

CULTURAL INFLUENCES ON ECONOMIC ANALYSIS

Theory and Empirical Evidence

Rongxing Guo

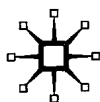


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CROSS-BORDER RESOURCE MANAGEMENT

HOW THE CHINESE ECONOMY WORKS

BORDER REGIONAL ECONOMICS

ECONOMIC DEVELOPMENT IN PROVINCIAL BORDER REGIONS OF CHINA
(in Chinese)

AN ENGLISH-CHINESE MINING GLOSSARY (co-author)

*This book is dedicated to
the memory of my mother (Hè Yùhuā, 1927–2005),
who cared for me with all her heart and
is my foremost heuristic teacher
in my life*

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R.X.G.
Heidelberg, Beijing

Notes from the Author

1. In most cases, data used are as at the end of the twentieth century (or as close as possible).
2. Unless stated otherwise, the monetary values of economic indicators are measured in US dollars.
3. In the cross-section analyses of economies for a specified year or period, due to data unavailability or other reasons, data for years other than the specified year or period (but as close as possible to the specified dates) may sometimes be used for a few of economies.
4. Due to geographical changes of some economies involved in the research, measurement errors may exist for some time-series analyses.
5. Totals in the tables may not add up to 100 per cent due to rounding off.

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Introduction

Development divorced from its human or cultural context is growth without a soul.

(WCCD, 1995)

Since World War II, and especially since the end of the Cold War, a series of global and regional economic issues have puzzled both theorists and practitioners. They include such important questions as: Why have nations with the same or similar natural endowments and political contexts had such different economic performances? Why have trade and economic cooperation been efficient between some nations but more and more difficult between others? These issues are crucial to contemporary policymakers and practitioners, and many nice theories have been constructed in order to assess them. Unfortunately, it is argued that existing theories cannot be used to deal with the above issues satisfactorily. Sometimes they may even yield conflicting information and results. There seem to be two primary causes for this. The first concerns the continuing evolution of the global environment and regional institutions; the second relates to unrealistic assumptions from which some important variables have been excluded or highly simplified.¹

For a long time culture and economy have been treated as broadly independent areas of research. Furthering the understanding of the determinants of economic activity promised to be one of the major research areas in the postwar era, although past analyses, especially those that are quantitatively based, are mainly focused on economic variables. Since the late twentieth century, however, there have been arguments respecting an increasingly close relationship between economy and culture. With regards to the mechanism of their relationship, one should recognize that economy and culture do not impose upon one another as wholly external forces, but are always intimately associated. Despite the closeness of this association, they have different logics: the one taking account of certain intrinsic or non-instrumental values, the other relating instrumental values

to external goals of reproduction. Their interactions are complex as are their effects on economic development and cultural change (Guo, 2003).

It is now increasingly accepted that one of the many reasons underlying the relative lack of success of past economic development efforts is that culture was overlooked in development thinking and practice. This belated resurgence of interest has raised culture to a position of honour in development debates. Even conservative financial planners and technical problem-solvers now recognize that if healthy and sustainable development is to take place culture cannot be ignored. In fact, many social scientists, particularly sociologists, human geographers and political scientists, have been undergoing a 'cultural conversion' in recent decades, evident both in method and content. As a result there has been a long-overdue dialogue with literary studies, and an increased concern with cultural phenomena (see, for example, Cateora and Graham, 1998, pp. 111–50; Kockel, 2002; Harrison, 1993, 2000, 2006; Harrison and Huntington, 2001; Hofstede, 2003 [1980]; and Harris et al., 2004).

Despite the importance of cultural influences on economic performance, mainstream economists have tended to ignore them. Indeed, Ruttan (1991, p. 276) summarizes well the current situation:

Cultural considerations have been cast into the 'underworld' of developmental thought and practice. It would be hard to find a leading scholar in the field of developmental economics who would commit herself or himself in print to the proposition that in terms of explaining different patterns of political and economic development ... a central variable is culture.²

This book examines the influences of various cultural factors on economic activities that could be misinterpreted by existing economic theories. Its most important task is to clarify conditions under which culture may be not a cause of misunderstanding and conflict but a source of creativity and profitability in multicultural cooperation. It will also identify various cultural conditions under which economic policies can (or cannot) be optimally arranged. The theoretical and empirical results in this book are intended to supplement current studies on development economics and international economics, as well as to help policymakers to reappraise the roles of 'cultural factors' in, and to introduce optimal economic and cultural policies into, intercultural economic affairs. This book is divided into nine chapters, as follows.

