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INTRODUCTION

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Introduction

Since its “New Asia Strategy” formulated in 1994 (EC, 1994), the European Commission has been eager to resurrect and then to refine its economic relationship with Asia and in particular with East-Asia, by upgrading the relationship to a “comprehensive strategic partnership” with China for example, and by focusing overall on greater “connectivity” between the two regions (see for example EC, 2018). According to the 1994 seminal document, the restoration of a strong relationship between the two regions would have enabled the EU to maintain its “leading role in the world economy”, to “ensure that [the EU] interests [were] taken fully into account in this key region” and, through an active participation of EU firms in Asia, the relationship would have provided “qualified jobs for European workers” (EC, 1994: 3). In one of the most recent EU Commission official documents where the relationship is now referred to as being one of “connectivity” between the two regions, particularly in the aftermath of China’s Belt and Road Initiative (BRI), it is stated that an enhanced relationship between the two regions “contribute to economic growth and jobs, global competitiveness and trade” EC (2018: 1).

Reviving economic growth in the EU has clearly been a driving objective of EU-Asia relations, from the part of the EU institutions, but during most of the 26 years after the 1994 document, economic growth in the EU has been rather unimpressive, in comparative terms. A recent report for the EU Commission mentions a “fragile global recovery”, after the 2008 shock, as well as “steady moderate growth” (EC, 2020: 1) putting the growth rate for the euro-area at 1.2 percent for 2020 and 2021 per annum (which is the same as for 2019 and lower for the EU-27). Although growth at the global level is also rather modest (2.5 per cent forecast for the world economy as a whole for 2020 according to the recent 2020 World Bank forecasts),

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the East-Asia Pacific region stands out as the region with better growth prospects of all, and as the region with the fastest labor productivity growth. The Chinese economy is expected to slow down a bit and to grow by 5.9 per cent in 2020 (against 6.1 per cent in 2019), whereas growth forecasts for the mature economy of Japan would only reach 0.7 per cent. A number of adverse circumstances explain these unimpressive growth prospects, such as the remaining uncertainty surrounding the US trade policy, geo-political tensions in the Middle-East, political and social unrest in some parts of the world in particular in South America, the long-term relationship between the EU-27 and the UK, and more recently, the outbreak of the *coronavirus* (World Bank, 2020). Except for Japan, where the population is now actually declining, diverging growth paths seem to have opposed Asia and the EU; this is despite increasing economic links forged between the EU and Asian countries since the 1990s, and this is also despite the advent of the single European currency.

Of specific note however are the many EU-Asia economic and business connections that have mushroomed in the last 25 years or so, making now Asia a significant economic partner of the EU; Asia a whole accounts for roughly 35 per cent of EU exports and for 45 per cent of its imports (EC, 2018). The papers -published by the Journal Global Policy and Governance in this *Special Edition*- provide some concrete examples of this increased Asia-EU economic/business interaction and/or of how growth revival in Asian countries, through adequate domestic policies, can eventually trickle down in EU countries in the context of highly globalized regions. These papers can therefore be appraised as providing a contribution in terms of Asia-EU economic relations, although the focus is, perhaps in contrast to EU policy thinking, on how Asian growth can be beneficial to the economies of the EU. In particular, with the advent of the 2008 global financial crisis, many Chinese companies have seized the opportunity to invest in the distressed and also in the more dynamic areas and regions of Europe. Job creation and economic growth, through spillover effects, are the direct beneficial effects of inward direct investment.

The first paper is entitled *How do Chinese Multinational Companies Coordinate and exert Control over Foreign Subsidiaries? The case of Chinese Subsidiaries in France*. France is nowadays an attractive country for Chinese investors. With their direct investments in France, Chinese companies pursue mainly market and asset seeking goals. However, Chinese firms might lack much needed international experience, which makes good performance of their subsidiaries in France difficult to achieve. This contribution investigates how Chinese companies implement control and coordination mechanisms to manage their subsidiaries in France. The authors held interviews with 17 managers in charge of Chinese subsidiaries in France. They find that Chinese companies use four main mechanisms to exert control over their subsidiaries in France: (i) control through the share of capital in a subsidiary, with a clear preference for wholly-owned subsidiaries or large majority shares in joint ventures; (ii) decentralised decision-making to compensate for the lack of international experience of Chinese managers; (iii) formalisation of the subsidiary's organisation through a mix of reporting, ERP and written documents; and (iv) control and coordination by

international human resources coming from the Chinese headquarters, including expatriates with rather observational roles as well as frequent short-term assignments.

