

ROUTLEDGE STUDIES IN THE GROWTH ECONOMIES OF ASIA

Economic Change in Asia

Implication for corporate strategy
and social responsibility

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ROUTLEDGE



10 Synthesis and conclusions

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A selected number of key issues that most East Asian countries are facing currently, particularly since the global financial crisis (GFC), are explored in this book from both a macroeconomic approach and a business corporation's point of view. Even if the East Asian economies are among the most successful economies in the world, the intensity of concerns increased with the GFC and limits on growth have been dramatically emerging. Among the East Asian countries, China plays a crucial role. With the opening of its markets, China strongly influences the world economy, and its contribution to global trade and output growth has been far bigger than that of any other economy over recent decades. With a GDP growth rate that has slipped well below the yearly average of 10 percent, China faces now more and more questions about how its leadership and policy-making authorities should manage the next phase of the country's economic development in a situation in which China is rapidly becoming one of the most indebted countries in the world.

According to Chapter 1, debt restructuring implies a redefinition of the power relations and respective functions of the central and local governments (Zhao, 2013), as well as the relations between the central government and the state sector. The debts' pyramidal structure is linked to the power structure. The central government is supposed to regulate macroeconomic management, to deal with financial stability, and to bail every one out in case of problems. A situation in which local authorities manage most public expenditures and the central government is supposed to cover all risks is a situation of shared responsibility. However, the central government has the ability to modify it. At the beginning of 2014, it gave local governments the go-ahead to issue bonds as a way of rolling over their debt to avoid defaults. This massive debt-refinancing operation is underway (Rabinovitch, 2014). As a sovereign currency issuer, China has some policy space that dispenses it from fiscal austerity measures, which have been the case in Europe. The danger faced by excessive sovereign government budget deficits is inflation, not insolvency (Randall and Liu, 2014). Although local government debt is sustainable at the 2018 horizon, according to different IMF scenarios, the fragmentation of debts at the local level tends to raise the borrowing costs (Zhang and Barnett, 2014). In addition, local governments might easily hide deficits and debts or engage in short-run policies to obtain financing that are not sound in the long run. For these reasons, some stress that the fiscal reform package should put

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more of the spending and responsibilities at the central level because of the risk of inflation (Randall and Liu, 2014).

Although national and local government deficits and debt are relatively limited, China's corporate debt stands at a world record as a percentage of GDP (150 percent). If much of this debt has been issued by public companies, the national government will come to the rescue of these firms, and potential liabilities could be as high as 100 percent of GDP, perhaps even more if we take into account the impact of this bailout on banks' policies (Randall and Liu, 2014). Tighter credit and the rise of financing costs will produce a slowdown of real estate transactions, which may affect, along with industrial overcapacity, the public finance resources, at the same time when expenditure is growing, not only to cover the foreseeable losses of the financial system, but also to meet the social targets of the new leadership. Because income redistribution and inclusive development depend largely on the state financial capacity, fiscal policy could be a key structural reform. Structural reforms are essential in the long term, but they necessarily hurt many interests as they imply a redistribution of income in favor of the working population. In the short run, the necessary reduction of investment will put pressure on employment and household income growth, unless there is a significant transfer of resources from the state and real estate sectors to households (Pettis, 2013).

Chapter 2 evaluates whether the financialization concept can meaningfully be applied to China by observing economic developments and bearing in mind the role of political actors in financial governance and regulation. Using a number of macroeconomic indicators, the chapter shows that investment (gross fixed capital formation) has tended to move away from savings before the GFC; that profit rates of SOEs have declined sharply with the crisis; that the growth rate of residential real estate investment has, until very recently, surpassed the growth rate of the economy; that stock market capitalization has soared, in spite of underdeveloped stock exchange markets; that there has been a substantial upward trend in corporate financial investment; and that the size of shadow banking could be as large as the Chinese GDP.

Overall, investments and profits in the financial sector have been growing faster than in other sectors of the economy. Concerning its size as a share of the economy as a whole, all the measures show that regulated and unregulated finance in the past 10 to 15 years have gained in proportion, even if the developments in certain subsectors such as real estate have been unsteady. Whereas the financial sector has been expanding in relative terms, there exists as of yet, no systematic research or evidence showing that financial sources of income have become widely and systematically integrated into the core businesses of nonfinancial firms until 2013, constituting a process of financialization in the nonfinancial corporate sector. More recently, however, firm-level, bottom-up financial 'innovation' has contributed to a surge of shadow banking. Local state entities and mostly state-controlled corporations with access to formal finance, channelling these resources into unregulated financial products, may, in hindsight, prove to be forerunners of a wider trend of corporate financialization.

