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Author(s): Wang Jinguo, Russell Smyth and Tan Dai Hwee

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**THE ROLE OF CONFUCIAN VALUES IN EAST ASIAN DEVELOPMENT:  
BEFORE AND AFTER THE FINANCIAL CRISIS**

Wang Jinguo  
Russell Smyth  
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*Asian Values provided a convincing cultural explanation for high economic growth in East Asia up until the recent economic crisis, without many of the social problems that are normally associated with rapid development. However, the Asian economic crisis has prompted a re-examination of Asian values. This paper argues that the positive aspects of Confucian values outweigh its minuses and that it is up to the East Asian economies to take steps to maximize its positive aspects. The paper also argues that its minuses and that it is up to the East Asian economies to take steps to maximize its positive aspects. The paper also argues that its Weakness cannot be entirely blamed for the Asian economic crisis and that given the overwhelming evidence of East Asia's remarkable economic performance over a sustained period, the effects of Confucianism on economic development should not be overlooked*

**1. INTRODUCTION**

Asian Values offered a convincing cultural explanation for high economic growth in East Asia up until the recent economic crisis, without the common social problems that are normally associated with it, Lee Kuan Yew, former Prime Minister of Singapore and a particularly effective spokesman for Confucian values, defended the Confucian deference to authority as an essential tool for promoting economic success. However, the current Asian economic crisis has prompted a re-examination of Asian values. It is amidst this flurry of intellectual debate that this paper aims to shed some light on the characteristics of the Confucian Ethic, from which many Asian values have originated, and the role Confucian behaviour has had in the economic development of East Asia

Historically, social scientists have been divided over the role cultural values play in economic development. Proponents of the cultural endowment thesis are supportive of the positive role that cultural factors play in economic development, Kahn(1997) is generally considered to be the first to claim that Confucianism has had a positive effect on the industrialization of Japan and the New Industrialized Countries (NICs). Others to express a similar view include Sun (1986), Nato (1980), Cheng (1989), Tu (1989), Tai (1989), Wong (1989) and Lu (1995). In the opposite Camp, Weber (1930), 1951) was the first to reject the view that cultural factors have had a positive influence on economic development; others including Krugman (1997) have since expressed similar views.

On the positive side, the Confucian emphasis on education and thrift has led East Asian economies to invest heavily in human capital accumulation and to amass large savings. The commitment to the family and group explains the collectivist nature of these economies and

strong endorsement of the state and family's role. The positive effects of Confucianism are wide-ranging. For example, the meritocratic mandate of governing based on high moral qualities and elite capabilities, state paternalism, emphasis on social order and family cohesiveness and concerns about social harmony share striking similarities with the Confucian principles of governing, and these have helped Singapore succeed (Wong 1996). Confucianism is also responsible for the rapid speed of industrialization of Taiwan and the simultaneous achievement of *both* economic growth and equal income distribution in Asia enhanced economic performance, while the emphasis on thrift and industriousness aided capital formation.

However, Confucian ethics also have flaws, Authoritarianism and corruption, which it is argues are manifestations of Asian values, are thought to be responsible for the reckless and excessive private-sector borrowing, risky investment, institutional and structural weaknesses that caused the Asian crisis. The stress placed on thrift in Japan is also counter-productive when the government is encouraging people to spend stimulate domestic demand.

This paper argues that while Confucianism has both strengths and weaknesses, its pluses seem to outweigh it is minuses and that it is up to the East Asian economies to maximize its positive aspects. The paper also argues that given of East Asia's remarkable economic performance over a sustained period, the effects of Confucianism on economic development should not be overlooked.

The paper is set out as follows. The next section reviews the debate about the effect of culture on economic development. Sections three and four look in more detail at the positive and negative effects of culture on economic development in East Asia. Section five examines Asian values in light of the financial crisis and section six contains some ideas for future research.

## 2. ALTERNATIVE VIEWS OF THE EFFECT OF CULTURE ON ECONOMIC DEVELOPMENT

### 2.1 Culture Plays an Important Part in Economic Development

Sen (1996) argues that culture has had an important role in economic development through three distinct avenues. These are a constitutive, evaluative and instrumental role. According to Sen, culture plays a constitutive role in that if people are deprived of the opportunity to understand and cultivate their creativity, then that would be a hindrance to development. It plays an evaluative role in that it influence what people value-such as money. Finally, it plays an instrumental role in that it helps us in our pursuit of valued objective, promotes economic growth and achieves other related objectives such as a higher standard of living.

Sen (1996) sum up the positive aspects of culture as follows:

"It is important to acknowledge the far-reaching instrumental functions of culture in development but also to recognize that culture cannot be reduced to these functions. Culture also plays, for example, an intrinsic role in evaluating the process of economic development, as well as in making room for less immediate objectives such as sustaining the environment and preserving the diversity of species."

Several other researchers have also argued that traditional economic theories often fail

to provide a satisfactory explanation for the root cause of many economic phenomena, especially with regard to the fundamental institutional and social forces that have brought about those economic changes. As Cheng (1989) argues a singular explanation is not sufficient. Instead we need a multidimensional explanation of economic development in order to see its social and cultural significance. Cheng (1989) further emphasized that the economic development of a society has to depend on the cooperation and coordination generated by the ethical and moral values that are relevant to the economic and social relations that underpin personal relationships, working relationships, production and exchange.

