective approach tailored to the situation and policy system in each country. At the same time, there are limits to the activities that companies can undertake alone, so approaches by the government are also essential. As well as raising awareness of the importance of institutional development, it is necessary for the government to lobby the governments of counterpart countries, tailoring its approaches to the relevant phase, and to provide backing for corporate activities.

In future, the public and private sectors will actively engage in institutional development, taking into account the characteristics of the country and market in question, thereby tapping into the growth of emerging markets and linking this into the sustainable development of the Japanese economy.

Figure III-2-5-1 Examples of efforts by countries and companies to shape institutions



Source: METI with reference to Deloitte Tohmatsu Consulting, FY2013 International Economic Survey of Integrated Domestic and International Economic Growth Strategies (Survey of Improvements to the Regulatory and Institutional Environment in Emerging Economies).