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Review

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CONFUCIANISM VERSUS CAPITALISM: CULTURE AS AN OBSTACLE AND/OR A STIMULUS TO THE ECONOMIC DEVELOPMENT OF NEWLY INDUSTRIALIZED ASIAN COUNTRIES

Summary: *The paper focuses on the influence of different cultures and religions on the economic system and trade in general, as well as on the differences between Eastern and Western capitalism in light of the influence of Confucian ethics and Protestantism, in particular. The long-lasting debate was perhaps given the strongest impetus by the extraordinary economic success of first Japan, and then the Asian newly industrialized countries and China.*

Although capitalism originated in the West, its development in the East Asian region implies certain cultural similarities between Protestantism and Confucianism. The article claims that neither reductionism nor the endless mystification of cultural features is an effective means of distinguishing the complexity of the Confucian experience in relation to the practices attributed to capitalism. The author introduces the term Protestant entrepreneurship.

While most analysts believe that Protestant capitalism is responsible for the development of capitalism in the world, the author advocates the opinion that each belief system in different parts of the world has a positive impact on the economic system, but with different timing, appearances, intensity and effects. It is obvious that culture and religion are losing their importance as determinants of domestic and international politics in the context of the pressures of globalization. This process weakens traditional values and social groups such as the broader family, religious groups, etc., and causes a convergence of cultures. It is considered that the homogenization of world culture, or the amalgamation of cultures, has begun.

Key words: *culture, religion, Protestantism, Confucianism, capitalism*

JEL classification: *O1, Z1*

INTRODUCTION

In modern theory, there is more and more debate about the connection between economic values (practical, direct, rational, short-term) and cultural values (education, knowledge, patriotism, religion, trust, justice, virtue, ideology, utopia, tradition). As Grondona points out, economic development is too important to be left only to economic values, that is, it should be understood as a cultural process.

There are numerous empirical studies that attribute the economic success of Japan, the Asian newly industrialized countries (NICs), and more recently, China to specific economic policies, such as those concerning price incentives, regulation of internal markets, low wages, low taxation, promotion of rapid technological catch-up, etc. However, due to the fact that all the countries of the East Asia/Southeast Asia (EA/SEA) region, with the exception of China, are poor in natural resources, their economic development may also appear to be a unique

phenomenon. Therefore, the initiative to shift the focus from exclusively economic indicators and analysis to cultural characteristics has become a feature of current disputes on the East Asian development model. The conclusion of such discussions is that the rapid growth of Asian NICs also consists of a cultural component that is exclusively *Asian*. Confucianism is often mentioned as one of the possible factors.

Therefore, to attribute the extraordinary economic growth of the Asian NICs entirely to economic policy is a reductionist perspective. At the same time, ignoring the impact of economic growth on culture is equally reductionist. The fundamental source of conflict in this new world will not be primarily ideological, nor primarily economic. The great divisions among humankind and the dominating source of conflict will be cultural. The principal conflicts of global politics will occur between nations and groups of different civilizations. (CITAT Huntington)

The cultural approach to economics deals with the relationship between informal and formal institutions, as well as its cultural and cognitive perception. Insisting on the very cultural dimension of the economic phenomenon will certainly not upset the foundations of orthodox economic school of thought, nor will it establish a different approach within heterodox economics, but it may redirect attention to some other crucial factors of economic growth. The cultural approach tries to understand economic phenomena not only as a result of supply and demand, but also as a result of a human or cultural approach to evolution.

As So and Chiu point out, the cultural approach does not aim to reduce economic development to a series of cultural features or features of national character. The cultural thesis provides researchers a frame of reference within which they can perceive how values, attitudes, practices or behaviors influence economic development. In this way, it complements rather than challenges other interpretations of the economic development of the Asian NICs. Second, since the cultural component is important, because it affects people's behavior and attitudes towards saving, education, work ethic, etc., it should be given adequate importance (Shixue 1988, 30). Nevertheless, compared to economic factors, the cultural factor occupies a lower position than economic ones. Third, each culture has its own unique positive or negative components, but positive ones cannot automatically create better economic performance in the absence of other necessary conditions.

Although the connection between culture and economic development has captivated for a long time economists and sociologists, relatively few authors have thoroughly investigated their relationship. Only in recent years have economists begun to apply analytical frameworks and empirical instruments to the study of culture and economic outcomes.

Gao Xian raises the issue of macro-culture which includes not only culture in the narrow sense, but also the culture in the broadest sense. Therefore, macro-culture approach to development is a holistic exploration of the development process, material and moral, current and historical, partial and total. This approach primarily addresses the issue of an objective attitude towards tradition and relationship between traditional culture and modernization development (Xian 1996, 143).

Putnam's and Licht's work does not show that the effects of culture on institutions bring economic benefits. Tabellini's analysis suggests that *better* cultural values do bring greater economic benefits. Guiso, Sapienza, and Zingales indicate that cultural variables are as important as economic variables in understanding differences in national savings rates across countries.

Different cultural characteristics of countries form quite characteristic clusters - cultural systems - and moreover, as stated by Pryor, groups of nations with different cultural systems are almost exactly the same as groups of nations classified according to their economic systems (Pryor 2007, 817).

Culture, in the context of Asian economic development, has influenced economic development at the micro and macro levels. At the microeconomic level, culture served as the basis for the

Asian management model. At the macro level, Park and Shin point out that the *Asian way* was supported by a benevolent, paternalistic form of governance.

However, the valuation of the influence of culture changes according to economic trends. As Stiglitz points out, the Confucian legacy was first mentioned as an explanation for why these countries did not grow, and then as a reason for their success. Many authors try to challenge the Confucian hypothesis which advocates that Confucian ethics contributed to the rise of capitalism in the region. Jun makes several arguments. First, the concept of EA/SEA countries is too broad and vague to serve as an appropriate unit of analysis. Second, it is difficult to use cultural tradition as an autonomous and independent variable for a meaningful analysis of economic development. Third, the alleged positive correlation between Confucianism and the economic development of the countries of the EA/SEA region does not make sense expressed in the form of logical causality, as well as empirical data.

Culture, in history, is inseparable from religion. Even cultures that had no contact throughout history developed their own religions, their own beliefs. This proves that culture and religion permeate in all social systems.

Religion has a two-way interaction with political economy. If religion is viewed as a dependent variable, the central question is how economic development and political institutions affect religious participation and religious belief. If religion is viewed as an independent variable, the key question is how religiosity affects individual characteristics, such as work ethic, honesty and thrift, and thus economic performance.

The relationship between religion and international trade is a complex one. Economic theory does not give us clear answers in this context. On the one hand, most major world religions discourage the *short-term* pursuit of materialistic happiness in favor of various concepts of *eternal* spiritual happiness (Lewer and Berg 2007, 767). Lewer and Van den Berg argued that the sharing of Buddhist, Confucian, Hindu, Orthodox and Protestant cultures by people in different countries has a significant positive impact on bilateral trade, other things being equal, that the sharing of Catholic culture has a significant negative impact on bilateral trade, while the sharing of Islamic and Jewish cultures neither promotes nor discourages international exchange. And, if religion generally discourages commercial activity, it is also likely to discourage international trade in particular. On the other hand, religion often promotes honesty, diligence and the provision of public goods.

There are several studies on the relationship between religion and overall economic growth, but surprisingly few empirical analyzes of the relationship between religion and economic activity. Perhaps the explicit reflection of the absence of research on the economics of religion is the continued popularity of Weber's thesis, which lacks empirical support.

Since almost all countries in the region share the same Confucian values, one might think that the economic structure in the region is similar. However, this turned out to be false. Confucianism, as an amalgamation of religious and philosophical thought, is most closely associated with Chinese societies and so it is erroneous to equate it with *Asian values*. However, a number of analysts have broadened its influences throughout the region and linked it to economic vitality. Confucianism has no single accepted influence, but it advocates ethical properties to private and public relationships (Inoguchi and Newman 1997, 5). Even a generalized generic term such as *Asian values* could not explain the differences. Therefore, cultural values must be combined with appropriate economic policies in order to attain the country's full economic potential.

That is, although the socio-cultural components of the economic development of the Asian NICs are valuable, they are not sufficient, they are only part of the explanation of their extraordinary economic success.

Today, there is a consensus that, in general, Cold War circumstances strengthened the ties between world capitalism and Asia. Asian economies then became a significant part of world capitalism. National economies have become inseparable from the ups and downs of the world capitalist economy. Nevertheless, the population in less successful economies in the process of

industrialization has remained underemployed and agrarian. In this sense, Asia has formally become part of world capitalism, with capitalist relations gradually becoming the dominant social relations, especially in the EA/SEA region. The world production system later developed into a more inclusive triangular structure that included the industrial capital of the EA/SEA region, the financial capital and mass markets of the more economically developed countries (MEDCs), and workers from the Asian less economically developed countries (LEDCs). Sociological studies and cultural assessments are extremely difficult to present in purely economic terms. The whole field of research, generically characterized as economic culture, is still in its nascent stage despite Weber's research. Nevertheless, the transition from economic and political analysis to sociological research and cultural analysis represents a great advance in the development of economic science.

