Social Responsibility Accounting and Sustainability of Developing Economy

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Abstract

In order to achieve United Nations (UN)’s Millennium Development Goals and improve the standards of living in undeveloped regions, a sustainable local economics is critical. However, the regional economics in the undeveloped regions are normally fragile, heavily impacted by factors such as climate and social political environment. Through a case study, this paper addresses several major problems Asian countries need to overcome in order to maintain sustainable economic growth. The first challenge is climate change. Global warming threatens the water availability and could worsen the hunger and poverty problem. From the economic perspective, literature suggests that the increase global temperature of 3°C is likely to result in a drop of GDP by 2.6%. The negative impact could be significantly higher for the predominantly agricultural-based Asian economy. The second challenge comes from the changing of political and economic environment under globalization and economic reforms of trading partner countries. While facing these difficult challenges, Asian countries can improve the sustainability of their economic development if appropriate changes been adopted. Our study will explore several alternatives including Fair-Trade Initiative, Organic farming practice, Co-op alliance of small to medium operations, etc., which would potentially offer feasible ways to improve local economy, to promote income equality and to effectively extend the sustainability of the regional economy.

Key words: Sustainable economic development, climate change, Fair-Trade
JEL Classification: Q 01, Q 56, Q 54, F 13
1. Introduction

During United Nation (UN) Millennium Summit in 2000, the UN initiated eight Millennium Development Goals (MDG) to achieve by 2015, which cover: 1. To eradicate extreme poverty and hunger; 2. To achieve universal primary education; 3. To promote gender equality and empower women; 4. To reduce child mortality; 5. To improve maternal health; 6. To combat HIV/AIDS, malaria and other diseases; 7. To ensure environmental sustainability; 8. To develop a global partnership for development. (Source: United Nations publications). The main goal of These MDGs is to end poverty and also aim to improve human dignity and equality global-wide.

According to the progress report issued by UN in 2013 --- The Millennium Development Goals Report 2013 and the report highlight ---Big stride on Millennium Development Goals with more targets achievable by 2015: UN report, benefitting from the continuous efforts of national governments and international/local organizations, the Millennium Development Goals are believed to become the most successful global anti-poverty push in history. As a result, millions of people’s lives have been improved. “The target of halving the percentage of people suffering from hunger by 2015 is within reach,” the report says. The percentage of undernourished people global-wide declined from 23 percent in 1990-1992 to 15 percent in 2010-2012. The most significant success has been made in medical and health. “Between 2000 and 2010, mortality rates from malaria fell by more than 25 per cent globally, and an estimated 1.1 million deaths were averted. Death rates from tuberculosis at the global level and in several regions could be halved by 2015, compared to 1990 levels. Between 1995 and 2011, a cumulative total of 51 million tuberculosis patients were successfully treated, saving 20 million lives.” Further, “at the end of 2011, 8 million people were receiving antiretroviral therapy for HIV or AIDS in developing regions, and the MDG target of universal access to antiretroviral therapy remains reachable by 2015 if current trends continue.”

Even rapid progress MDGs has been made, there are still many urgent issues need to work on. First, the progress is not even for all regions. People living in poor or in rural areas get less help. For example, the mortality rate of children under five dropped by 41 percent from 1990 to 2011. However, in the poverty regions, the mortality rates of young children, especially new born is still very high and improve slowly in the past. The number of children out of school declined from 102 million to 57 million between 2000 and 2011 overall, but there are still many children out of school in poverty areas. The water problem is more prominent in rural areas: “Eighty-three per cent of the population without access to an improved drinking water source lives in rural communities.”
Besides the uneven development, our nature resource base is in serious changing. The most significant change is the Climate Change. Our planet is experiencing more severe weather conditions in nowadays. The Earth has ongoing losses of forests and agriculture lands due to drought and rising of sea level, with declining of live species and population of stocks due to climate-change driven factors.