Chapter 1 introduces the most important cultural elements (ethnicity, language and religion) and their implications for economic analysis. In this book, culture is treated both as a resource for and an obstacle to economic development.

After briefly reviewing the diversities of existing economies, Chapter 2 surveys and assesses various approaches to the conduct of a multidimensional analysis of the world economy. While geographic, political and economic approaches each have their own advantages, the culture area approach is particularly useful for long-term comparative economic analysis.

On the basis of the cross-cultural data and information collected and, where necessary, reconstructed by the author, Chapter 3 presents a cross-cultural comparison of the world economy in terms of macroeconomic indicators and real living standards using the culture areas defined in Chapter 2.

The sources for the cross-cultural economic differences are further examined in Chapter 4, which focuses on six aspects: physical capital, human capital, technological innovation, political and institutional bases, external and boundary conditions and cultural context. The past analyses on the determinants of economic development, especially those that are quantitatively based, are mainly focused on economic variables. But there is no way in which economic activities could be conducted independently of cultural context. The economy is as much a cultural site as any other part of society, such as family, community or school. Culture, however significant it may be as a medium of development, cannot be reduced to a minor position as a mere promoter of or impediment to economic growth.

In existing literature relating to the determinants of economic growth, explanatory variables such as income inequality and cultural diversity have been treated separately. In Chapter 5 we try to discuss their joint effects. Our task is to investigate whether there are any conditions under which income inequality and cultural diversity could encourage (or retard) economic growth. Evidence from a broad panel of nations reveals somewhat ambiguous results in that economic growth is quite independent of the variables of inequality and cultural (linguistic and religious) diversity. But for the post-Cold War era there is also an indication that religious diversity tends to retard growth in high inequality nations and to encourage growth in low inequality places. Besides, there is some evidence that supports the view that inequality tends to encourage growth in low religious diversity nations, but not in high religious diversity places. According to the estimated results, higher religious diversity could become a source of productive factors contributing to economic growth for low inequality nations; but in nations with high degrees of religious diversity, high inequality could seriously affect economic growth. In nations with low degrees of religious diversity, income inequality could generate higher economic growth, since there are very few, if any, intercultural barriers within each religiously homogeneous nation.

Chapter 6 examines – both theoretically and empirically – various aspects of cultural influences on international economic analysis. A review of the

past literature indicates that the relationship between cultural links and international trade has been highly simplified. It is generally accepted that, given the markedly differing attitudes and cultural values between different cultural groups, the adoption of common standards is unlikely to prove effective. However 'cultural dissimilarity' may also generate, in addition to the cost of intercultural transactions, some 'economic complementarities' that will have positive influences on international trade. As a result the final output of the cultural influences should be nonlinear, subject to various conditions.

Chapter 7 clarifies various cultural conditions under which international trade may either be encouraged or retarded. A gravity model is built on the basis of the panel data of eight nations (Brazil, China, the Democratic Republic of Congo (Zaire), France, India, Japan, Saudi Arabia and the United States) so as to provide statistical evidence for the cultural influences on international trade during the late twentieth century. In the regressions, if one or more cultural variables were excluded, the estimated results would become less reliable. The estimated results provide evidence to support the view that geographical influence on trade tended to decrease from the 1980s to the 1990s. By way of contrast, the cultural influences on trade tended to increase during the same period. Moreover, the statistical evidence from our modified gravity model shows that cultural dissimilarity tended to retard international trade between low-income countries and to encourage international trade between high-income countries.

Why have some small, culturally different economies managed to form larger economic unions, while other, large, culturally similar economies have not? Why are the culturally heterogeneous entities or unions politically less stable and economically less efficient than the culturally homogeneous ones? To answer these questions, we construct an analytic narrative model for state-building and evolution in the Korean peninsula in Chapter 8. There is an indication that the increasing complexity of managing a large authoritarian area is the major source of administrative inefficiencies when the authoritarian area grows beyond a certain size. On the basis of this model, four propositions relating to the equilibrium location and the optimal size of cultures are proposed, and their political economy implications for the interactions between cultures differing in size are illustrated. As an extension, the case studies of the Association of Southeast Asian Nations (ASEAN), the Chinese area and the European Union (EU) are also briefly addressed.

Since the end of the Cold War era the study of intercultural relations has become one of the most popular topics in the field of global politics and economics. But there have been different views, supporting both intercultural conflict and cooperation. In Chapter 9 various factors that could influence conflicts are examined. Our case studies show that cultural dissimilarity may result in both conflict and cooperation, depending on the