1. CULTURE AND RELIGION

Until recently, economists were hesitant about culture as a possible determinant of economic phenomena. Much of this indecisiveness stems from the very definition of culture: it is so broad and the channels through which it can enter economic discourse are so indeterminate that it is difficult to create a testable hypothesis. The definition of culture, which includes the *common beliefs and values that ethnic, religious and social groups transmit, quite unchanged, from generation to generation*, although not comprehensive, corresponds to the purpose of the research, because it focuses on those dimensions of culture that can influence economic results (Guiso, Sapienza and Zingales 2006, 23-4).

Culture is characterized by 3 features: 1) a comparative strength of the traditional family; 2) an unquestioned vitality of the social function of religion and 3) dynamic fusions of corporatism, bureaucracy and capitalism (Schmiegelow 1991, 3).

In the analysis of the relationship between culture and economic development, some authors emphasize external factors such as the long history of colonial domination and exploitation, unequal exchange and the absence of an equitable international economic order. However, it is also necessary to pay enough attention to internal factors. In fact, economic development is the result of both external and internal factors, and in many cases internal factors should always play a more significant or at least more decisive role. In the domain of internal factors that determine economic development, a factor such as culture is increasingly accentuated (Shixue 1988, 7).

Weber was undoubtedly among the first to study the relationship between culture and economic development. He stated that a series of values and attitudes associated with the Protestant ethic, such as hard work, frugality, honesty, rationality and modesty, became the basis of the economic achievements of the countries in which they dominated.

Myrdal believed that cultural factors not only hinder entrepreneurial activity, but make the entire national system rigid in all its political, economic and social dimensions.

Fukuyama defines culture as *inherited ethical habits*, which is a definition particularly interesting for the analysis of the influence of Confucianism on the economic development of Asian NICs.

Emphasizing the importance of cultural factors, Berger pointed out that *Eastern capitalism* is fundamentally different from *Western capitalism*.

However, as Pryor points out, although the individual cultural characteristics of certain nations are interesting, their connection to a certain type of economic system is rather indirect. Moreover, no cultural characteristic by itself defines the characteristic features of a particular economic system. He, on the other hand, believes that cultural determinism does not mean that the economic system has no influence on cultural systems (Pryor 2007, 845).

Causality probably works in both directions – from culture to economy and from economy to culture. Becker argues that we have less control over our culture than we do over social capital. One cannot change one's ethnicity, race or family history, and one can change one's

country or religion only with difficulty. Therefore, culture is to the greatest extent given during our lifetime.

Religion is an integral component of cultural values.

Sociological approaches to religion are still heavily influenced by 3 theorists: Durkheim, Marx and Weber.

Weber views religion on a global scale. He studied in detail Hinduism, Buddhism, Taoism (Daoism) and Judaism, extensively covered the influence of Christianity on the history of the West, while he didn't complete his studies on Islam. His analysis of the impact of Protestantism on the development of capitalism in Western countries is part of an attempt to explain the impact of religion on social and economic life in different cultures.

Analyzing Eastern religions, Weber concludes that they imposed insurmountable obstacles to the development of Western-type capitalism. Although he points out that in China and India there were periods of significant development of trade and production, this *de facto* did not lead to more radical changes like those in the West. Like Hinduism, according to Weber, Confucianism acted in the direction of diverting people from economic development, giving preference to harmony with the world over activities aimed at mastering it. Although China has long been a very powerful and culturally highly developed civilization, its dominant religious values acted as a brake on strong economic development.

Weber claims that capitalism arose as a result of the Protestant religion and its dogmas. The dogmas that led to the formation of the cult of work in capitalism are: 1) a rational attitude towards the deity - a believer receives divine favor only if he/she works, contributes and earns; and 2) saving - with it, the believer rationally combines resources and work, and achieves maximum profit, which he returns to production for its expansion (Weber 2015, 89). Thrift, according to Weber, is a capitalist virtue, and it is really difficult to determine a stronger connection between Christianity or any other religious ethics, and the inclination towards great work and savings. Instead, because of its negative attitude towards accumulation, religion is sometimes an obstacle to economic development.

Some authors claim that the influence of religion on the economy is positive because religious people and their companies are more inclined to behave morally, which leads to greater cooperation, increased social sensitivity and less corruption. In addition, some religions specifically encourage frugality, which has a beneficial effect on stimulating economic development. The thesis of some authors is that religion encourages people to have trust in each other, and this reduces costs during contracting and business operations in general, which should have positive consequences for the economy. However, business relationships based on trust can be ineffective.

Guiso, Sapienza, and Zingales point out that religion has an impact on economic outcomes.

Coleman, Uzzi, Podolny, Macy and Skvoretz believe that it depends on each religion and its peculiarities whether a shared religious culture creates network effects that increase international trade. Lewer and Van den Berg found that the more Buddhists, Confucians, Hindus, Orthodox, or Protestants share their religious culture with people from other countries, other things being equal, the greater the bilateral trade between those countries is. However, the more people share the religious culture of Catholicism, the lower bilateral trade is, *ceteris paribus*. Sharing an Islamic or Jewish culture neither significantly increases nor decreases the propensity to engage in international trade after other influences on international trade are taken into account (Lewer and Berg 2007, 782-3).

Some authors claim that in Asian NICs, Confucianism, which encourages hard work, savings and education, was an instrumental factor in economic development. High savings rates have somewhat enabled expansion without large external debts. The emphasis on education created a large amount of educated and skilled workers who were able to meet the needs of an industrializing economy (Naya and McCleary 1993, 126). Barro points out that cultural differences between countries such as South Korea, Taiwan and Indonesia (and even within countries such as Malaysia, Singapore and Indonesia), and striking changes in economic

performance invalidate the claim that the economic success of Asian NICs is dependent on a common, homogenous culture. However, it seems that this is too harsh a conclusion, especially if one takes into account the contribution of *overseas*, i.e. ethnic Chinese, to the economic development of a large number of Asian NIS and those that will become such. Although they live in countries that have different (especially official or at least majority) religions, Confucianism, albeit in somewhat different forms, is their common cultural determinant.

1.1 CULTURE AND ECONOMIC SYSTEMS

Cultural determinism implies that cultural values condition the methods of social and economic organization. Consequently, societies or regions that embrace a common cultural heritage develop systems of social relations that differ from the rest of the world.

Today, many authors accept that cultural factors explain economic achievement and social cohesion, and determine relationships between cultural groups.

Theoretical discussions and empirical researches have long confirmed the influence of culture on economic development. There are many examples of the successful development of certain countries with specific cultural values, while at the same time, in the same area and in the same period, there are countries whose cultural values create economic backwardness, as well as an unfavorable climate for economic growth and development.

Scholars have taken two rather antagonistic sides on this issue. Some authors, such as Balassa and Krugman, ridiculed cultural values and demanded a return to economic policy as a decisive factor of economic success. On the other hand, followers of Kahn suggest that Confucian values are the *contemporary Asian Protestant ethic*.

Classical economists used cultural explanations of economic phenomena. John Stuart Mill believed that cultural constraints are sometimes more important than all other factors for economic relations. Therefore, the cultural approach is not new.

Weber believed that religion had a decisive role in the development of capitalism and pointed out that it is precisely Protestantism, which does not condemn the desire to acquire wealth, but even considers it the duty of every individual. Since economic incentives are not enough to motivate entrepreneurs, incentives of another kind are needed.

Polanyi agrees with Weber that religion is important for the establishment of the market, but he also identifies culture and religion as factors in moderating the excesses of the market.

The cultural framework became especially popular at the dawn of the Cold War. There are 2 reasons. First, with the weakening of global ideological conflict and polarization, economic and political regionalism has become even more pronounced. Second, the ideological debate gave way to a cultural debate, which was linked to various economic and political conflicts.

The Chicago school, which is characterized by opposition to the views of Marxism and Keynesianism, as the cradle of neoclassical thinking, takes the position that people's beliefs, tastes and values are individual or socially rational choices and any conflict can be resolved through the price system. This approach includes a huge number of works dealing with many aspects of culture as an endogenous factor. That is, it is very difficult to find any space for the independent role of culture in it. In fact, the only possible role of culture is in the form of a coordinating instrument.

During this period, some of the non-traditional economists, such as Hirschman, continued to connect economic analysis with the cultural factor. Nevertheless, *non-economists* made the greatest contribution on the causal effect of culture on economic results. Banfield was the first to propose a cultural explanation of economic underdevelopment. He attributed the underdevelopment of Southern Italy to the narrow selfish interests of its inhabitants, which he described as *amoral familism*.

The end of the 90s and the beginning of the 2000s were marked by an explicit taking culture into account. Institutionalists, such as Landes, emphasize the driving forces of economic success and conclude that cultural factors such as thrift, hard work, persistence, honesty,

tolerance rather than xenophobia, religious intolerance, corruption and government decrees are responsible for the success of certain economies. Landes believes that the history of economic development indicates that culture is a significant factor influencing the economic system, and that Weber was right.

Culture also entered the economic debate through the concept of faith, which is studied by numerous authors (Banfield, Putnam, Fukuyama, Knack, Keefer, La Forta, Lopez de Silanes, Shleifer and Vishny). However, as a cultural variable, faith has a serious limitation. As Axelrod states, faith is not only an inherited cultural variable, because it can also be acquired as a result of the quality of the legal system or strategic interactions. Glaeser, Laibson and Sacerdote point out that faith can even be the result of an optimal investment in social capital. That is, culture can influence economic outcomes through mechanisms other than trust.

According to Guiso, Sapienza, and Zingales, there are two channels through which culture can influence economic outcomes: beliefs and preferences. People make many decisions in life where they lack experience. Such choices must be based on prior beliefs, which are in turn determined by culture. Unfortunately, there are not many papers that deal with prior beliefs from an economic perspective.