Asia is the most populous continent on earth. The 8.7% of the Earth’s total surface area support roughly 60% human population. The eco-system in Asia is heavily burden and thus fragile. The poverty issue is also a good problem. According to The Economist’ paper (The Economist, 2014), based on the poverty criterion proposed by the Asian Development Bank, nearly one-third of the population is living in the poor. If considering the food insecurity, rising risks of natural disasters and global economic shocks, surprisingly, the poverty rate of Asia will raise to about 50%.

In order to accomplish United Nations (UN)’s Millennium Development Goals, it is critical to keep a sustainable local economic growth. In this study, we use a case study research method to provide some insights on maintaining sustainable economic development. This study suggests that, the first challenge Asian country faced is climate change. Maplecroft (2011), a UK-based global risk and strategic consulting firm, through analyzing of 42 socio, economic and environmental indicators, identified sixteen Asian countries that are facing material risk from climate change in following several decades.

The second risk comes from the changing of political and economic environment under globalization and economic reforms of trading partner countries. For example, as the one of biggest global economic body, China is experiencing economic reforms after a rapid economic growth with paying the high environmental cost and increasing social problem raised from inequity of wealth. The change of the political and economic environment will have impact on its neighbor countries since the close trading relation links them together.

While facing these big risks, Asian countries can achieve the sustainability of their economic growth with appropriate measures taken. Our study identifies several alternatives which could be used to address climate change and political and economic environmental change concerns. For example, Fair-Trade Initiative, Organic farming practice, Co-op alliance of small to medium operations, etc., would potentially offer feasible ways to protect local economy. Those measures are also help to solve income equality problem.

The second part of this paper is literature review. Part 3 is the methodology, the results and discussion, then following by part 4: Conclusions and Recommendations.
2. Literature Review

2.1 Climate Change

As we identified in Introduction, climate change becomes one of most big challenge faced by many countries. People observe that the climate-related impacts are occurring across geographic regions and across sectors of our economic body. Listed below are some examples recorded on Nature.org website:\(^1\):

- In southern New England, lobster catches have plummeted because of heat stress and growing parasite threats due to rising sea temperatures.
- Ski resorts located in the lower altitudes of the Swiss Alps have difficulty obtaining bank loans because of declining snow.
- Globally, increasingly intense hurricanes and downpours could cause billions of dollars in damage to property and infrastructure. Declining crop yields due to prolonged drought and high temperatures, especially in Africa, could put hundreds of thousands of people at risk for starvation.
- High sea temperatures also threaten the survival of coral reefs, which generate an estimated $375 billion per year in goods and services.

In micro-level, climate change threatens firms’ operations, development, and profitability. A study by the consulting firm Mercer suggests that climate change could increase investment portfolio risk by 10 percent over the next two decades (CERES, 2011).\(^2\) In addition, a global executive survey reveals that 50% of executives list environmental issues among the foremost risks that might hurt stockholder value (Bonini et al, 2008). Under these circumstances, stakeholders and investors encourage environmental and socially responsible business practices and are demanding sound environmental and social responsibility disclosure from corporations. For example, a group of investors, including Ceres-led Investor Network on Climate Risk (INCR), Black Rock, British Columbia Investment Management Corporation, and the AFL-CIO Office of Investment, has proposed a sustainability disclosure listing standards for U.S. and global stock exchanges in order to develop uniform sustainability reporting standards for all stock exchanges (Eco Watch, 2013).

On macro-level, particularly from the economic perspective, Tol (2009) studies the economic effect of climate change. He claims that the increase global temperature of 3°C is likely to result in a drop of GDP by 2.6%. He also proposes a non-linear relation in Welfare Impact (measured by % GDP) as global temperatures increase and predicts the increase of global temperatures beyond 0.87 degrees Celsius will lead to the decline of GDPs.