From the start of the 1980s, Confucian values were cited as some of the common factors in the outstanding success of Korea, Taiwan, Hong Kong and Singapore (Sun 1986, 1987b; Cheng 1989; Tu 1989; Tai 1989a, 1989b; Lu 1995a, 1995b; Wong 1996; Ornatowski 1996). In a similar vein, two eminent overseas Japanese economists, Morishima (1982) and Oshima (1984) also traced the economic success of East Asia directly to Confucian values. While Morishima (1982) attributed Japan's success to the working of the Japanese variant of Confucianism, Oshima (1984) argued that the more rational, pragmatic, and utilitarian nature of Confucian culture was more conducive to modern economic growth than the social values of either Hinduism or Mahayana Buddhism. MacFarquhar (1980) has gone even further in arguing that post-Confucian "collectivism is better suited to the age of mass industrialization". Given that the Confucian ethics that East Asian societies share are manifest in the emphasis on thrift and hard work, respect for education, and reverence for authority, these are seen, *prima facie*, as having a direct bearing on these societies' economic success. Even in World Bank studies it has been noted that the high-performing Asian economies achieved high growth by getting these basic right (Lu 1995a).

## 2.2 Culture is not a Determining Factor in Economic Development

On the other hand, most social scientists are reluctant to accept Confucian values as the primary force for the industrial takeoff in East Asia. Weber (1991), for one, argued that Confucianism impeded the development of capitalism in China. Influenced by Weber's work, the standard interpretation up until the 1950s was that Confucianism had been an obstacle to the development of modern capitalism in China and Korea and, to an extent, Japan as well. While most attention centered on the positive effects of Confucianism in the 1970s and 1980s, in the 1990s the critics again expressed skepticism, which has been more vocal since the economic crisis. One of the most notable critics is Krugman (1997), who insisted that there is nothing superior about Asian values. His argument that the outstanding growth of East Asian economies was not a miracle, but the result of sustained growth in inputs of capital labor, is well known. Villegas (1996) puts forward a similar argument. He suggests that what matters ultimately are the countries' economic policies, rather than culture. With countries such as Malaysia, Thailand, Indonesia and other non-Confucian cultures beginning to emulate the economic "miracles" of their neighbors through following specific policies, the cultural argument seems weaker than it once appeared to be.

However, most scholars are more ambivalent toward the actual role of Confucianism in economic development and prefer to settle for the more cautious "necessary but not sufficient" position. Hence, most have adopted a less controversial stand in arguing that Confucian values have merely reinforced or facilitated the growth-supporting forces once the economic modernization process in these societies was under way. For instance, Wong

(1996) asserts that there is a serious methodological problem in pinpointing Confucianism or a similar cultural explanation as a fundamental cause of the successful economic development of East Asia. Such arguments are often tautological in the sense that they merely repeat the same observed facts in a different way, with little or no explanatory power. Lay (1989) stressed that the problems with appealing to ostensibly cultural, ethnic and sociological explanations, lie not only in being tautological, but instead they tend to make every observed economic phenomenon unique and hence unable to be generalized to other similar economic phenomena.

Cheng (1989) stresses that the exact causal relationship between a Confucian ethos and economic success, if one exists, is not clear. In this respect, Lin & Ho (1996) noted that the cultural endowment thesis has never been empirically refuted or verified. In fact the very task of coming up with a testable hypothesis seems an insurmountable one when even Confucian scholars have trouble agreeing on what it entails. Moreover, the role of ethic codes or values are implicit, indirect, and of long-term influence. It is difficult to evaluate the impact of values like this on public policies and institutions (Lu, 1995a).

Having said this, it is not enough just to argue in general terms that the Confucian ethos is conducive to increased personal savings and hence higher capital formation. It must also be demonstrated specifically whether such savings have been productively invested in business or industry or have been squandered on non-economic spending, such as in the fulfillment of social obligations, which is after all also a part of the Confucian social system. It must also be shown how Confucian emphasis on education has actually resulted in effective manpower development in terms of promoting the upgrading of skills, and not in encouraging merely intellectual self-cultivation or self-serving literary pursuits (Wong 1996). Hence, more rigorous research is needed to “endogenize” those exogenous cultural variables and, in doing so, demonstrate how Confucian values have been instrumental in promoting savings and investment, improved manpower development, growth of entrepreneurship and so on in these societies.

### 3. POSITIVE EFFECTS OF CONFUCIAN VALUES ON ECONOMIC DEVELOPMENT IN EAST ASIA

Before we look at the possible positive effects of Confucianism on economic development, it is worth reviewing the economic performance of Japan and the four “Mini-Dragons” (Hong Kong, Singapore, South Korea and Taiwan). The economic growth of a nation can be measured by the rate of increase of its Gross Domestic Product adjusted for inflation (real GDP) and its per capita Gross National Product. As seen in table 1, from 1980 to 1990, the five East Asian countries enjoyed a higher growth rate of real GDP than practically any other country in the world. From 1990 to 1998, in spite of the financial crisis, they continued to maintain their lead. In both time periods, growth rates in most of the countries were two to three times as fast as their Western counterparts.

#### 3.1. Education

Confucian philosophy stress the importance of pursuing learning not only as an end in itself, but also as a vehicle to self-betterment (Martellaro, 1991). In traditional Chinese

society, education was the only means by which young people could raise their social stature, regardless of their family origin. Similarly in modern Taiwan, it has been argued that education is an important determinant of successful entrepreneurship, in contrast, in western societies, where education is not regarded as an important component of entrepreneurship.