The question arises whether these correlations mean that there is a causality from culture to economic results or whether culture is determined by economic results. Guiso, Sapienza, and Zingales found that the idiosyncratic component of religion increases when two countries share the same religion and decreases when they have a long history of wars. The dependence of religion (and, therefore, prior beliefs) on cultural variables is less in the case of more educated people, since more educated individuals rely less on inherited culture when forming their beliefs (Guiso, Sapienza and Zingales 2006, 33).

Alesina and Glaeser proved that differences in the beliefs of individuals belonging to different cultural groups do not reflect objective differences in the events to which these beliefs refer, but only differences in perceptions.

Guiso, Sapienza and Zingales believe that culture, defined by religion and ethnicity, influences beliefs, and beliefs have an impact on economic outcomes. Arrow states that almost every commercial transaction has an element of faith in it. Empirical work by Knack, Keefer, and Zak shows that the level of community faith has direct consequences on economic performance.

The results of all their research support the hypothesis that cultural background plays an important role in economic choices.

In recent years, Barro, McCleary, Tabellini, Pryor, Guiso, Sapienza and Zingales have used certain cultural characteristics such as religion, belief in free choice, tolerance, obedience, social capital and corruption to analyze the factors of economic growth. However, a small number of authors have seriously investigated the reciprocal relations between the economic system and culture. Among the exceptions is Greif, who revealed how, at the end of the Middle Ages, different cultures of merchants from the Maghreb and Genoa created completely different economic institutions and, therefore, economic systems.

More complete research is prevented by the lack of reliable long-term data on changes in either cultural or economic systems.

Pryor believes that no cultural characteristic by itself defines the characteristic features of a particular economic system, and that the overall pattern of cultural characteristics rather than the cultural characteristics of individuals is the factor that underlies the matching between economic and cultural systems.

This author also analyzed the stability of cultural and economic systems. The analysis confirmed the stability of cultural systems, while there is no definitive confirmation for economic systems, although it is likely that they also show stability.

Pryor then examined the direction of causality between economic and cultural systems. There are three conflicting points of view in science: 1) one group of authors claims that the enormous influence of Western economic institutions on the culture of traditional societies, that is,

LEDCs, suggests that causality flows from the economic to the cultural system. There are several studies that emphasize the decisive influence of the economic system on the cultural system in MEDCs also; 2) the second group believes that in MEDCs the cultural system is exogenous and represents a decisive factor of the economic system; 3) the third stream of thought advocates that cultural characteristics and systems evolve together, which means that over time cultural and economic systems should change at the same rate. Without firm conclusions regarding the direction of causality, these analyzes suggest that causality flows from the cultural to the economic system.

Another open question relates to the mechanism through which the cultural system affects the economic system. In some cases, *the founder effect* is obvious; that is, institutions are established in accordance with the values of those who establish them. In other cases, the cultural characteristics of the society affect the results of the political struggle or if economic institutions are imposed on the population, the reactions of the population to these institutions determine their success or failure.

The grouping of countries found in the classifications of economic and cultural systems is similar. This is a clear and statistically significant conclusion.

In fact, it has been shown that almost all religions in the world produce certain positive effects on capitalist development. Certain factors that can produce the spirit of capitalism are found not only in Protestantism and Confucianism, but also in Catholicism, Judaism, and Islam. This indicates that a society's religious heritage is far from an independent factor when considering its effects on its economic destiny. *Culture is not destiny*, at least as far as the economic development of the country is concerned (Jun 1999, 195-6).

Second, as Jun states, the cultural approach is hostage to *the functionalist trap*. Furthermore, a cultural approach that places more emphasis on the domestic society usually tends to ignore external and international factors. The historical revolution of capitalism as a world system and the geopolitical arrangement of *nation-states* have not been, to a large extent, adequately taken into account by the cultural thesis. However, capitalism was much more than an internal and domestic issue from the very beginning. As Marx noted, capitalism has a cosmopolitan character (Jun 1999, 196).

The cultural approach combines certain characteristics of Asian capitalism with those of *late* capitalism. According to Gerschenkron and Hirschman's *Late Development* or *Late, Late Development Thesis*, state intervention was the main driving force behind the industrial revolution in Germany, Russia, Japan and many LDCs. Dore argues that the difference in the organization of factories in England and Japan owes more to *the timing* of industrialization than to the cultural heritage of the two countries. According to this theory, it is difficult to accurately determine the role of Confucianism in the political economy of the Asian NICs.

In history, there are quite a number of cultural shifts that have had a positive impact on economic development. Most authors will cite Protestantism, the Enlightenment, liberalism, pragmatism, and even the Meiji Reformation, while there is still controversy surrounding Confucianism. Some cultural changes have had a negative impact on the already achieved level of economic development. Entrepreneurship neither arise *naturally* nor *spontaneously*. Entrepreneurship is taught through education, information and research.

Some cultures create strong economies, profits and wealth, while others do not. Grondona believes that all primordial value systems and cultures were *anti-economic*, because their value system emphasized, for example, the salvation of the soul with the Egyptian pharaohs, art and philosophy in ancient Greece, legal and military organization in the Roman Empire, rule by traditional philosophy and literature in China, and the renunciation of the worldly and the striving for eternal salvation in medieval Europe (Šijaković 2006, 52).

Cultural heritage can contain elements that guide economic development. Changing cultural values, adoption of new ones and cohabitation of different ones often accelerate the economic development of a certain nation, ethnic or cultural group.

1.2 RELIGION AND ECONOMIC DEVELOPMENT

Religion has a two-way interaction with economic growth. If religion is viewed as a dependent variable, the central question is how economic development affects the participation of religion and religious belief. If religion is viewed as an independent variable, the key question is how religiosity affects individual traits, such as work ethic, honesty and thrift, and thus economic performance.

Relations between the religious and economic spheres are extremely close, but very complex. As de Coulanges points out, it is an interaction in which it is difficult to establish whether one side or the other dominates. Religion determines society, but society in turn shapes religion. According to time and circumstances, there is a constant and evolutionary interaction between these two spheres, i.e. circular causality. It can function as: 1) negative reciprocal action and 2) positive reciprocal action.

Economic theory does not give us clear answers about the relationship between religion and international trade. On the one hand, most major world religions discourage the short-term *pursuit of happiness* in favor of various concepts of eternal spiritual happiness (Lewer and Berg 2007, 767). Religion can stifle some of the incentives for people to engage in economic activities. If religion generally discourages commercial transactions, it is also likely to discourage international trade in particular. On the other hand, religion often promotes honesty, diligence, and the provision of public goods, which are *economically friendly* behaviors that help people trade more efficiently.

The relative strength of the positive and negative cultural influences of religion on economic activity in general and on international trade differ from religion to religion, as each has its own unique set of rules of conduct.

A specific way in which religion can influence international trade is through *network effects*. That is, network effects refer to the sharing of religious beliefs by members of the same religion living in different countries that can create a network of trust and kinship that facilitates complex international economic transactions (Lewer and Berg 2007, 767). Many have studied them (Coleman, Uzzi, Podolny, Macy, Skvoretz, Economides, Rauh, Casella, Gould, Head, Trindade, etc.). Rauch and Casella examined general network effects on economic activity. Gould, Head, Ries, Rauh, and Trindade described how *immigrant networks* and ethnic diasporas stimulate trade between countries. This is especially true of the *ethnic Chinese network*. Lewer and Van der Berg examined whether a shared religious culture enables the formation of a trade network that can overcome the lack or absence of other social or economic institutions needed to finalize complex international transactions.

Like the overall institutional effects of religion, *networks of followers* of the same religion have a theoretically unclear net effect on international trade flows. On the one hand, people who share a certain religious culture may be able to overcome certain barriers to international trade. On the other hand, *networks can divert trade (trade diversion)* from its most efficient channels and direct it towards *network* members with relatively lower collective gains (Lewer and Berg 2007, 768).

Despite early economists' interest in the influence of religion on economic activity, modern economists have done little research on this issue.

Iannaccone, Barro and McCleary handled with the economic analysis of religion. However, as Brooks argues, the role of religion in an increasingly integrated world economy is still not fully understood. McCleary and Barro focused on the macroeconomic aspects of the relationship between religion and political economy. Their empirical work relies on data from surveys aggregated at the country level, on religious beliefs in life after death, and on participation in formal religious services and personal prayers. In another direction, these authors evaluated the influence of religion on economic growth.

The theses of Troeltsch and Weber are at the basis of the study of the relationship between religion and society.

Troeltsch and Durkheim noted that in primitive or traditional societies there is such a close connection between religion and society that religion influences every form of human activity. Everything is religion and religion is the basis of social relations. Therefore, it is at the basis of potential economic development.

The theses that Troeltsch presented in 1913 are still relevant today. As for Christianity, Troeltsch points out that the real separation of religion from the economic and social world exists only within this religion.

Donnadieu focuses his analysis on the explanation of the economic development of the Asian NICs, which was never influenced by Christianity, except in certain countries (Philippines) or for a short period and in a marginal way. Morishima tried to transfer Weber's approach to the case of economic development in Japan. He believes that Confucianism was the driving force behind the success of his country, with the fact that Japanese specificity is absolutely a certain form of nationalist and militant Confucianism. Morishima claims that Confucianism *had* to be united in Japan with the local religion - Shintoism, which played a role in the reformation of Japan and the acceptance of technologies from the West. In his analysis, this author does not take into account the Buddhist heritage, which since the 6th century has given Japan astonishing achievements, but assigns it a secondary role.