\(^{2}\) see: http://www.mercer.pt/press-releases/1407685
Based on the nonlinear relation prediction, climate change might show positive impact for some industries in certain regions at the beginning. For example, based on Intergovernmental Panel on Climate Change (IPCC)’s study, North America might gain 5-20 percent increase in yields of rain-fed agriculture in some areas due to climate change, but at the same time, experience more flooding, more hurricanes, more famine, more disease and more frequent, intensive, and longer period of heat waves in many regions (IPCC, 2007b). According to IPCC’s prediction, a temperature increase of 1.8 to 5.4 degrees Fahrenheit (1-3°C) over the year 1990-level may still produce beneficial impacts in some regions but detrimental for others. However, the harmful effects of climate change will eventually outweigh its beneficial outcomes and result in significant net costs as global temperatures soar3. In their study, the IPCC states, “Taken as a whole, the range of published evidence indicates that the net damage costs of climate change are likely to be significant and to increase over time” (IPCC, 2007a).

In the past, climate change has been often classified as one of many environmental problems. However, it is important to differentiate climate change from other environmental issues for three reasons. First, climate change is associated with global warming and is thus a worldwide issue. Its consequences are inescapable. Other environmental problems, such as air pollution or hazard chemical discharge, are regional not global issues. Second, climate change will last much longer than other environmental crises. Greenhouse gases, the cause of climate change, are stable and inactive in term of chemical character, and consequently, they can remain in the atmosphere for up to one hundred years. Conversely, other hazard environmental problems, such as chemical emission or pollution, tend to have a short-term impact because chemicals rapidly decompose or react with other chemicals. Thus, the local environment can quickly recover. Third, the climate is being permanently altered. To date, no one has found an effective way to lower the concentration of greenhouse gases in the atmosphere or manage the impact of climate change. Solomon et al. (2009) assert that even if CO2 emission were to cease immediately, climate change is largely irreversible for the next one thousand years because of significant past increases in CO2 concentration. Due to the significant difference between climate change and other environmental or CSR issues, this study suggests that Asian countries have to face the climate change and find a solution in order to maintain sustainable economic development.

2.2 Globalization and Economic Reforms in Asian Countries

Kandogan (2014) identified economic centers of gravity for countries, for regions and for the worldwide and observed the movements of economic centers for the period of 1970 to 2009. Through counting the population and gross domestic product (GDP) changes,

3 http://climate.nasa.gov/effects
Kandogan (2014) found that North America and West Europe are losing their relative economic significance in comparison to emerging countries in East Europe, Latin America, and particularly East Asia. However, such shifting accompanies with internal and external economic shocks for the countries in East Europe, in Latin America, and particularly, in Asia (Aybar and Milman 1999).

Asian economic experiences a rapid growth in 70s and 80s, called “East Asian Miracle” by World Bank. However, scholars (Young 1992, Rodrik 1994 and Krugman 1994) raised critics by questioning the efficiency of resource allocation process through governed markets. They also predicted that the economic growth will slow down once the physical investment limits were reached. The crisis of Asian economic in late 90s and early 00s provides evidences for such concern.

Aggarwal (1999) investigates the causes of Asian economic crises in 1990s and suggests that the primary three causes of crises were 1) stronger international competition from other Asian countries, 2) significant political influence on firms’ business decisions and fractural domestic financial markets, and 3) inadequate international financial architecture. Aggarwal (1999) proposes that Asian countries should strengthen their financial institutions and enhance health capital markets. Further, the economic growth in Asia needs continuous multination cooperation and improvement of international financial architecture.

The economic reformation is taking place in Asian countries after Asian economic crises in 90s. The number of studies (Munakata 2004, Urata 2006, Bowles 2002) suggests a paradigm shift from market-led to institution-based regional economic integration, particularly in East Asia. The emerging of ASEAN+3 grouping and Regional Trade Agreements (RTAs) is seen as the sign of such paradigm shifting. Nicolas (2008) conducts a detailed analysis on the regional political economic integration in East Asia and highlights the limitations of the formal regional integration movement. His study further explores the changing nature of intra-regional trade and investment relation in recently years and suggests that such change of interdependence may be helpful to overcome the limitations of formal regional economic schemes.