All East Asian societies subject to the influence of Confucianism have invested heavily in human capital (Tai, 1998). From Table 2, in the period 1972 to 1986, these countries have significantly increased their educational spending as a share of the central government's budget. From 1980-1993, they experienced a greater expansion of enrollment in secondary schools and higher education than any other group of countries in the world, and have rapidly approached the international record comparable to Western countries. This dedication to learning and the drive for self-advancement has eased the transition from primary to secondary and secondary to tertiary activities, which in turn, has resulted in a positive, progressive change in the pattern of employment (Martellaro, 1991).

Tai (1989a) argues that educational achievement is vital to economic growth. It improves the quality of labor, the technological and managerial competence, the industrial productivity and the international competitiveness of an economy. Tai (1989a) also notes that the emphasis on education can have a positive impact on income distribution. The right type of education increases the quality of the labor input leading to higher labor productivity, which is then reflected in higher wage earnings. Hence, diffusion of education opportunities correlates with equality of income. It is at least partially for this reason that the East Asian countries, as a group, have a remarkably even distribution of income.

### 3.2. Thrift and Industriousness

A second feature of the Confucian ethos is thrift. This characteristic has contributed to the high household savings rate in East Asia. Table 3 suggests that the ratio of savings to Gross Domestic Product in all five East Asian countries is one of the highest in the world<sup>1</sup>. This contributes to capital formation, restrains inflation (see Nato 1986) and reduces the cost of capital borrowing, leading to an increase of investment and production (Tai, 1989a). This attitude to thrift persists despite their increase in affluence. Martellaro (1995) argues that a high savings rate and a penchant for entrepreneurship have combined to give impetus to growth and development. Lu (1995b) agrees with this view, noting that willingness to work hard, to lead a frugal life and to maintain a high savings rate makes it possible for many Chinese entrepreneurs to adopt a low-margin-and-high-volume strategy. With this strategy in mind, those Chinese entrepreneurs could successfully survive in the market place and force out less efficient competitors through accepting a profit margin lower than what the market expects.

### 3.3. Commitment to the Family and Group Orientation

Tai (1989b) argues that the "affective model" characterizes the pattern of development

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<sup>1</sup> According to the World Development report 1997, another country that has an extremely high ratio is China, whose 42% figure in 1995 ranked the nation among the highest, if not, the highest in the world.



in East Asia. In this model, group orientation is emphasized. In East Asian countries, especially China, the family is the basic social grouping uniting individuals. Family ties are permanent, and individuals owe their loyalty to the family throughout their lives. How is this pervasive sense of family translated into economic conduct? According to Wong (1989), it can appear in various combinations. One of the most obvious manifestations is family ownership of enterprises. For example, the business enterprises in Taiwan, Hong Kong, and Singapore are mostly family owned and family managed. In Wong's (1989) survey of small and medium-sized firms in Hong Kong, almost 60 percent of the small-scale factories were considered family-owned enterprises. In Japan, the group concept was first extended to the clan, around which agriculture was organized and then, in the industrial era, to the firm (Dollinger 1988). The Japanese, through application of the *iemoto* principle, created large, strong economic and social organizations patterned after the family (see Hsu 1975).

In his comprehensive study on the Chinese family<sup>2</sup>, Whyte (1996) makes several arguments that the ethnic Chinese family is an engine for development. First, loyalty to the family is a very strong source of motivation and performance. Young Chinese are motivated to study diligently and pursue advanced education. Family member employees are willing to work hard and put in extremely long hours to help the family business succeed. Family loyalties and entrepreneurial aspirations also lie behind the high rates of savings. The mobilization of family sentiments also makes it possible to make use of the energies of under-utilized family members, such as grandparents and young children, to help the firm succeed. Family members are likely to stay with the firm even when better paying opportunities arise elsewhere, contributing to continuity in firm management.

Second, the use of family roles to organize management provides a cultural basis for enterprise authority, reducing conflict with management and inhibiting strikes and other disruptive behavior. Family loyalty also helps to maintain confidentiality about firm operations and plans, making it easier to protect proprietary information. The obligation to provide for the entire family or lineage estate also provides a powerful source of entrepreneurial drive.

Thirdly, the small size of families and the family basis of investment capital of most Chinese firms are advantages. These traits minimize start-up costs and make it possible to offer flexible responses to changing market conditions.

Finally, Oshima (1987) argues that the Confucian focus on the family has allowed the states to put more effort into increasing production. He states: "The strong reliance on the family and kinship in Confucian thinking encourages less dependence on the state in old age and in ill health. The heavy demand on Western government for social security and welfare has had ultimately unfavorable consequences on work ethics and saving propensity".

Besides having a strong commitment to the family, East Asians are generally also strongly group-oriented, particularly in the working environment. Unlike Western companies, for which profit maximization is normally the primary objective, East Asian

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<sup>2</sup> Out of the 5 East Asian countries studied, 3 are Chinese-Taiwan, Singapore and Hong Kong. Moreover, another East Asian country that is gaining prominence is China. Hence, here we use "Chinese Family" as a catch-all phrase representing the families in all these East Asian countries.

companies function not only as economic enterprises but also as social entities that underpin social values in the workplace.