However, Morishima does not explain why other Asian NICs, which also possess Confucian and Buddhist traditions, followed Japan.

Buddhism, due to its escapist character, was considered the religion that is least oriented towards the development of the economy. However, precisely because of Troeltsch's position, here lies the paradox that Buddhism did a lot for Asian society, because it had an antagonistic effect on the influence of Confucianism. Buddhism *de facto* balanced and dynamized the repeated reciprocal action in the religion-society liaison. It can be noted how many principles of Confucianism, such as altruistic behavior, the meaning of service, etc., are related to principles that were directly developed under the influence of Buddhism: separation from the ego, the cult of pure action, etc. All this was often observed in the analysis of Japanese companies. It is not uncommon for Japanese managers to explicitly refer to Buddhism as a rule of life when making professional decisions.

Japan's economic development has always rested on religious engines in two eras of development: *the first era*, which represents interest in the world and whose Confucianism is an effective support; *the second era*, which represents separation from the world and of which Buddhism is an obvious principle (Donnadieu 2005, 20). This explains why Japan is included among the Asian countries that share the Confucian-Buddhist tradition. There is no reason why this should not apply to other countries in the EA/SEA region as well.

Therefore, it should be underlined that the economic development of Western and Asian countries differs in the domain of religion in that: 1) in the West, Christianity, with its doctrine of incarnation, could become self-sufficient under the conditions of favorable circumstances; 2) while in Asia, in order to achieve the same result, the cohabitation of two religions was needed: Confucianism and Buddhism.

1.2.1 SECULARIZATION THEORY AND RELIGION MARKET THEORY

Generally, there are 2 theoretical approaches to the relationship between religion and economy. The first points out that religion depends on the development of the economic and social system, which means that economic variables, including state intervention, affect factors such as religious practice or beliefs. Another approach identifies religion as an independent variable that affects the economic and social sphere.

Theories about religion as a dependent variable are divided into demand-side models and supply-side models. In the analysis from the demand side, the *Secularization Theory* stands out, according to which economic development reduces the participation of individuals in formal religious services, reduces religious beliefs and lowers the influence of organized

religion (McCleary and Barro 2006, 49) on the state. This theory has its roots in the teaching about the use of money by the founder of Methodism, Wesley. A broader version of the theory of secularization was presented in Weber's work "The Protestant Ethic and the Spirit of Capitalism", and the idea was expanded by Berger and Wilson.

Modernization Theory studies the way in which economies of LDCs create institutional capacities in order to prevent poverty and rationalize the market. The theory of secularization is considered part of the theory of modernization.

The Theory of Religious Privatization and "Invisible" Religion was developed by Luckmann. It deals with the individual's responsibility for two important characteristics of the process of modernization of society, namely the development of functional specialization and pluralism.

Religion Market Theory, developed by Finke, Stark, Bainbridge and Innaccone, focuses on supply-side factors. They argue that state regulation and subsidies affect competition among *suppliers* of religion and thus affect the nature of the religious product. When the state imposes a state religion and limits entry, there must be a decline in the quality and variety of services. In response, people participate less in formal religion, although the consequences for religious beliefs may be negligible. In this way, as in today's UK, societies can show low attendance at formal religious services while still maintaining high religious beliefs.

There are surprisingly few empirical analyzes of the relationship between religion and economic activity.

Perhaps the clearest reflection of the scarcity of research on the economics of religion is the continued popularity of Weber's thesis despite the absence of empirical support. There are several studies on the relationship between religion and economic growth: Barro and McCleary, Brier and Stewart, studies on the effects of Islam by Ensminger, Kuran and Ragab, and a study on the effects of Hinduism by Uppal. Paldam and La Porta tested the role of individual religions in relation to the level of corruption in the country. Lewer and Van der Berg examined whether a shared religious culture enables the formation of a trade network that can overcome the lack or absence of other social or economic institutions needed to finalize complex international transactions. Lewer and Van der Berg dealt with the effects of religion on international economic activity such as trade. There is little empirical research on the role of networks in international trade today. The most significant studies are those that study cases from the distant past, by Greif and Ensminger. *Network* participants can limit the growth of trade over time by preventing the entry of new participants and *de facto* monopolizing trade. The negative effects of *networks* on international trade were addressed by Mokyr, Holmes and Schmitz, and Parente and Prescott.

Lewer and Van der Berg, in order to test the hypothesis of positive effects of *networks* on trade, used data on the volume of bilateral trade for 84 countries during 1998 and the gravity model. They introduced 8 variables that quantify the participation of beliefs, rituals and religious rules of the 8 major world religions by pairs of countries. The data on the position of religions in each country is obtained from the *CIA Factbook* and is far from perfect. For example, the term *orthodox Catholicism* refers to the Orthodox Church. Also, in the case of Protestantism, the CIA groups together a very diverse array of religious organizations, traditions, and cultures. Perhaps the greatest weakness of the CIA data is that it does not measure the intensity of the cultural influence of religion. However, as Barro and McCleary also concluded, there is no realistic alternative.

Nearly 80% of the variation in bilateral trade is explained, all variables are significant at the 95% level. The results should be used with caution due to the quality of the data on religious beliefs. Polls about people's religious beliefs do not necessarily reflect people's true religious beliefs.

The regression results show that, other things being equal, the more people from a pair of countries share a Buddhist, Confucian, Hindu, Orthodox or Protestant culture, the greater the volume of trade between such two countries is. Only Catholicism has a negative *network* effect. The shared culture of Judaism or Islam does not generate any *network* effect (Lewer and

Berg 2007, 779). That is, Judaism also has a significantly positive effect on trade when the equation is estimated using the nonlinear estimation method, but when the SOLS method was used, the conclusion was that Judaism does not generate a significant positive effect. Islam does not have a statistically significant network effect on international trade regardless of the estimation method used or the religious *network* variable. Of the 8 major world religions tested, Catholicism is the only religion that consistently creates a negative *network* effect.

The results of Lewer and Van der Berg suggest that religious network effects, that is, the sharing of religious culture, can improve trade flows even in the contemporary world economy where international institutions are well developed. That is, the effects of the religious network on trade are not just a historical peculiarity from the pre-capitalist period, as Greif and Ensminger believe.

Iannaccone believed that there is a possibility that there is no significant relationship between religion and economic activity. On the other hand, Barro and McCleary, Grier and Stewart, Stulz and Williamson, Bloom and Dudley, Paldam and La Porta, Guiso, etc., claim that religion influences economic behavior. The empirical results of Lewer and Van der Berg also strongly support the view that religion influences people's economic behavior. They found that, other things being equal, the sharing of religious culture often, but certainly not always, creates positive network effects that can help increase international trade (Lewer and Berg 2007, 781). Regarding the influence of religion on economic growth, Barro based his analysis on the theses of Weber on Protestantism and the work ethic. In a general sense, if religion affects work enthusiasm and productivity, it represents a very important factor in economic development. Barro points out that religion has an impact on the economy through the behavior of individuals, but they are equally subject to the influence of religious beliefs and values.

McCleary and Barro analyzed how different degrees of religiosity and different religions affect economic growth, and other economic and political variables. According to these authors, religion has a special influence on economic results because religious beliefs influence the character traits of an individual, which are of decisive importance for success in economic activities. McCleary and Barro draw two conflicting assessments: 1) if Weber were to conduct an analysis today, he would conduct empirical research by country, identical to the analysis of these two authors; 2) Weber believed that religion is important for economic development only in the initial phase of capitalism, so that in the later stages religious stimulation of individual productivity would be replaced by secular institutions. Therefore, Weber would not expect significant economic consequences of religion even in the 20th century.

Barro tried to analyze in a more refined way what is meant by economic development. GDP p/c has been replaced by variables that also reflect the process of economic development, such as education level, urban population, health level and life expectancy, etc. However, if *more precise* variables of economic development are included, it is more difficult to determine the direction of the relationship between economic development and religion. He believes that religious beliefs have the most important potential influence on economic performance. If religious beliefs are a constant, as well as character traits such as honesty and work ethic, then greater religious practice is carried out through increased wealth consumption, which most likely means that there is a negative relationship with economic growth (Barro 2005, 7). That is, if religious beliefs are constant, then greater input of time and wealth will have a negative impact on economic growth.

Barro explains why the causal relationship runs from religion to economic growth, and not the other way around. The obtained results of empirical research confirm the greater influence of religious practice or beliefs on economic growth than *vice versa*. The connection between religion and economic performance is not simple, but the causal relationship does exist. It is

significant to underline that Barro and McCleary point out that the capitalist spirit and work ethic are not inherent only to Protestantism, giving the example of Asian countries. In 2004, Asian workers had the highest average hours worked in the world¹.

1.2.2 WEBER'S THESIS - PROTESTANT ENTREPRENEURSHIP

Weber's analysis regards religion as an independent variable that can influence economic results by encouraging traits such as work ethic, honesty, frugality, charity, etc. With the strengthening of such traits, the deeper religious beliefs of an individual engaged in economic activity can stimulate economic growth.

Wesley's views are similar. He advises members of his religious community *to acquire all they can, save all they can, and give all they can*. The first two principles, which can be subsumed under Weber's work ethic and frugality, are important for stimulating economic activities.