3. Methodology, Results and Discussion

The case study research method is applied in this paper. Based on the analysis on newly emerging issues (e.g. climate change and political and economic environmental change) which have influence on sustainable development of Asian Economic, this study identifies several alternative measures which could be adopted to mitigate such impact. For instance, Fair-Trade Initiative, Organic farming practice, and Co-op alliance of small to medium operations.
3.1 Fair Trade

The first measure to achieve the goal of sustainable economic growth in Asian country is to consider actively engagement with fair trade. EFTA (2001) defines Fair Trade as:

“Fair Trade is a trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade organizations (backed by consumers) are actively engaged in supporting producers, in raising awareness and in campaigning for changes in the rules and practices of conventional international trade.” (EFTA, 2001)

World Fair Trade Organization (WFTO) prescribes 10 principles in term of Fair Trade. The first principle is “Creating Opportunities for Economically Disadvantage Producers”. This principle focuses on poverty reduction through trade and aims to help poor regions develop from income insecurity to sustainable and self-sufficiency economic growth. The second principle called “Transparency and Accountability”. This principle promotes transparency in its management and trading partners and ensures information relevance among management, investors and trading partners. The third principle named “Fair Trading Practices”, which specifies some detail guidance in trading practices. For example, “The organization maintains long term relationships based on solidarity, trust and mutual respect that contribute to the promotion and growth of Fair Trade. It maintains effective communication with its trading partners. Parties involved in a trading relationship seek to increase the volume of the trade between them and the value and diversity of their product offer as a means of growing Fair Trade for the producers in order to increase their incomes. The organization works cooperatively with the other Fair Trade Organizations in country and avoids unfair competition. It avoids duplicating the designs of patterns of other organizations without permission.” The forth principle discuss the Payment of a Fair Price. The Principle Five is Ensuring no Child Labor and Forced Labor. Principle Six is about Commitment to Non Discrimination, Gender Equity and Women’s Economic Empowerment, and Freedom of Association. Principle Seven is Ensuring Good Working Conditions. Principle Eight is Providing Capacity Building. Principle Nine is Promoting Fair Trade. Principle Ten is Respect for the Environment.

Gendron et al. (2009) summarize main benefits by joining in Fair Trade network. First of all, for producers in Fair Trade network, they will have the stability in term of sale market and price. They are easier to get financing support from the fair trade network upon the agreements. Second, the fair trade network requires its members to meet certain operation criteria and principles. Those standards help the operation efficiency and effectiveness for members and bring the members’ competition advantage as well, comparing to the non-
members. Thirdly, “integration into the fair trade network often allows access to new techniques and knowledge, improving the quality of production and reinforcing the competitiveness of producers in the market.” (Gendron et al. 2009)

Referring to the UN initiated eight Millennium Development Goals (MDG), Principle one and eight are close link to UN MDG No 1: To eradicate extreme poverty and hunger. Principle six could be associated with MDG No. 3: To promote gender equality and empower women; Principle Nine could be connected with MDG No. 8: To develop a global partnership for development. Further, Principle Five has indirect impact on MDG No. 2: To achieve universal primary education; Principle Seven could have positive impact on MDG No. 4: To reduce child mortality and No. 5: To improve maternal health; Moreover, Principle Ten is exactly MDG No. 7: To ensure environmental sustainability.

Based the analysis above, we suggest that Fair Trade movement could serve as a good approach to reach MDGs: They already share several comment objectives. Further, Fair Trade practice is instrumental to minimize the impact from climate change by respecting on environments. In addition, fair trade is help the political economic reform and globalization in Asian countries through fair trade network agreement and co-operate among members.

Particularly, similar to Fair Trade Coffee, Asian countries could promote Fair Trade Tea for several reasons. First, tea culture is prevailing in many Asian countries and there is traditional market for Tea consumption. Fair Trade Tea could help build stabilized market, increase the quality of product and minimize the operation cost of producers. Second, Tea plantation is environmental friendly and help solve the climate change problem. The Tea can grow in rural and mountain area where the traditional agriculture activities are not suitable.