One of the most important tenets of Confucianism is the Tao of Chung Young (???), or the Doctrine of the Golden Mean, which strikes a balance between conflicting ideologies, economic goals and means (Sun, 1986). This state of equilibrium and harmony, according to Martellaro (1991), contributes to the importance of adjustment, adaptation and accommodation of an individual to his/her society, unlike Western culture that stresses an awareness of one's rights and control over the natural environment. One is expected to comprehend his/her particular role in society-given an entire body of customs and practices.

Kapur (1995) argues that in a changing competitive environment brought about by fast-changing and technologically dynamic sectors of the economy, a highly individualistic society would lose out to a collective-oriented society, in terms of international competitiveness. This is because a self-interested person may only be induced to work in these 'high-tech' sectors by paying him/her a sufficiently large premium over the wage earned in the other, less dynamic, sectors of the economy, as well as by instituting more elaborate systems of monitoring his/her performance. These high wages and monitoring expenses add to business costs, and in the modern highly integrated world economy weaken international competitiveness. Hence, owing to these costs, a highly individualistic society is likely to experience serious difficulty in maintaining a comparative advantage in industries over more collective-oriented societies.

### 3.4. The Importance of Cohesive Interpersonal Relationships

Arising from the Confucian principle of family cohesion is the importance of forming harmonious and cohesive relationship with others in the business environment. This has resulted in distinct, but interrelated business philosophies guiding business managers. Alston (1989) suggests there are three sorts of business organizations from Japan, china and Korea whose managerial principles, though distinct and unique in their own right, share some similarities. In Japan, business relations operate within the context of *wa*, which stresses group harmony and social cohesion. In China, business behavior revolves around *guanxi*, or personal relations. For Korea, activities involve concern for *inhwa*, or harmony based on respect of hierarchical relationships, including obedience to authority.

*Wa* refers to the emphasis that the Japanese place on group loyalty and consensus. To achieve *wa*, members of the group are expected to submerge their individual (selfish) goals in favor of that of the group. *Wa* also demands that members of a group, weather a work team, a corporation, or a nation, cooperate with and trust each other, Hence, Japanese prefer, and usually insist that all business dealings take place among friends. Similarly, a key principle of Korean business behavior is *inhwa*, which is defined as harmony. *Inhwa* stresses harmony between unequals and link persons who are unequal in rank, prestige, and power. It requires that subordinates be loyal to their superiors and that superiors be concerned with the wellbeing of subordinates. As a result of this, Korean corporate management is categorized as "clan management", a situation facilitated by the fact that many or Korea's senior managers in a specific firm are related by family ties. Roughly one-third of all executive officers in Korea's largest business groups are family members of fellow employees or employers.

Personal networks or *guanxi* is one of the major dynamics in Chinese society. The term



refers to the special relationship two people have with each other. It can be best translated as friendship with overtones of unlimited exchange of favor. An important feature of *guanxi* is that the exchanges tend to favor the weaker partner, in such a way that the weaker partner can call for special favors for which he/she does not have to equally reciprocate. In mainland China this is evident in government-controlled firms that have been given semi-independence since the mid-1980s. Many of these quasi-state firms are controlled by “cadre-entrepreneurs”. Or the relatives or friends of high-ranking officials.

Whyte (1996) argues that *guanxi* networks prove to be trustworthy in unstable political and economic environments and provide access to capital when bank loans are not readily available. Such networks are highly flexible and adaptable, and can be expanded or contracted as business conditions change. This flexibility makes it possible to meet changing market demands through subcontracting and other arrangements without incurring large fixed costs. Reliance on personal ties and trust also decreases the likelihood of commercial disputes, lawsuits, and other kinds of inter-firm conflict. Although reliance on personal ties might seem to be parochial, such ties have been shown to stretch readily across national boundaries, as for example, when Taiwanese firms form alliances with Chinese intermediaries and subcontractors in Southeast Asia and make deals with software companies in California’s Silicon Valley.

### 3.5. Confucian Ethics on Governing

Confucius advocated what he called the principle of virtuous government meaning a method of governing which would strengthen the people by means of morality and serve naturally to bring out order in society by raising the level of virtue among the people (Morishima, 1982). Page (1994) points out that a high quality civil service in the High Performing Asian Economies-especially Japan, Korea, Singapore and Taiwan-played a crucial role in implementing appropriate public policies. These strong institutions act as competent and impartial referees over economic “contests”<sup>3</sup>. These range from very simple non-market allocation rules, such as access to rationed credit for exporters, to extremely complex coordination of private investment in government-businesses.

“Making the people rich”<sup>4</sup> is another major component of Confucianism. Confucius recommended that “making people rich and live longer” should be the most urgent task on government agenda. Dr. Sun Yat Sen, founder of the Republic of China, referring to his Three Principles<sup>5</sup>, voiced the third principle of Min-sheng (???) as wealth-sharing in nature. He said, “We must create wealth and share this wealth-sharing in nature. He said, “We must create wealth and share this wealth in a future time when this wealth is created.” Confucius also said, “A statesman does not have to worry about the scantiness of his country’s wealth; he should worry about its unequal distribution” [ *The Analects* 16:1]

This principle of shared growth has been passed down to modern East Asian leaders,

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<sup>3</sup> This “economic contest” is a term used by Page (1994) to refer the combinations of competition and cooperation among firms and between government and the private sector

<sup>4</sup> *The Analects* 13:9

<sup>5</sup> These Three Principles are Min-tsu (ÑÑÖ÷), Min-ch’uan (ÑÑÈ”), and Min-sheng (ÑÑÉú)(Translated as “natioanlism, democracy, and social welfare, and often are called collectively as ‘The Three Principles of the People’ or San Min Chu I (Èý ÑÑ Ö÷ Òà))

promising in effect that as the economy expanded, all groups would benefit. This has established their legitimacy and won the support of the society at large. Various mechanisms were used to demonstrate the intent that all would have a share of future wealth (Page, 1994). Korea and Taiwan carried out comprehensive land reform programs; Hong Kong and Singapore undertook massive public housing projects; in several countries governments assisted workers' cooperatives and established programs to encourage small and medium-sized enterprises. Whatever the form, these programs demonstrated that the governments in East Asia intended for all to share in the benefits of growth.