Weber was the first to point out the direct connection between Protestant religious beliefs and the emergence of capitalism. Protestantism brought new cultural values, which relate to the desire to acquire material wealth, changing work ethics, supporting individual initiative, etc. Focusing on the acquisition of money was the basic driving force of entrepreneurship that contributed to the development of *the spirit of capitalism*. The spirit of capitalism clashed with pre-capitalist values that were formed on the basis of medieval Catholic religious ethics (low level of need for greater volume of work, acquisition of wealth, etc.).

As Weber points out, work is the essence that validates each individual. Lutheran, Calvinist, and even Mormon theoreticians (Baxter, Zinsendorf) believe that *those who do not work should not even eat*, while medieval theology allows the possibility of a person not working if he can live from his possessions or *the service of God*. This understanding of work indicates that the economy could not develop at a faster pace. Only by understanding work as a God-pleasing activity, space was created for the emergence of industrial production. In Calvinism, *God helps those who help themselves*. Man earns his salvation by work.

Work without rest was considered the most obvious proof of authentic faith. However, what enables the accumulation of capital in Protestantism does not work *per se*, but asceticism, in the sense of rationalization and restraint of consumption. Asceticism then gave way to utilitarianism. Over time, the new values made it possible for the values of Protestantism to become inherent in the spirit of capitalism.

Protestantism required a break with traditional cultural values, which were based on the dominance of irrational, invisible forces, fate, given and unchanging circumstances in the life of an individual. In medieval Christianity, the individual is chosen or rejected, nothing depends on him. Capitalism and industrial development have formed completely new cultural values. Grondona gave an excellent definition of the difference between the views of Catholicism and Protestantism on economic life: *the symbol of the Catholic vision is the monk, while the symbol of the Protestant vision is the entrepreneur*.

Such a change in values brought about by Protestantism favored the emergence of a new economic system. It can be said that Protestantism was the catalyst for the accelerated emergence and development of capitalism, but at the same time capitalism also made some values of Protestantism possible and accessible through its development. Protestantism and capitalism in their initial phase conditioned each other (Šijaković 2006, 54).

¹ The economies occupying the first 6 places were Asian: Thailand with 2228 hours, Malaysia with 2246, Hong Kong with 2287, Sri Lanka with 2288, Bangladesh with 2,301 and South Korea with 2450. In European countries, there were not so much working hours in the 1950s, and not even from the 20s to the 50s of the 20th century. In 2017, the average number of working hours per worker in the world shows that 14 Asian countries were among the first 20 countries: 1) Cambodia with 2455 hours; 2) Myanmar – 2438, 4) Malaysia - 2238, 5) Singapore - 2238, 6) Bangladesh - 2232, 9) Hong Kong - 2186, 10) Thailand - 2185, 11) China - 2174, 12) Vietnam - 2170, 13) Philippines - 2148, 14) India - 2117, 15) Pakistan - 2096, 16) South Korea - 2063, 19) Indonesia - 2024. Among the first 20 countries, one is African, two Latin American and three European: 3) Mexico - 2255, 7) Costa Rica - 2212, 8) South Africa - 2209, 17) Malta - 2040, 18) Poland - 2028, 20) Greece - 2016.

The industrial revolution and the emergence of capitalism required *the liberation* of man from medieval ideology. The Protestant ethic represented a cultural base on which *the capitalist spirit* could develop. It was not until the Protestant Reformation that first created economic development in Northern Europe and North America. Until the Reformation, Europe was led by France, Spain (in alliance with Catholic Austria), northern Italy and the Vatican. The Protestant Cultural Revolution changed everything, so that *the second-rate* nations of the time – the Netherlands, Switzerland, Great Britain, the Scandinavian countries, Prussia and the former British colonies in North America – took the lead. In addition, non-Protestant nations had to face the reality that if they failed in terms of economic development, they would fall under the domination of Protestant countries (Šijaković 2006, 54).

Starting from the fact that the most developed regions in Germany are precisely those regions dominated by the Protestant faith, Weber tried to explain what connects *the Protestant ethic* and *the capitalist spirit*. However, only 5 European countries are (or were) traditionally dominated by Protestantism (Denmark, Estonia, Finland, Sweden, UK).

In his thesis, Weber outlined the differences between different forms of Protestantism. German Protestants were almost never Calvinists. In the US, on the contrary, there is a wide range of evangelical sects of the Catholic Church. Lutheranism and Calvinism are very close to Protestantism. Lutheranism introduced a new term - *Beruf*, which denotes professional activity, but also addressing God. Every individual has a duty to work without interruption, and that for the glory of God. Work is proof of acceptance of the fate assigned by God and represents a moral duty. Weber believes that Calvinism, of all forms of Protestantism, is the most directly related to the capitalist spirit.

Weber also presents the limitations of his thesis. He states that in the Netherlands and England, although they are Protestant countries, capitalism did not develop with the encouragement of Protestantism. Moreover, the beginnings of capitalism go back to Jewish communities and/or Catholic Italy of the 13th century when banks and insurance companies were founded, a double bookkeeping system was introduced, etc.

Many authors have analyzed whether Weber's thesis can be validated by the existence of a connection between religious beliefs and economic behavior. Ferguson affirms and believes that Weber's theses are still relevant in this sense.

However, numerous authors question Weber's views. Most authors consider that Weber's theses have lost credibility.

His opponents argued that he did not correctly present the causal relationship, that he misinterpreted Protestant doctrine, and that he ignored the enterprising spirit of Catholics and Jews. However, observing the gap in performance observed by American and European authors, it can be seen that such results justify Weber's hypothesis in an unexpected way (Ferguson 2005, 11).

Further, his thesis is based on the idea that Protestant ethics, by supporting savings and capital accumulation, favored the appearance of the capitalist spirit. However, the results of the US economy during the period 1994-2004 did not support this thesis. If the citizens of this country have become more zealous Protestants, this has not manifested itself through the growth of thrift. During this period, the American economy experienced growth fueled not by savings but by loans, meaning that it was based on consumption rather than renouncement. Admittedly, Weber foresaw this development more than a century ago. He believed that asceticism with the imprint of the capitalist spirit was doomed to disappear over time (Weber 2008, 141).

Ferguson considers Weber's theses to be cleverly formulated, but factually incorrect. Jun believes that efforts to refute Weber's theory of capitalist development are baseless. Weber advocates that capitalism was not created by economic forces but by the influence of religious ideas, with the Protestant ethic having only partial merit. According to Jun, he never intended to suggest that the Protestant ethic was the exclusive and most important cause of the emergence of capitalism.

Weber's later investigations of the value system in India and China proved the uniqueness of capitalism in the cultural hinterland of Europe. Weber is always credited with characterizing Confucian values as those that represent a barrier to the rise of capitalism. However, what is less well known is that Weber simultaneously suggested that China could readily adopt capitalism. This is not a contradiction if cultural values are viewed from a historical perspective.

Khan was perhaps the first Western scholar to point out that, under existing conditions, Confucian culture was much more suited to industrialization in the West. He believed that transformation into capitalism was possible only within the framework of religious circumstances in Europe at that time. However, Weber also pointed out that he was only concerned with one side of the chain of causation. This author believed that modern capitalism appeared in Western Europe rather than in the other two great civilizations because of *the selective affinity between the Protestant ethic and the spirit of capitalism*. Weber did not mean to say that there are general laws in history, but that since the emergence of capitalism in Europe happened only once, it could simply be a historical precedent. This makes it all the more difficult to either confirm or dispute the relationship between a particular type of religion and a particular form of economic system. (Jun 1999, 195). Therefore, as Hamilton notes, what makes East Asia *East Asia* cannot be learned from Weber's theory of Europe.

1.2.3 CONFUCIANISM AND CONFUCIANS ETHICS AS A POLICY OF ECONOMIC DEVELOPMENT

Countries characterized by Confucian cultural tradition are the countries of the EA/SEA region (today they are countries belonging to MEDCs (Japan) or EA NICs (South Korea, Taiwan, Hong Kong, Singapore) or SEA NICs (Thailand, Malaysia, Indonesia, Philippines, Vietnam) or those with the highest rates of economic growth in recent decades (China). Confucianism as a cultural tradition exhibited (like hardly any other culture) a huge contradiction. On the one hand, Confucianism created and maintained a specific feudal system, which was maintained in China for more than two millennia through numerous dynasties, appeared in Korea in the 12th century, and gained particular importance in Japan during the Tokugawa period. At that time, Confucianism rested on its classical principles and successfully rejected all attempts of economic, political and social transformation and modernization (Šijaković 2006, 56).

Among the authors, first the view that Confucian culture is a limiting factor to the economic development of the EA/SEA region dominated. But, starting from the end of the 19th century in Japan, and especially after the Second World War in other countries of the region and today in China, Confucian ethics was considered the main driver of economic development. This *de facto* confirms the thesis that the same cultural values can deliver different economic results in different periods or even in the same period, in completely different circumstances, can have different effects.

In that way, certain traditional values represent *universal values*. De Bary points out that Confucianism formed several universal *Asian values* that could be compared to the *Western values* produced by Protestantism and other doctrines.