3.2 Organic Farming Practice

Organic farming practice is a new form of agriculture. Defined by USDA National Organic Standards Board, organic agriculture is “an ecological production management system that promotes and enhances biodiversity, biological cycles and soil biological activity. It is based on minimal use of off-farm inputs and on management practices that restore, maintain and enhance ecological harmony.” Organic farming often employs the techniques of crop rotation, green waste fertilizers and biological pesticides.

Over recent decades, organic farming practice gains a rapid growth and alters the conventional farmers’ consideration of standards and practices of farming (Sutherland 2013). According to statistic provided by Willer and Kilcher (2011), 0.7 % of cropland and 0.5 % of grassland go organic practice in North America. The ratio is higher for European farms: 4.7 % of farming in European Union is organic certificated.

The establishment and conversion to organic farming practice have been well investigated in Europe and in America but not in developing countries, particularly in Asia (Aoki, 2014).
Parror et al. (2006) summarizes two types of organic farming practice in developing countries: the first type is officially certified organic farming and the second informal organic farming. The first is more focus on the organic products, while the second one tends to promote the livelihoods of individual farmers through relatively small-scale activities (Goldberger 2008, Aoki 2014).

Organic farming practice is another way to maintain sustainable economic growth in Asian countries and reach UN MDGs. Organic farming emphasizes ecological harmony and respect of environment and nature. It helps mitigate the climate change concern. Moreover, there is growing awareness and international demand for organic product. Organic product normally charge high premium. It is more profitable comparing to conventional farming if the consumption market exists. In addition, organic farming can start at small scale and the profitability of operation can be realized through small scale activities comparing to that of conventional farming.

Therefore, it is good opportunity now for Asian countries to promote organic farming practice over conventional practice. The governments in Asian developing countries could provide officially certified organic farming and help the producers to promote the sale of their goods. The governments should also provide support and guidance to assistant the farmer or plantation owners to start or convert to more profitable and sustainable organic practice.

3.3 Co-op alliance of small to medium operation

In very long time, people believe that small firms have disadvantage compared to their large size rivals (Gomes-Casseres, 1997). This thought was confirmed by numerous studies (Horst 1972, Vernon 1970, Chandler 1990). For example, Horst (1972) found that firm size has significant impacts on the propensity after controlling for industry fixed effects. Vernon (1970) claimed that the technological advantage of firms is correlated with the firm size.

As a result, the small and medium size firm could adopt co-op alliance strategies to overcome the disadvantage of size, practically in scale-intensive industry. According to Gomes-Casseres (1997), there are two alliance strategies the firms could choose. When the firms are small relative to their competitors and has small market share, they tend to adopt alliances to gain economies of scales and scope. On the other hand, if they are large in term of size and market share, they hesitate to form alliance.

Asian countries, especially developing countries, should encourage co-op alliance of small to median operation. The co-op alliance increases the product competitiveness in domestic or international market. In many cases, the co-op alliance also communicates the technology and business procedures which improve the overall operation as co-op alliance. Further, the co-op alliance process could be a part of economic reform. Through co-op
alliance, many entities in Asian countries might already get through the globalization and economic reform to realize a sustainable growth.

4. Conclusions and Recommendations

Through a case study methodology, this study emphasizes several major issues Asian countries need to face in order to have sustainable economic development. The first problem is climate change. The second problem is the changing of political and economic environment under globalization and economic reforms in Asian countries. To maintain sustainable economic growth and address newly emerging challenges in Asian countries, this study explore several alternative measures which Asian countries could take, including Fair-Trade Initiative, Organic farming practice, and Co-op alliance of small to medium operations.

In future study, survey method and achieve economic data could be used to tests outcome from the implementation of Fair-Trade Initiative, Organic farming practice, and Co-op alliance of small to medium operations in Asian countries dataset.

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