Finally, the chapter suggests that the politics of regulation in China are not sufficiently described as a cat-and-mouse game between financial innovators regularly outpacing regulators. Indeed, on the political level, financial developments in the aftermath of the GFC may be built upon to achieve some wider reform objectives. A deeper and more systematic role for finance in investment and consumption patterns would confirm a general pattern of experimental policy making defined by the relationship of central and local actors and their competing or colluding interests in China's party-state. In some ways, financialization, as an important approach to better understand today's political economy in China, has very much been and is still an ad hoc type or coincidental financialization tied to various crisis dynamics that are currently observable. This could suggest, therefore, that uncertainty is paramount with regard to the question of how finance can be integrated systematically, or even sustainably, into a new and reformed growth regime. It will remain to be seen whether the phenomenon of financialization observable in China will provide the nuclei of a future fully developed financialized growth regime in the theoretical sense, of which there is currently no sufficient evidence. Just as likely, current developments may provide the basis of potential economic (and political) instability arising from 'disordered' financialization in China.

The question posed by Chapter 3 is why, despite the highest growth achieved by the East Asian region, some countries in the region could not shift to the higher income group and stayed instead in the same income group for the last two decades. Chapter 3 also tries to check whether East Asian economies follow through their development path the Environmental Kuznets Curves (EKC) in terms of CO₂ emissions.

Out of nine middle-income countries in East Asia, four countries (i.e., Papua New Guinea and the Philippines in the lower-middle-income group and Malaysia and Thailand in the upper-middle-income group) could not graduate into the higher-income group. According to Chapter 3, only Papua New Guinea and the Philippines seem to be qualified for the "middle-income trap", failing to graduate into the upper-middle-income group. Upper-middle-income Malaysia and Thailand, which have higher CO₂-GNI elasticities, can be broadly termed as "middle-income trapped" being unable to rise to a high-income status, although they had shifted earlier from the lower-middle-income to the upper-middle-income status. China, the world's largest emitter of CO₂ with a low CO₂-GNI elasticity and currently classified as a middle-income economy, may not be qualified for the "middle-income trap" group in its rigorous sense despite its recent economic slowdown after two decades of a 10 percent average annual growth rate. China's middle-income-trap myth, if it exists, may largely be due to noneconomic factors such as air pollution and social problems, rather than to economic ones, which could constrain sustainable development.

The results of the chapter show that EKCs can be traceable to some extent, although their trend lines are still on the rise, seemingly away from the turning point. Clearly, the East Asian EKC is still on the rising side of the curve rather than on the declining side, although further income increases may change the shape of the EKC, and China's case offers some lessons on how an industrial shift from

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in China are not sufficient. Innovators regularly develop new technologies and innovations in the service of reform objectives. The market-oriented and consumption-oriented policy making defined by the reform objectives, as an important factor in China, has very much to do with the various crises that have occurred there, and therefore, that uncertainty can be integrated into the growth regime. It will be observable in China that the growth regime in the past is not evident. Just as the market-oriented economic (and social) reform in China.

China's fastest growth achieved in the past would not shift to the new group for the last 30 years. The economies follow the EKC Curves (EKC's) in

China and other countries (i.e., Papua New Guinea and Malaysia) are not graduate into the New Guinea and the "middle income trap", failing to graduate into Malaysia and Thailand. China is typically termed as "mid-status", although they are upper-middle-income countries. The CO_2 -GNI elasticity is not high, and China is not qualified for its recent economic growth rate. China's noneconomic factors and economic ones, which

are not able to some extent, may vary from the turning point of the curve rather than to change the shape of the industrial shift from

self-contained economic policies to openness and reforms can be conducive to economic growth.

In 2007–08, new and old forces drove up the prices of agricultural commodities, causing a major food crisis (Von Braun, 2008). The financial crisis stemmed from different causes, but the two crises have fed on each other and are interconnected, especially in terms of the implications for financial stability and speculation phenomenon. At present, Chinese commodity markets are still at a developmental stage, with only the three stock exchange markets trading in a small group of commodities. In the future, the Chinese government will gradually allow more commodity products to be traded along with various related derivatives. Actually, as a major producer and consumer of commodities, China has a large potential for developing its futures market. Among the commodities, the importance of cotton stems from its connection to both the agricultural sector and the textile industry.