#### 4. NEGATIVE EFFECTS OF CONFUCIAN VALUES ON ECONOMIC DEVELOPMENT IN EAST ASIA

##### 4.1. Obstacle to Modernization

Weber (1951) argues that Confucianism did not assist modernization (such as the rise of capitalism), but on the contrary obstructed the development of instrumental rationality that is needed for modern economic and social development. The main reason for Weber's position is that Confucianism, although world-affirming and cosmocentric, basically contains values which stress social harmony and the conservation of the *status quo*-ie. it emphasizes self-cultivation of virtue rather than knowledge creation (Cheng, 1989).

Bao (1988) adopts a similar position. He argues that western values and other outside influences are crucial for the economic development of East Asia and that Confucian values have contributed little or nothing to economic development and modernization. In fact, he maintains that the Confucian system of values has had an adverse effect on modernization because, according to him, central tenants of Confucianism such as "valuing righteousness over profit" (*kuei-yi-chien-li*) have promoted agriculture at the expense of commerce.

Tu (1984, 1989) points to two other aspects of Confucianism that are incompatible with modernization. First, Confucian respect for natural hierarchy (such as age differentiation) and recognition of the importance of status in society have contributed to gerontocracy, authoritarianism, male domination and anti-commercialism that are incompatible with the modernizing process. Second, Confucianism is too group-oriented. Ito (1997) raises a similar criticism about the Japanese education system. He points out that the Japanese education system has successfully produced an homogenous group-oriented labor force that is well versed in basic skills. However, the emphasis on group-orientation does not foster the creativity and special skills needed to make breakthroughs in research.

Chen (1993) argues that hierarchical concept of Confucianism complemented an inefficient socialist management structure in Maoist China. He notes that the style of decision-making was authoritative, with the top layer of management having responsibilities for various decisions. The Chinese have been educated to accept the rule of authority and seniority<sup>6</sup> and thus Confucian teachings on the importance of respect for

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<sup>6</sup> Amartya Sen, on the other hand, has challenged this interpretation of Confucianism. "Confucius did not recommend blind allegiance to the State," he observed. "When Silu asks him how to serve a prince, Confucius replies, 'Tell him the truth, even if it offends him'".

authority and age helped to consolidate this process. Chen (1993) also argues that the Confucian emphasis on group orientation served to undermine efforts to separate Party and management functions. The traditional group culture of China permits only the hierarchy under a single leadership. This helps to explain the pervasive role of the Party in various enterprises, particularly in the pre-reform period. Even when the directors of enterprises were given various responsibilities, they had to consult their Party bosses in the enterprises on almost all important decisions. This system impinged on the efficiency of the decision making process and personnel management.

#### 4.2. Thrift

The expectation that greater benefits can be derived in the future through deferring spending in the present is a practice generally accepted as desirable in most economic societies. However, Martellaro (1991) has asked: "How much aggregate savings is good?" He points out that although it can be persuasively argued that a high level of saving makes funds available for investment, it might also be argued that too much savings can retard economic growth through maintaining marginal propensities to consume at levels lower than desirable.

Duus (1989) suggests that economic development can be depicted in broad stages. He argues that there are important benefits from thrift in the initial stages of economic development. This is a period when the thrust is primarily on the overall expansion of production. Issues of distribution tend in the case of free market economies at least, to be left to one side. However, when a level of abundance has been reached, different sets of values are perhaps more appropriate to the new configuration of society and economic conditions.

Duus (1989) draws on the example of Japan to illustrate his argument. Japan is now an affluent society, but many Japanese still have a savings ethic that is no longer appropriate. This is creating problems that are not simply of an external character, such as when Americans and others pressure the Japanese to save less and spend more on foreign goods. It has also raised very profound questions in Japanese society about the ultimate purpose of economic growth.

#### 4.3. Commitment to the Family

In addition to the positive effects of the ethnic Chinese family on economic growth outlined in the last section, Whyte (1996) also offers some arguments that suggest Chinese family patterns can also be bad for development.

One central problem that Whyte (1996) discusses is nepotism. Family-run enterprises cannot appoint, reward, discipline, and fire enterprise members according to their qualifications and performance, since individual treatment is always skewed by the obligations attached to family roles. As a result, family firms take on as many extra relatives as employees even when those relatives contribute little or constitute a drain on firm resources. Obligations to parents and the family prevent talented and ambitious young

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Quote taken from Steve Lohr "Asian Vs Western values: Are capitalism, democracy linked" in *Straits Times*, 2 February 1998

people from taking advantage of better job opportunities elsewhere. Hence, individual career aspirations are thwarted, talented are not utilized and geographic mobility may be hindered<sup>7</sup>.