Confucianism originated in China, but its influence spread throughout the EA/SEA region, becoming *Japanese Confucianism*, *Korean Confucianism*, or even *Vietnamese Confucianism*. Despite this, the nature of Confucianism is almost the same in all countries. Confucianism is named after Confucius (Kung Fu Tse), a philosopher who lived in Eastern China between 551 and 479 BC. His ideas were elaborated by his followers, most prominently Mencius, in the centuries following his death, and then they systematized in the works of Zhu Xi in the 11th century. It was then that Confucius' ideas acquired the spirit with which they are most associated today. The rise of Confucius himself began when emperor Gaozu of the Han Dynasty allowed sacrifices to be made at Confucius' tomb in 195 BC.

Hongyi lists the following components of Confucian *economic* thinking: 1) economic activities should rely on comprehensive harmony, matching natural laws, supremacy of man, and avoiding extremes; 2) economic relations should be built on efforts to reduce selfishness and inequality; 3) economic behavior should emphasize the use of benign ways to acquire wealth, frugal living, keeping promises in business contacts and hard work; 4) the economic policy of the state should emphasize making people rich, creating a relaxed tax system, developing the agricultural sector and reducing poverty; 5) economic management should emphasize central administrative power and effective leadership, and 6) economic life should be integrated with economic morality (Shixue 1988, 14).

For Lee, Confucian values and traditions include a focus on hard work, frugality, discipline, and education. It is interesting that Weber found precisely these qualities in the Protestant ethic, which played a decisive role in the development of capitalism in Western countries.

Shixue identifies three Confucian principles that encourage economic development: 1) encouraging savings, which in turn contributes to investment growth; 2) encouraging education, which contributes to the development of human resources and 3) prioritizing work ethics.

Rose believes that the Confucian work ethic is characterized by: 1) the individual's pursuit of success; 2) willingness to delay immediate gratification (*delayed reward*); 3) obligation to perform the work diligently, no matter how low-grade it is; 4) devoted fulfillment of the employer's orders and 5) work as a source of meaning in life and a sense of personal worth.

Tu points out that there are many Confucian values that promote economic development: 1) belief in the perfection of human character; 2) the importance of self-improvement; 3) desirability of hard work; 4) sense of duty; 5) the central position of the family in social harmony; 6) primacy of education; 7) the need for state leadership; 8) animosity to self-centeredness and 9) disapproval of civil disputes.

Lee Kuan Yew pointed out that respect for authority is a characteristic value of Confucian culture and explains the unique pattern of development in the EA/SEA region.

Botton Beja explains in detail the thesis about the influence of Confucian values on economic development: 1) by emphasizing collectivism and familism, Confucianism supports the cult of the state and a hierarchical structure that goes from top to bottom - the state, the family, and finally the individual; 2) by emphasizing authority, the central government gains importance due to its protective and guiding role; and 3) emphasizing education and ethics, in which there is no class division (Tzili Apango 2012, 4).

Therefore, some authors see Confucianism (Confucian devotion to authority) as one of the factors that explains the role of the state in the economic success of the EA/SEA region. *The austere Confucian state* was the main actor of resource mobilization at the beginning of economic development. *The developmental* or *entrepreneurial state* was of crucial importance for the economic development of Japan and EA NICs, and then also SEA NICs and other countries in the region.

Tu Wei-Ming considered the family as a *microcosm of the state*, and the state as *the extended family*. The central place of the family, as one of the most important values of Confucianism, contributed to the faster development of family firms in many Confucian societies: Southern China, Singapore, Malaysia, Indonesia, Hong Kong, Taiwan, Thailand, Vietnam and other countries. A *bamboo network* was created between ethnic Chinese in the countries of the region and Mainland Chinese. In South Korea, companies were also based on family ties. Fukuyama notes that family relations in South Korea are even closer than in China.

However, the state, in its desire to imitate the Japanese model, encouraged the development and transformation of small family businesses into large companies. In the Confucian tradition of Japan, the role of the family and the ties within the family are weaker than in the Chinese and Korean traditions. In the Japanese transformation of Confucian values, loyalty has taken center stage. This tradition primarily stems from the moral code of *bushido*. Loyalty to collective entities takes priority over loyalty to the family. In modern entrepreneurial, business

and economic relations in Japan, the principle of loyalty is reflected in the loyalty of the manager to his company, the employee to the workplace and the work group, all employees to a high work ethic, the essence of which is the pursuit of perfectionism, as well as the loyalty of all citizens to the nation and the state (Šijaković 2006, 60).

Reischauer insisted that the analysis of the economic success of the EA/SEA region should include culture, and especially Confucian values. He pointed out that the basic ethical concepts and value systems of China, Japan, the South Korea and Vietnam are surprisingly uniform, because in all countries there is a strong emphasis on family, solidarity, piety, hard work, thrift and education, subordination of the individual to the group and harmony within a group, etc. as opposed to religious or purely cultural integration (Reischauer 1974, 346). The Japanese added to these values stoicism and loyalty to the master, which has its roots in the feudal tradition. In this way, the EA/SEA region was and remains a cultural peculiarity, just like the areas of Western Europe or the USA.

The question of whether Confucian ethics contributed to the economic rise of Japan, Asian NICs and China has attracted significant attention of the academic community since the 1960s. At first, the economic development of Japan was a trigger for reconsidering Weber's theory of capitalism. Bellah, Eisenstadt, Morishima and others claimed that the so-called *mundane* or *vulgar Confucianism*, *the Tokugawa religion* or *the Japanese ethos* was the functional equivalent of the Protestant ethic in the West. However, Japan was not the only case that challenged Weber's theory.

In the late 1970s, Kahn identified the Confucian ethic as the functional equivalent of the Protestant ethic and as the cultural basis of the rise of *industrial East Asia*. His analysis of the role of culture in economic development was based more on subjective feeling than on empirical data.

At the same time, American authors focused on the new Chinese strategy of *reform and opening* (*gaige kaifang*), whose historical genealogy stems from the trading practices of China in the 16th century.

In the 1980s, Confucian values were a collective guide in economic practice in Taiwan, Singapore and South Korea. When the economic success of the Asian NICs became *miracle*, analyzes of the importance of Confucianism as a success factor experienced a boom.

MacFarquhar suggested that there is a connection between ideological/religious doctrine, i.e. Confucianism, and economic activity, i.e. capitalism. This thesis about Confucianism as a positive factor in economic development represented a huge change in relation to earlier views about the negative influence of Confucian teachings on modernization and, in general, about religion as an obstacle to the development of capitalism. In 1990, he pointed out that the dominance of the West is more threatened by the East Asian *heirs* of Confucianism than by Russia or the Arab countries.

MacFarquhar supported Kahn's hypothesis that because of the strength of *Neo-Confucian cultures*, Japan, South Korea, Taiwan, Hong Kong, Singapore, and ethnic Chinese minorities in Malaysia and Thailand were much more skillful to industrialization than Western countries. Accordingly, Confucian ethics have led to higher growth rates in all neo-Confucian societies than in other cultures.

At the beginning of the 1990s, *the Asian development model* was identified by the academic community. At the same time, *historical Confucianism* became the main factor of economic development in China. In the 1990s, Chinese newspapers published articles praising businessmen as *Confucian entrepreneurs* (*rushang*). In October 1994, an international conference was held in Beijing that inaugurated a new organization - the International Confucian Society.

Only in the mid-1990s, when the economic success of Japan and EA NICs, and then SEA NICs and China threatened the supremacy of the West, this region became the focus of research by authors in MEDCs. Tu points out that a great effort has been made to prove that the whole concept of the EA/SEA region as *industrial* is inadvisable, that Japan's economic success is an

anomaly and that the rise of these countries has little to do with their cultural orientation. Nevertheless, the fact that the *economic miracle* of Japan, the Asian NICs and China has progressed from a purely economic and political analysis to an analysis that includes sociological studies and cultural assessment is a success.

Today, it is generally accepted that, despite the diversity in size, population, ethical culture, colonial experience, degree of *westernization*, political system, social structure and stage of economic development in the countries of the region, these countries share a common cultural heritage, a significant part of which is represented by Confucian ethics.

However, the EA/SEA region is not culturally homogeneous. Taoism, Buddhism, Hinduism, Islam and Christianity have many followers. However, the Confucian cultural tradition is shared by almost all countries of the region. Therefore, when talking about East Asian culture, one generally means Confucianism.

Tu states that the questionable assumption is that Confucian values were present in the countries of the EA/SEA region as a constant. Since the human beings who shape values respond to changing circumstances, values themselves undergo a transformation that is sometimes intentional and often unintentional. The common critical self-awareness of the East Asian intelligentsia experienced major metamorphoses after the influence of the West in the middle of the 19th century. The self-rejection of Chinese, Japanese, and Korean intellectuals in order to absorb a series of shocks created by Western *insults* reshaped Confucian values, including an idolatrous rejection of the entire tradition (Tu 1989, 91-2). After the Opium War of 1839, the desire to imitate and accept the Western way of life has created many changes in Confucian values, so that the current ones are very different from the former ones. Tu emphasizes that today's Confucian values in the countries of the region are only partly encouraging somewhat because they have internationalized and even domesticated a large part of *Western values*.

Many of the Confucian values that have been identified as guiding or helping the economic development of countries in the EA/SEA region were seen before World War II as harmful or incompatible with their modernization. At the beginning of the 1990s, these same values were seen as a force that enabled the countries of the EA region to outpace their competitors from the West. Tu is sure that the opening of Japan and EA NICs to the outside world and their subsequent subjection to the rigorous competitive pressure of the world market economy undoubtedly contributed to their economic dynamism. It is also understandable that in the current economic culture, group-oriented new capitalism is more competitive than individual-oriented classical capitalism. Consequently, the Confucian values that inhibited the economic development of the EA/SEA in the early stages became effective in the later stages (Tu 1989, 91).