The cotton market is governed by a few countries, and China is the leading actor at the global level, being the world's largest producer, consumer, and importer. Indeed, Chinese cotton public policy, based namely on a cotton reserve system and on import quotas, has a strong influence on the world cotton market. The massive concentration of the global cotton buffer supplied in China provides the country with the power to balance the market: when the international cotton price decreases, China stockpiles cotton and buys abroad – then sells it to the domestic market at a higher price – and vice versa. Following the 2008 global crisis, most studies have highlighted causal relationships between price volatility, derivatives, and futures markets. In Chapter 4, the calculations related to the main macroeconomic variables affecting the cotton market reveal that cotton production in China is influenced by the size of the harvested area dedicated to cotton cultivation and land productivity, whereas cotton consumption is strongly correlated with the increase in population and its living standards. Cotton imports and exports strongly depend on exchange rate movements. A negative correlation between cotton prices and cotton production and imports was found. As expected, a result emerging from the analysis is the strong impact of prices and, most of all, of the price of cotton substitutes. Competition with cheaper and technologically advanced manufactured fibers is indeed one of the biggest challenges that the cotton sector is facing. For farmers, prices are the driving force: unstable crop prices, together with bad weather and high fertilizer or seed costs, are capable of wiping out their profits and pushing them to plant other crops. The Chinese, and consequently the world cotton market, are facing a number of challenges due to the influence of economic, social, and environmental issues. Among the economic issues, the small size of farms prevents the achievement of economies of scale. The survival of small and marginal farms is highly linked to government support and, in the absence of the latter, these farms could disappear. Among the environmental concerns to be considered are the high water requirements of the crop, the abundant use of chemical inputs, the conflicting results of the effects on the soil and on human health of genetically modified organisms (GMOs), the treatment of waste materials (plastic residues), and the limitation of the most important factor of production (land). Concerning social issues, the extreme dependence on income derived from the cultivation of cotton,

in particular its importance to rural and poor people in China, has to be mentioned. Considering all these elements, it is very likely that in the future there could be a shift, if not in cotton production, at least in cotton consumption and, consequently, in the textile industry from China to countries with economies characterized by lower labor costs and fewer environmental restrictions, and where future projections forecast increasing income per capita and population growth rates.

The four chapters of Part I clearly set out the macroeconomic background within which East Asian economies and the business entities therein have been evolving particularly since the GFC. The second part of this book is dedicated to a firm's analysis trying to identify the strategies (new or revised) that companies are implementing so as to adapt to different circumstances. These strategies revolve essentially around issues of sustainability, including, for example, corporate and social responsibility (CSR) and ethical considerations.

Chapter 5 focuses on a neoinstitutional approach (DiMaggio and Powell, 1991a, 1991b; Meyer and Rowan, 1991), according to which firms from different countries often adopt different management styles, implement different organizational choices, and even weigh differently main business objectives, such as profitability, growth, and CSR objectives. Based on such an approach and with the help of a regression analysis, a sample of 125 firms was carefully drawn from France, Japan, and Spain, with relevant data on their social, environmental, and corporate governance performance and on their financial performance. The chapter highlights that companies from different countries, with different institutional backgrounds, have different priorities in terms of social, environmental, and corporate governance performance.

Furthermore, in line with Amann *et al.* (2007), the link between CSR performance and financial performance is moderated by the institutional environment of firms, namely by the country they come from. More specifically, Spanish and French firms achieve higher levels of social and corporate governance performance than Japanese firms do, but the latter are more committed to environmental issues than the former. Besides, financial performance has a greater influence on the three dimensions of CSR performance (social, environmental, and corporate governance) for France and Spain. CSR is more environmentally oriented in Japanese companies. This may result from various national characteristics, such as the high concentration of the population in Japan in huge urban areas, which led them to become highly sensitive to environmental issues or to the influence of Confucian and Buddhist conceptions on the relationship between mankind and nature, which contrasts to some extent with the Christian one (Ortas *et al.*, 2015). One may also wonder why CSR is less governance and even less socially oriented in Japanese companies than in French and Spanish companies. In broad terms, a stronger inclination in the case of Japan to informal and undisclosed arrangements may partly explain this outcome, among other institutional reasons.

In Chapter 6, the relationship between CSR assessment and the international transfer of environmental management by Japanese firms in Vietnam is analyzed. If the existing literature did not sufficiently focus on the transfer of environmental practices to overseas operations, the results of the analysis reveal that CSR

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assessment of parent firms promotes this transfer even to overseas operations. Therefore, for sustainability in the global sense, the environmental strategy and management systems in MNEs are important and effective in the transmission to developing countries. Social consciousness for sustainability promotes good firm behavior. Besides, the research provides useful findings and contributes to the development of new research issues (such as greenhouse gas emissions management and more proactive corporate strategies). For that purpose, the acceptance by firms of a strong social philosophy helps improve the practices of the firms globally. For multinational enterprises, it is important to promote the transfer of environmental management practices and, at the same time, to implement CSR.