Secondly, the overriding strength of family loyalties makes it difficult to form close and cooperative relationships with non-relatives, which isolates family-run firms from outside influence. There might be prejudice against hiring non-relatives to work in the family firm, irrespective of competence. Outsiders not as committed to the firm will readily leave the firm when other opportunities beckon. This can create instability during leadership succession (Tai, 1989)

The third obstacle Whyte (1996) discusses concerns limits on size and expansions. As long as the family is the organizational basis of enterprise, firms tend to remain small and under capitalized and, hence, unable to compete with modern capital and technology-intensive non-family firms. The family mode of organization produces a tendency to adopt a short term outlook and to be more concerned with maximizing current profits than establishing firm reputation and product name recognition. Insofar as firms need to be large and stable in order to realize economies of scale and mobilize capital for long-term investment, this makes it difficult for family firms to compete with non-family corporations.

Whyte (1996) finally points out that the role Chinese families play in economic competition in the future is likely to be limited. This is because the tendencies built into Chinese families-to form relatively small and flexible firms able to respond to rapidly changing market conditions and motivate maximum efforts for modest pay-are most suited to low-and medium-technology industries operating in an export-oriented environment. These tendencies enabled Chinese societies in Asia to take over niches in the world market from Japan for themselves. However, as those niches close or are taken over by countries like Vietnam and the Philippines, there is pressure to make the transition to high technology industries and here family orientations might prove problematic.

#### 4.4. Emphasis on Goodwill

Lin & Ho (1989) argue that Confucianism places too much emphasis on goodwill and too little on the legal environment. They suggest that unwillingness to reform the Confucian ideal of “governing the nation and righting all under heaven” and “withdrawal to wait for the appearance of a benevolent master to serve” might well have been a serious hindrance to the development of capitalism in China. In the sense that cultivating goodwill is part and parcel of *guanxi* networks, these can also be a hindrance to the smooth operation of business. Whyte (1996) stresses that cultivating goodwill ties takes abundant time and energy and generates extensive graft and corruption. The importance of such interpersonal networks also makes it difficult for start-up firms to succeed, since they lack *guanxi* networks extensive enough to compete with established firms.

According to Alston (1989), *guanxi* networks also slow down decision making in China. Decisions are made from top to bottom in China, and the superior in each *guanxi* link must

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<sup>7</sup> Geographic mobility generally has an important beneficial impact on income distribution and the transmission of knowledge in society at large, and insofar as such mobility is impeded, the gaps between rich regions and poor ones are likely to widen (Whyte, 1996).

agree to a specific proposal. This practice, which can lead to extremely slow decision making for important decisions, causes much frustration for those who expect consistency of policy and application of universal rules from Chinese bureaucrats. In fact, policies change their behavior.

Chen (1993) argues that *guanxi* networks or “going through the back door” in China undermines the operational management of the official resource allocation proposes and further aggravates problems in the distribution system. A practical consequence of *guanxi* is that personal loyalties are often more important than organizational affiliations or legal standards. As result, a person’s rank or organization position may not be indicative of his or her power.

## 5. ASIAN VALUES AND INSTITUTIONS IN LIGHT OF THE CRISIS

There are several aspects of the crisis. Wade (1998) identifies two main views about the causes of the crisis in the literature. The first is what he terms the death throes of Asian state capitalism. “The crisis according to the death throes view reflects excessive government intervention in markets, especially financial markets; and it marks the beginning of the end of the outmoded state-directed Asian system” (Wade 1998 p.1536). The second is what he calls panic outflow in a sound but unregulated system. This perspective suggests that the major reason for the crisis was excessive financial deregulation including the fact that firms were allowed to borrow overseas without sufficient government controls.

Of the two views, the death throes argument has emphasized the negative aspects of Asian values. In particular, in the immediate fallout from the crisis terms such as “crony capitalism” were used to describe the close relationship between the state and business built on personal networks. Consistent with Whyte’s (1996) views, discussed in the last section, it was argued that *guanxi* networks underpinned corruption, which fuel the crisis. At the beginning of 1998, the views of one news correspondent summed up the prevailing thinking:

“In country after country the story was remarkably similar. Corruption and crony capitalism had weakened solid economies built on years of hard work and prudent investment. Lax, outdated banking rules had left nations unprepared to handle a flood of foreign funds. In short, a potent mix of globalization, poor governance and greed brought about the crisis”.<sup>8</sup>

However, the panic outflow explanation paints a rather different view of Asian values as an explanation for the crisis and as a source of future recovery. In the panic outflow explanation there is implicit recognition that the “fundamentals”, built on Asian values, are still sound. One of the most prominent advocates of the panic outflow view is Jeff Sachs. His view is that:

“There is no fundamental reason for Asia’s financial calamity except financial panic itself...Asia’s fundamentals are adequate to forestall an economic contraction: budgets are in balance or in surplus, inflation is low, private savings are high, economies are poised for

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<sup>8</sup> Nayan Chanda, “Rebuilding Asia”, *Far Eastern Economic Review* 12 February, 1998, p. 46.

export growth. Asia is not reeling from a crisis of fundamentals, but a self-fulfilling withdrawal of short-term loans. One that is fueled by each investor's recognition that other investors are withdrawing their claims" <sup>9</sup>

In this statement there is clear recognition that East Asian countries still possess several positive attributes. A point that other leading economists, including Paul Krugman, have also stressed (see eg Krugman 1998). In addition to the positive fundamentals that Sachs mention; it can be added that governments are pragmatic and pro-business; its people are enterprising, willing to work hard and make sacrifices, all of which have basis in Confucian thought.<sup>10</sup>

Which of the views, identified in Wade (1998) is more accepted? While acknowledging that there is no consensus, Wade (1998) argues that the panic outflow perspective has more support. Lo (1999 p.4) takes a similar line, suggesting that: "The derogatory term, "crony capitalism" has tended to lose currency. Especially after the currency collapse in Russia, the threatened financial crises in Latin America, and the debacle caused by the hedge fund Long-Term Capital Management, by the autumn of 1998, the shift of the dominant opinion towards the 'panic' story was clearly evident". This view has considerable force given that in addition to Sachs, several leading economists, including Stiglitz (1998), have supported the panic outflow explanation.