The second paper of this number entitled *The Role of Foreign Capital Inflows on Economic Growth of the Southeast Asian Least Developed Countries* highlights the ambiguous effects of capital inflows on the economic growth of recipient economies, although these recipient economies do need inward capital for their economic development. The case of Southeast Asian least developed countries (namely Cambodia, Lao PDR and Myanmar) is investigated in this paper, where capital inflows include remittances, foreign direct investment as well as official development assistance. The data used in this work span over the period 1980 to 2017, and an autoregressive distributed lag (ARDL) model is used to analyze the impact of these capital flows on the economic growth of these countries. The results differ across countries and according to the type of financial flow. In the case of international remittances, the findings show that their short run effect on economic growth becomes insignificant in the long run in the case of Cambodia and of Lao PDR, whereas a short run positive impact is still perceptible in the long run in the case of Myanmar. Interestingly, foreign direct investment raises economic growth in all three countries in both the short and long runs. Finally, the short run contribution of official development assistance on the economic growth of Cambodia and Lao PDR still remains in the long run, this effect becomes insignificant for Myanmar. These results highlight on the main the positive impact of capital inflows in least developed countries, and therefore the positive nature of domestic policies on economic growth. Another paper dealing with adequate domestic policies (in the case of an Asian country) is the paper entitled *Is China's Financial Sector Reform the Answer to Economic Globalisation?* Given China's *"new normal economic model"* following the 2008 global financial and economic crisis, services and in particular financial services have become a key sector of Chinese economic policy. The ability of the country to keep growing is tightly connected with the development of its banking and financial system. The sector is indeed susceptible to contribute to the needed conditions that support fast economic growth and development not only in the Chinese economy but also worldwide. Chinese policy in the area is divided between leaving the "*The Big Four*" Chinese commercial banks under the control and surveillance of the central government, and promoting banking deregulation, liberalization and efficiency. The main results from this empirical study highlight that the *"Big Four"* do not seem to be impacted upon by either regional or global uncertainty, but that causal dynamics exist between Chinese top banks and regional market uncertainty, a phenomenon that needs to be carefully considered by policy makers.

The last two contributions in this Special Edition deal with the case of the Japanese economy. First, the paper entitled *Toshiba's market valuation in the midst of a long-term turmoil* underlines that since 2008, Toshiba has been experiencing a major fraud and financial scandal, which has impaired its stock price, governance and reputation. As this conglomerate is one of the largest and more ancient Japanese industrial groups, it is highly interesting to analyze the impact of this situation on the main financial indicators of the company in a long run perspective. This contribution shows that while

the risk level of the firm was increasing the returns and stock price were dropping. Such an evolution really endangered the group, as the stock market ratios show. In addition, the calculation of abnormal returns confirms that the news considered *a priori* as good (or bad) generated cumulative increases (or decreases) in the returns of the Toshiba stock.

Finally, the last paper entitled *Does Tax Avoidance Diminish Firms' Sustainability?* deals with an issue that has gathered substantial public attention among firms, policy makers and academics. It looks at the relationship between tax avoidance and firm sustainability and it is the first study to show the economic consequences (effects on sustainability) of tax avoidance in the long run. Staring with stakeholder theory which suggests that firms need to maintain good relationships with all firm stakeholders in order to be sustainable, the authors argue that tax avoidance may diminish the sustainability of firms in the long term, although it might make the firm profitable (judging by its higher net income after tax) in the short run. The main findings of this empirical research show that the effective tax rates (ETRs) of the firms are tied with their sustainability and that tax avoidance diminishes sustainability.

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