Zurndorfer tried to discover the cultural connections that associate Confucianism with capitalism. She separates historical from *contemporary Confucianism*. *Historical Confucianism* is a collection of political ideals within a hierarchy of moral obligations to family and community. The modern version of Confucianism resembles the original doctrine, but is not a faithful replica of it. Revisionists link specific concepts of historical Confucianism to economic behavior, such as trustworthiness (*xin*), honesty (*cheng*), humanity (*ren*) or loyalty (*zhong*). These authors attribute the label *Confucian* to a whole range of primarily cultural values on the basis that these traits have certain *Chinese* characteristics, for example pragmatism, harmony, respect for the family, acceptance of hierarchy in social structures, concern for personal shame, etc. Historical Confucianism thus became the main factor in the economic development of the countries of the region. Some authors have called the replica of historical *Confucianism capitalist* or *Confucian capitalism*. It represents a fusion of Confucianism and liberal market policy. However, it is paradoxical that the same qualities, such as loyalty to the family, inspired economists in the past to view Confucianism as an obstacle to the modernization of these economies and the process of institutionalizing capitalism, and then as an incentive to them.

The Thesis of the Confucian capitalism is based on the culture-centered modernization view. According to orthodox authors, traditional values are a great obstacle to modernization. Marxism and *Dependency Theory* also have a generally negative stance about them. However, as So points out, new studies on modernization insist that traditional values can sometimes be helpful in promoting it. A typical example of such perspectives is so-called Confucian capitalism.

On the other hand, the Theory of Confucian capitalism opposes Weber's theses. Weber denies the possibility of the existence of *self-made* Asian capitalism. Jun argues that the fundamental problem lies in the very cultural approach that distorts Weber's theses, and that there is no positive relationship between Confucian capitalism and capitalist transformation in the EA/SEA region. This author believes that most authors fail to demonstrate the contribution of Confucianism to East Asian capitalism *in a logical manner*.

Cho H-I explains that although capitalism originated in Western Europe, its growth in the EA/SEA region implies certain cultural similarities between Christianity and Confucianism. Emphasis on a strong state, education, savings, hard work, work discipline and teamwork, social harmony, etc. really contributed to the development of capitalism in the countries of the EA/SEA region. Since savings ranks high in Confucian values, and in order to support the Confucian thesis, many authors use the fact that even with an average gross savings rate of about 33% in the period 1980-1986, the savings/investment ratio was directed towards investments. However, savings does not explain everything. The same values, the same devotion to savings, rank highly in the Protestant ethic. That is, capitalism is a pluralistic thing in the sense of religion. The question of why other capitalist countries performed worse than the countries of the EA/SEA region remains unsettled. Healthy capitalism may therefore be a necessary condition for high economic performance, but not a sufficient one.

1.2.3.1 CONFUCIANISM VS. MODERNIZATION

Reischauer, Kahn and MacFarquhar, connecting Confucian ethics with the economic productivity of the countries of the EA region, challenged the generally accepted Weber's thesis that Confucianism prevented the development of capitalism in these countries. However, the attempt to interpret the Confucian ethic as a functional equivalent of the Protestant ethic is laden with serious ambivalence. The analysis of each country is culturally and historically specific.

Tu concludes that Weber may have underrated the creativity of Confucian ethics. Metzger successfully refuted Weber's claim that the typical follower of Confucianism understands adaptation to the world through his own way of life; that is, that the motivating force of Protestantism, shaping the external world in a thoughtful way, is absent in Confucianism. However, there is some truth in the interpretation of the function of Confucian ethics in the countries of the EA/SEA region in relation to the function of Protestant ethics in the West. Namely, the development of *classical* capitalism in the Protestant West is the only reference in which the development of *modern* capitalism in the Confucian EA/SEA region can be understood. Berger's thesis that *modernization in the West suggests a reciprocal relationship with individualism* deserves special attention: the process of modernization greatly emphasizes individualism and successfully exports individualism to other parts of the world. Not surprisingly, various theorists of modernization have assumed that individualism (or, as Parsons called it, *ego-orientation*) is inevitable and intrinsically linked to modernity (Berger 1985, 6).

Individualism underlies Weber's conception of the Protestant ethic. The Protestant is focused only on self-interest and profit maximization. One can accept Berger's argument that *Western individualism* enabled the creation of a whole series of significant elements of modernization. Tu believes that this explains it somewhat why Weber did not see the transformative potential in Confucianism: an ethic that perceives the individual as the center

of relationships, advocates social harmony and requires joint participation, as *self-adjustment to the world*.

In contrast, the *East Asian model of modernization* is based on the assumption that the economic success of the countries of the region was not associated with individualism. Furthermore, Berger presumed that the key variable in explaining the economic performance of these countries is Confucian ethics or post-Confucian ethics. He emphasizes that moral values in that period became much more diluted and quite distant from the Confucian tradition. At the basis of his thinking is the belief that *collectivism (communalism)* rather than *individualism* is the hallmark of the modernization of the EA/SEA region. If this is true, the question of which name (*bourgeois Confucianism, vulgar Confucianism, or folk Confucianism*) best describes this kind of ethics becomes less important.

The analyst's assumption about the incompatibility of Confucianism with modernization is based on the connection of Confucianism with *collectivism* and *group orientation*. Because Confucianism is *feudalistic*, it is incompatible with both the capitalist and socialist phases of modernization.

Tu stands with the generally accepted opinion that the Confucian ethic, which focuses on traditional communities instead of creative individuals, was the main reason for the *backwardness* of the EA/SEA region. In particular, the Confucian concern for family cohesion and state leadership has been labeled as *traditionalist* and opposed to change. Tu, in order to expand Berger's research on individualism as the basis of the development of Western countries, took into account a whole series of other factors, such as the growth of state bureaucracy, the emergence of universities and the development of civil society. Also, need to disaggregate the complex experience of the modernized West in accordance with the specific conditions of its main creators: Great Britain, France, the USA and many other countries. The sharp contrast between Confucian humanism and Western modernization consequently becomes blurred in some cases. Obvious examples are the role of tradition in Great Britain, the bulkiness of bureaucracy in France, the centrality of national identity in Germany, and the concern for public morality in the USA (Tu 1989, 87-8).

Nevertheless, there were authors, even in the period when the theory of modernization was a dogma in the USA from the end of the 1950s to the beginning of the 1970s, who advocated the positive influence of Confucian humanism on the industrial development of the region. Maruyama's work helped shape contemporary Japanese studies of Confucianism, while Lee contributed to the understanding of Confucian ethics in South Korea.

However, since the modernization model, which is entirely conditioned by the unique development experience of the West, tends to undermine the isomorphic characteristics that these societies share as their Confucian heritage, it was difficult to defend the hypothesis of the importance of Confucian values for EA modernization.

At the end of the 1980s, many authors saw the limitations of the definition of modernization in terms of the *exceptionalism* of the West. Tu states that the industrial boom of the modern West is indisputable, but that its cultural uniqueness makes it largely *non-exportable*, that is, unacceptable in other parts of the world.

CONCLUSION

Protestantism, which emphasizes the role of the individual, and Confucianism, which emphasizes the role of the collective, are two important examples of cultural values that, in the same or different conditions and periods, produced similar or different economic, social and political results.

At the beginning of the 20th century, in his work "Religion of China, Confucianism and Taoism", Weber presented the thesis that religion will not help China to develop and modernize. However, almost 100 years later, China's development has proved him wrong.

Authors have perceived Confucianism differently in different historical periods. Sometimes as an obstacle, sometimes as a stimulus to the development of capitalism in China. The proponents of the theory of modernization accepted the thesis of Confucianism as an *obstacle*. During the 1950s and early 1960s, China's economic backwardness was attributed to a feudal society that could only create the so-called *germs of capitalism*. Western authors at that time associated Confucianism with *inertia*. The Chinese economy in the early 19th century was in a period of *traditional equilibrium* at which time minor growth,... and technological change may be achieved, but not ...sufficient to break the rigid and inhibiting bonds of the traditional framework of social and economic institutions (Fairbank, Eckstein and Yang 1960, 1) associated with Confucianism. In this way, Fairbank considered the absence of social and economic dynamism as a *cultural problem*.

In contrast, the point of view on Confucianism as a *stimulus* was favored at the end of the 20th century by authors who wanted to determine the factors of economic success of the region's economies in the 80s and 90s. Yu Yingshi argued that Confucian ethics has contributed to economic success since the Ming Dynasty (1368-1644).

Yu points out that merchants, next to bureaucrats, were the most educated class in society. They were able to pass on the knowledge of Confucian ethics, honesty, thrift and hard work as necessary qualities for members of their class. It inspired confidence in the same way that these qualities meant trustworthiness to Protestant merchants. In addition, Chinese merchants used logical methods of marketing and distribution, and rationalized business methods.

The impact of Yu's research is enormous: in the 21st century, the terms *ruguguan* (*Confucian-mercantilist point of view*) or *rushang* (*Confucian merchants*) have become widely accepted throughout the Sinic world. As early as 1974, Tang Lixing and Zhang Haipeng wrote about *Huizhou merchants* as a special combination of merchants and classical scholars. Huizhou merchants were guided by the rule that *trade is for profit and learning is for personal reputation*, which means that despite working for their own benefit, they were also moral people due to Confucian ethics.