However, even if failure to separate the roles of enterprise and government was a major cause of the Asian crisis, the problem with the death throes argument is that it is a one-sided account of the role of institutions, and the values underpinning them, in Asia development. Since the crisis most stories have centered on the downside of the close relationship between business and government. As a result the positive aspects of long-term relationship built on goodwill have been overlooked. Wade & Veneroso (1998 p.7) note:

"Commentators often dismiss the system as 'crony capitalism' seeing only its corruption and favoritism. They miss the financial rationale for cooperative, long-term reciprocal relations between firms, banks and government in a system which intermediates high savings into high debt/equity ratios".

The real issue is to the extent that the crisis is related to the domestic economic and political institutions of the affected countries, why were basically the same institutions capable of contributing to decades of growth known as the East Asian Miracle? Wade and Veneroso (1998) suggest the main reason for the crisis is that East Asia's "high savings, high corporate debt" economies were susceptible to systemic shocks, particularly if the shocks take the form of high interest rates, currency devaluation or demand contraction. Lo (1999) takes this argument one step further, He suggests the crux of Asia's development success over a sustained period, and current crisis, is the rigidity-infused, long-term-oriented nature of East Asia's institutions that bind the main stakeholders. These institutions have both pluses and minuses in terms of promoting efficiency.

A good illustration of this concerns the trade-off between allocative and productive efficiency. One criticism of the main bank system in Japan is that the close relationship between the main bank and the Japanese firm is allocative inefficient. Because the risk bearing and control functions of the main bank are asymmetric, the Japanese firm benefits

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<sup>9</sup> Jeff Sachs, "The IMF and the Asian Flu", *American Prospect* March-April 1998, p. 17 as quoted in Wade (1998).

<sup>10</sup> See *The Straits Times*, 22 January 1998



from some degree of soft budget constraint. However, an important offsetting feature of the traditional Japanese firm is that the major stakeholders-banks, shareholders and workers-make a long-term commitment to the firm. Aoki (1990) argues that this promotes productive efficiency through cushioning the firm from the full rigors of financial and labor markets. The planning time horizon of the banks also tend to be longer in the stylized Japanese firm that is conducive to collective learning or continuous incremental technical change in productivity growth. The root cause of the crisis is that these arrangements lack flexibility for adjustment in the face of systemic shocks. Thus, the blow from the crisis to the main stakeholders, and in particular the banks, resulted in financial panic, causing a downward spiral of demand contraction and bankruptcies that was self-reinforcing (see also Lo 1999).

## 6. CONCLUSION AND AN AGENDA FOR FUTURE RESEARCH

Confucian characteristic can both promote and hinder economic progress. Some of the success of the four Mini-Dragons is due to the Confucian attitude to valuing diligence, integrity and education. Yet, some other Confucian characteristics may actually hinder future progress, such as the tendency to obey authority blindly and a lack of consciousness with respect to protecting human rights and exploring new ideas. However, on the whole, its pluses seem to have outweighed its minuses. Perhaps the best view is that traditional Confucianism as an *overall social, political and economic system* probably was an obstacle to the development of modern capitalism in countries such as China. Once policies favoring the development of modern capitalism were adopted, though, *selected Confucian values and institutions* proved to be useful in the economic development process (Ornatowski, 1996). Ultimately, as Liu (1996) has suggested, the success of Chinese communities in the future depend to a significant extent, on whether or not they can both maximize the effect of their cultural birthright and minimize the constraints of their cultural burden.

In terms of future research it is important that interdisciplinary approaches be adopted, even in respect of what might appear to be narrowly 'economic' issues. If indeed cultural factor do influence-or are influenced by-economic variables, then it is essential that these linkages be systematically studied. Cheng (1989) has also pointed to the need for a more holistic approach, including consideration of what he terms the "totality and mutuality" of all the relevant factor, both internal and external. Future research should be directed towards examining the extent to which the Confucian Ethic will continue to have a role in the development and growth of East Asian economies. Important issue for investigation are the extent to which the nuclear family will continue to supplant the extended family, particularly as urbanization continues to supplant the extended family, particularly as urbanization continues, and the relative emphasis attached to work and leisure in the face of greater Western influence.

Martellaro (1991) points out that there has been a clear penetration of western influence into Hong Kong, Singapore, South Korea, and Taiwan over the past three decades. One reason for this has been the rapid spread of Western enterprise in East Asia. Another significant influence that is set to increase in importance, is the role of students returning home after studying in Western universities-especially in the United States. It is unclear what effect this will have on traditional Asian values, but if there is a weakening of the

Confucian Ethic among the next generation in the Four Mini-Dragons, it might have important implications for productivity, trade-offs between saving and spending and traditional deference to authority. The effect of these changes on the future economic development of East Asia is an important topic for future investigation.