Comparing the accounting standards for small and medium-sized enterprises (SMEs) in Japan and the Philippines from the perspectives of a standards model and standards setting, Chapter 7 clarifies the characteristics and homologous points of the two countries with different adoptions of the accounting system for SMEs on the basis of different economic circumstances. Both countries show differences in their approaches to adopting the International Financial Reporting Standards (IFRS) for SMEs, but they display similarities in their approaches to SMEs standards. In Japan, like many other developed countries, the standards for SMEs are individually set, but there are currently two standards with different characteristics which are generally used in accordance with SMEs' business situations. Since January 2010, the Philippines have adopted the IFRS for SMEs. However, many SMEs in the Philippines do not comply correctly, because there is no strict monitoring of compliance with the accounting standards, given that the authorities are mainly concerned with tax revenue. By comparing the cases of Japan and the Philippines, Chapter 7 calls for the use of an appropriate accounting standard for each situation, namely taking into account the limited revenues and capital size of SMEs.

Using environmental accounting information, Chapter 8 examines a method of analysis and evaluation of estimated economic benefits stemming from a firm's sustainability activities. It also states that environmental accounting information would be useful to long-term investors; an example is to estimate economic benefits when future climate change is taken into consideration. The use of real-option valuation methods is shown as valid in calculating the value of such benefits. That value can be found in a firm's projects.

A trial calculation of the economic benefits from sustainability activities was conducted using Toyota as a case study. Based on sustainability reports, the chapter concludes that companies combining sustainability operations with their main business have an estimated economic benefit coming from the positive influence of sustainability operations on their performance. The example of the current global warming measures conducted by Toyota is found in the extension line of conventional CSR management. From there, if a new opportunity such as the fuel-cell vehicle comes into being and can be sold in the market, the economic benefits would be beyond expectation. And that is the estimated economic benefit arising from sustainability activities. If it could be represented as an option value, then it would be useful information to investors. However, because the estimated

economic effects are originally intended to be used only internally as strategic accounting numbers, it is not possible to disclose the option value externally as it is. Therefore, how one represents the estimated economic effects as external information will be an issue in the future

Comparing American and French firms operating in the pharmaceutical sector in Vietnam, Chapter 9 focuses on health expenditures and highlights that expenditures and some questionable business behavior practices are very high. Since the 2000s there has been an increase in clinical trials and in observational studies in Vietnam conducted by American and French firms aiming at developing new treatments and also at improving the effectiveness of other treatments. In some of those activities, some characteristics are visible that lead to the belief that there is more marketing from the US companies' point of view than science behind them. The attempts by some US pharmaceutical companies to patent new drugs that are copies of older developed ones in order to avoid the expiration of patents and the marketing practices of the commercial teams with doctors as staff members have not contributed to improve the image of the overseas pharmaceutical industry in Vietnam. Clinical research from a French point of view is seen as a complex project and as a costly and a long-term business for which they need to find customers. The key implication for clinicians is that it is not sufficient to manage the ethical issues that those studies might involve; they should also take into consideration that marketing and sales activities play a significant role within an industry that invests heavily in the development of new products.

From a French point of view, a fundamental principle of research ethics is the requirement that participation be voluntary. However, among the most difficult requirements to ensure is the voluntariness with which participants consent to enroll in a study. It is obvious that the pressure from a local community leader in Vietnam, the power and authority of the medical professionals who serve as test investigators, and the fear of loss of health benefits that people would normally expect to receive may all compromise individuals' freedom to refuse participating in research studies. The provision of medical care and treatment during a study may constitute an incentive for individuals to enroll in a project, but it should not be construed as a coercive offer.

Based on detailed results, the major findings of this last chapter may be summarized as follows. As far as cultural distance is concerned, it was found that the American expatriate top managers in Vietnam perceive greater cultural distance between Vietnam and their home country than do the French expatriate top managers, especially in terms of sociocultural adjustment and business ethics conditions. The French expatriate top managers working in Vietnam demonstrate a higher degree of adaptability than do the American business expatriates in general adjustment and interaction adjustment, but not in fast business model results. Moreover, French expatriates take a prolonged period to adjust, exhibit poor performance in the short run, and complete their assignment in a low state of effectiveness. However, because the expatriates are working in large multinational pharmaceutical labs, differences in the national culture may be obscured by the corporate culture to some extent. Finally, ethics is a long-term process, and the pharmaceutical sector

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References

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needs to put a stop to some negative practices highlighted in the chapter. The study reveals how key health care opinion leaders – that is, health care professionals thought to be especially influential in terms of health care practices or policies – were paid to become marketers for the pharmaceutical sector, presumably without revealing this conflict of interest.

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