However, outside the region, Yu's interpretation of the essence of capitalism in China during the Ming and Qing dynasties was not accepted. First, because it relies on only one variant of Neo-Confucianism, *the Wang Yangming school*; secondly, because of the oversimplification of Neo-Confucian elements; thirdly, because of his misinterpretation of certain features of *historical Confucianism* and finally, because he believed that Confucian ethics considers the acquisition of profit as a means of improving morality. Will observes that *the production of wealth* did not in any way support profit as such, but rather the production of wealth needed to maintain the general balance of society. Also, Yu's claim that merchants operated within an institutional framework in which Confucian teaching was the standard may be true, but it is probably just as true that these same individuals could also be unreliable, lazy, selfish, and/or profligate. Finally, the central flaw in Yu's argument is its contradiction. That is, regardless of Confucianism's potential for entrepreneurship, it failed to create capitalism in China. In this way, Yu's idealization of entrepreneurial initiative in imperial China is contrary to historical evidence (Zurndorfer 2004, 10).

However, on the other hand, Yu's theory, as stated by Greenhalgh, abolishes the Euro-centric analysis of modernization, and gives the countries of the EA/SEA region legitimacy for an Asian-centric angle of looking at economic development.

Moroshima claims that, unlike the others, only Japanese Confucianism led to economic development.

On the other hand, Ma Yong believes that Japan succeeded *in leaving Asia and joining the West* not because Confucianism played a particularly important role, but because Japan to a certain extent freed itself from the bondages of Confucianism.

In Korea, according to Yi and Douglas, Confucianism lost its status as the official state ideology with the fall of the Yi dynasty (i.e. Choson or Joseon dynasty) in 1910, but to this day it retains a strong indirect influence on many aspects of life. This is why this country is still

considered a *paradigmatic Confucian society*. However, assessing the role of this factor in the development of capitalism in this country is a difficult task.

Kim and Park argue that even in the 21st century, Confucian influence burdens the growth of the South Korean economy by limiting the employment of women and discouraging unemployed men from accepting jobs that require manual labor.

Lee states that the attempt to establish a *Confucian link* between the success of big business in South Korea and Japan is weak, pointing out that the key characteristics of Japanese and South Korean entrepreneurship are quite different. According to some authors, the analysis of the role of Confucianism does not offer a sufficient basis for understanding the development of either Japan or South Korea and cannot explain the differences in the development of these two countries, i.e. why after the Second World War Japan chose reforms and the adoption of Western methods and ideas, while South Korea *followed the order*. It seems that other factors were more important in the case of these two countries.

The differences in economic performance among other Asian economies also suggest that apart from the common cultural heritage, probably a whole series of other factors played a more significant role in determining the development path of the countries of the region.

Therefore, the hypothesis that Confucianism is a significant component of the growth of the countries of the region is undermined by the divergence in the development of different Asian countries throughout history (North and South Korea, Japan and China in the 19th century), the apparently loose or negative correlation between the level of development and the degree to which a country is *Confucian*, as well as the difficulties in measuring or defining that degree. *National* identity and tradition are strong in themselves, while a sense of *regional* identity and *shared* heritage is a completely new idea. The idea of an *Asian tradition* arose due to rapid modernization throughout the region (Khong 1997, 13). Yamazaki believes that modernization is the common denominator for all Asian national civilizations, which *creates* a sense of Asian identity. However, civilization is not culture. Culture is not universal, so within the broad concept of *Asian civilization* there is a whole range of Asian traditional cultures. A regional legacy from the past is Confucianism - a broad term for a general set of values and rules, often with contradictory implications, therefore not all resulting patterns of behavior can be fully identified as Confucian. In the EA/SEA region, certain human behaviors may have origins in Confucian doctrine, but no firm connection can be established.

The (non)existence of causality between Confucianism and the capitalist development of the countries of the EA/SEA region even today is still source of conflict among authors of orthodox and heterodox School of thinking. Jun believes that even if the validity of the cultural thesis is accepted, a meaningful causality between Confucianism and the capitalist development of the countries of the region cannot yet be proven. The causal relationship between Confucianism and capitalist development generally tends to be assumed rather than proven. That is, apart from the acceptability of the culture-centered approach *per se*, the causalities cited by the authors about Confucian capitalism have a whole series of flaws.

Jun states that certain Confucian elements that led to the development of capitalism in the region were chosen selectively. For example, the role of the state and its active intervention. Also, some authors state that Confucianism includes factors harmful to capitalist transformation, such as the repression of human creativity and social diversity, contempt toward trade and the rigidity of the social order.

Furthermore, according to the neoclassicists, the alleged positive correlation between Confucian ethics and the economic rise of the countries of the EA/SEA region is false. They assert that the state cannot be a decisive factor in successful economic transformation. However, most authors today do not agree with this argument. In particular, the aim is to refute the concept of the developmental state. Some authors argue that the existence of a strong state within the framework of Confucian culture and successful state intervention aimed at capitalist transformation are two different things.

Unlike the Euro-American model, which comes from the liberal tradition and views the state as a necessary evil, Confucian values lead to a model of the *maximalist state*. The state is not only a supervisor and regulatory body, but is also largely *entrepreneurial*.

Finally, many authors specify certain reverse causalities between Confucian ethics and Confucian transformation in the region. Hard work and discipline can be *de facto acquired* social values after the introduction of capitalism in the 20th century. In traditional East Asian culture, before the development of capitalism, time was *not* money. Also, these authors point out that the work discipline required by capitalism has little to do with inherited ethics. However, we can hardly agree with this statement. Brook points out that most people today work under capitalism because they are forced to do so, but that claim certainly doesn't hold up. The results of ethnic Chinese in other countries of the region and the entire *bamboo network* testify in favor of the opposite conclusion.

Pye claims that there are two so-called *Confucian paradoxes* in the analysis of the role of Confucian values in the economic success of the EA/SEA region. The countries of the region, on the one hand, share a Confucian heritage that is traditionally scornful of merchants and profit, while on the other hand, these same countries have achieved enormous economic growth (Pye 1988, 86). Pye opposes the conventional view of Confucianism as a burden to economic development, stating that other countries in Asia with different cultural roots (e.g. the Philippines) have great difficulty imitating the East Asian economic model, precisely because of the lack of those qualities inherent in the Confucian heritage. Pye and Tu reduce the paradox to different economic achievements of the so-called *industrial EA* and the so-called *communist EA*, both inheritors of Confucian heritage. These authors believe that the explanation lies in the interaction between Confucian humanism and Marxism-Leninism on the one hand, and between Confucian humanism and liberal democratic ideas on the other hand (Tu 1989, 95).

Today, when China has become the world's economic superpower, the shortcomings of the older studies seem even more obvious.

To explain the phenomenon of *the economic miracle*, post-Confucianists claim that the Confucian elements of Chinese culture were its determining factor. However, as Zurndorfer states, the cultural analysis of post-Confucianists is unsatisfactory for several reasons. First, the idea of an *elective affinity* between Confucianism and capitalism is overly deterministic: not all economic activity in the region is driven by the same values. Even the post-Confucianist Berger admits that the values associated with the transformation of the EA/SEA region may come from a folk tradition rather than some *great* tradition such as Confucianism or Buddhism. Confucianism can be associated both with negative influences on the development of the Chinese economy, such as particularism or collectivism, and with positive influences, such as cooperation within a group. That is why she claims that cultural analysis is inadequate for understanding economic and social changes.

The advantage of the cultural explanation of the rapid capitalist transformation of the EA/SEA region is that it analyzes the non-rational aspects of organizational life while connecting these organizations to the cultural practices of the larger society. However, therein also lies its weakness: the cultural thesis tends to assume that cultural forces are immutable, while the social structures that express these cultural values can and do change (Zurndorfer 2004, 16).

Similarly, the post-Confucian cultural thesis distinguishes the development experience of the countries of the EA/SEA region and that of the West, by emphasizing certain values of *historical Confucianism* as the initiator of China's success. However, as Brook states, the question is how effective the *Confucian strategy* is for a regime in China that is built on rejecting capitalism that is imperialistic.

The general attitude of the academic community of Western countries, starting from the 1990s, that is, after the financial crisis of 1997/1998, is that Confucian values are incompatible and harmful to the modernization of the EA/SEA region.

Keeping in mind the *divergent* economic development of China and Japan, it is pointed out that the most prominent feature of the modernization of Japan and other East Asian Confucian

societies is the acceptance of culture as a significant force that create a humane-oriented workforce for the purpose of industrialization. This may be the most significant legacy of Confucianism for modern times (Hartfield 1989, 110).

Berger, citing mounting evidence to support the Confucian hypothesis, accepts the thesis that modernization can and must take on different cultural forms. The road to modernization is not a pursuit of uniformity (that is, a *melting pot*- *The melting pot* represents the process of blending and assimilation into a cohesive whole), but rather a negotiation between deep-rooted cultural demands and new conditions dictated by the growing interdependent *global village* (Tu 1989, 93).

In this way, scholars have taken two opposite positions regarding the impact of Confucian ethics on the economy and the development of capitalism in the EA/SEA region. On the one hand, some authors have rejected cultural values and demanded a return to economic politics, while others have suggested that Confucian values are the contemporary Asian Protestant ethic.

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