In conclusion, the positive effects of Confucianism of East Asia's economic development are profound, and cannot be easily disregarded by one economic crisis. Those who argue for the 'convergence thesis', where a single set of global standards applies to all economies regardless of cultural differences, are premature. As Kim (1998) argues, in spite of the negative aspects of the crisis, it is likely that Asian societies have a better chance of developing communitarian patterns of development, than pursuing individualistic models of capitalism. The fact there is difference of opinion about the causes of the financial crisis implies, at the least, that it would be wrong to lay all or most of the blame at the feet of Asian values. Whatever the true cause of the crisis, the fact is that the "fundamentals" that underpinned the "East Asian Miracle"-balanced budgets, low inflation, high savings and export-oriented growth-all of which are founded on traditional Asia values, have no change. This, combined with the strong performance of East Asian countries over a prolonged period of several decades before the crisis, suggests that it is too early to write off Confucian values or dismiss Confucian ideas as a basis for sustained future growth in East Asia.

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TABLE 1: ECONOMIC GROWTH

	Average Annual Growth Rate(%)				
Countries	GDP		GDP implicit deflator		GNP per capita
	1980-1990	1990-1998	1980-1990	1990-1998	1985-1995
East Asia					
Japan	4.0	1.3	1.7	0.4	2.9
South Korea	9.4	6.2	6.1	5.1	7.7
Taiwan	7.1	6.7 <sup>b</sup>	NA	NA	6.5
Hong Kong	6.9	4.4	7.7	6.4	4.8
Singapore	6.6	8.0	2.2	2.5	6.2
Low-income economies	4.1	3.6	NA	NA	-1.4
Middle income economies	2.6	1.9	NA	NA	
High-income economies	3.1	2.1	NA	NA	1.9
United Kingdom	3.2	2.2	5.7	3.0	1.4
United State	3.0	2.9	4.2	2.2	1.3
Switzerland	2.0	0.4	3.4	1.7	0.2

NOTES : (1) a-excluding China and India  
(2) b-for the period 1991-1993

Sources : (1) The World Bank, *World Development Report 1997*, 1999-2000.  
(2) Taiwan Statistical Data Book 1997.



TABLE 2 : EDUCATION

Countries	No. In secondary school as % of age group				No. In higher education as % of age group		Adult Illitera ry	Education Expenditure as % of central government budget	
	Female		Male						
	1980	1993	1980	1993	1980	1993		1972	1986
East Asia	94	97	92	95	31	30	A	C	c
Japan	74	92	82	93	15	48	A	15.8	18.1
	54(1980) <sup>b</sup>		71(1993) <sup>b</sup>		18	31	6 (1993)	17.3	20.3
Taiwan	65	-	63	-	10	21	8	-	-
Hong Kong	59	86 (1994)	56	87 (1994)	8	31	9	9.0	21.6
Singapore	26	41	42	-	3	-	34		
Low-income economies	50	61	56	65	24	22	-		
Middle income economies	43	-	43	-	13	16	14		
High-income economies	-	98	-	97	35	56	-		
United Kingdom	85	94	82	91	19	37	A		
United State	-	97	-	98	56	81	A	3.2 <sup>c</sup>	1.7 <sup>c</sup>
Switzerland	-	89	-	93	18	31	A		

Notes : a-according to UNESCO, illiteracy is less than 5%  
b-percentage in terms of the total population in that age group  
c-in terms of educational expenditure as a % of Gross National Product, both Japan and the United States rank very high among countries with a heavy commitment of financial resources to education, at 7% and 6% respectively.

Sources : (1) The World Bank, World Development Report 1997 ; (2) Yearbook of Statics, Singapore 1995; (3)Taiwan Statistical Data Book ; (4) Tai, H.(1989).  
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TABLE 3 : INVESTMENT & SAVINGS

Countries	Distribution of Gross Domestic Product (%)			
	Gross domestic investment		Gross domestic saving	
	1980-1990	1990-1998	1980-1990	1990-1998
East Asia				
Japan	32	29 <sup>c</sup>	31	31 <sup>c</sup>
South Korea	32	35	25	34
Taiwan	-	23 <sup>b,c</sup>	-	25 <sup>b,c</sup>
Hong Kong	35	30	34	30
Singapore	46	37	38	51 <sup>b</sup>
Low-income economies	24	30	22	32
Middle income economies	26	24	25	23
High-income economies	24	18	24	19
United Kingdom	17	16 <sup>a</sup>	19	15
United State	20	18	19	16
Switzerland	29	20	25	24

Notes : a-includes statistical discrepancy  
b-as a percentage of Gross National Product  
c-1998 figure is unavailable; figure is for 1995  
Source : (1) The World Bank, *World Development Report 1997* ; 1999-2000  
(2) Taiwan Statistical Data Book 1997

*Wang Jianguo. Lecturer. Dept. of Economics, National University of Singapore.*  
*Russell Smyth. Senior Lecturer. Dept. of Economics, Monaxh University 3800, VIC.*  
*Australia, Tel: 61-3-9904-4048. Fax: 61-3-9905-5476.*  
*E-mail: Russell.Smyth@BusEco.Monash.edu.au*  
*Tan Dai Hwee. Graduate Student. Dept. of Economics, National University of Singapore.*