

Japan, South Korea, Hong Kong, Taiwan, and Singapore stand as the fastest industrializing nations in the history of industrialization.<sup>1</sup> Moreover, their unprecedented economic growth was accompanied by equal income distribution. However, the East Asian Miracle came to an end in the 1990s with a litany of non-performing loans and massive capital flight. The shared cultural and social characteristics of the five nations involved in this transformation suggest that “Asian values” be examined as an explanation for their rise and fall. These include Confucianism, family loyalty, group identity, education and frugality. In order to understand these “Asian values” it will be necessary to contextualize them from a historical perspective, enabling their key features to be identified. Then, by providing examples from contemporary society it will be seen how these values manifest, operate and are instruments of economic change.

The aforementioned nations’ histories have been considerably shaped by Chinese experiences. Taiwan, Hong Kong and Singapore contain a majority of ethnic Chinese, South Koreans were under Chinese tutelage and Japan received much of its culture from its largest neighbour from as early as the sixth century.<sup>2</sup> The ideology that resonated most strongly in these interactions was Confucianism. Confucius lived from 551-479 BC around the time of Warring States Period when there was great turmoil and widespread philosophical debate. These intellectual discourses were termed the Hundred Schools of

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<sup>1</sup> Wu, Y., Tai. H. “Economic Performance in Five East Asian Countries: A Comparative Analysis”, in *Confucianism and Economic Development*, Washington: The Washington Institute For Values in Public Policy, pp. 46

<sup>2</sup> Tai, H., “The Oriental Alternative: An Hypothesis on Culture and Economy”, in *Confucianism and Economic Development*, Washington: The Washington Institute For Values in Public Policy, pp. 6-7

Thought and lasted over 500 years.<sup>3</sup> Only a few schools survived, Confucianism proving to be the most enduring.

At its core, Confucianism is a humanistic philosophy that focuses on the group and the individual's relation with it. The concepts *jen* and *li* illustrate this connection of inner and outer. *Jen* (仁) can be described as individual human virtue incorporating emotional and social development which can only be cultivated in the context of a community.<sup>4</sup> *Li* (禮) is translated as 'ritual', a form of social propriety that binds parent to child and servant to master alike. *Li* carves out designated roles and implies a duty and responsibility that is necessary to making a social order flow. Coupled with *jen*, a contextual social atmosphere is formed which emphasizes interdependence and the value of the relationships therein.<sup>5</sup> Confucius points out the relation between *li* and *jen*:

*"To control oneself according to li, that is jen."*<sup>6</sup>

It is the role of parents to instill these notions in a child, which is permitted through *hsiao* (孝) or filial piety. *Hsiao* is more than respect for parents, it encompasses duty and obedience as well, and a joint responsibility in a relationship.<sup>7</sup> These familial relations are

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<sup>3</sup> Ambler, T., Witzel, M. "Doing Business in China", RoutledgeCurzon, 2004 pp. 73

<sup>4</sup> Lai, K. "Confucian Moral Thinking", Philosophy East And West, vol. 45, no. 2, April 1995, pp. 254

<sup>5</sup> Ibid, pp. 254-255

<sup>6</sup> Confucius, *The Analects* 12:1 – Translation by James Legge

<sup>7</sup> Lai, K. "Confucian Moral Thinking", Philosophy East And West, vol. 45, no. 2, April 1995, pp. 258

extended to other spheres with the five traditional relationships, *wu-lun*; prince-subject, father-son, older brother-younger brother, husband-wife, and friend-friend. With the exception of friend-friend, each of these connections denotes a superior to inferior relationship.<sup>8</sup> Accordingly, each person is expected to fulfill his or her role in order to create a hierarchical and harmonious society.

Thus Confucianism is family-orientated, hierarchical and employs concepts that dictate the roles and relationships in society. China's early technological superiority to the West would appear to compliment this ordered system well and produce a dominant world economy. However it was the German sociologist Max Weber whose studies of religion and economic development illustrated how Confucianism was antithetical to capitalist development.

According to Habermas, humans orient themselves according to two sources of power; theocentrism and cosmocentrism. Religions that are theocentric ascribe power to a higher source such as God, whereas cosmocentric traditions perceive themselves in unity with the cosmos.<sup>9</sup> Weber reasoned that theocentric societies ultimately reject the world through so-called "asceticism", which he attributed to the Puritans in the Calvinist movement.<sup>10</sup> This "Protestant ethic" as he termed it, was an attempt to master the world

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<sup>8</sup> Luo, Y. "Definition, Principles and Philosophy of Guanxi", in *Guanxi and Business*, Asia-Pacific Business Series, Vol. 1, Singapore: World Scientific Publishing Ltd., pp. 7

<sup>9</sup> Wei-ming, T. "Confucian Ethics Today: The Singapore Challenge" Federal Publications, Singapore. pp. 69

<sup>10</sup> *Ibid*, pp. 69-70

in order to prove one's purity to God. Weber noted that this motivational aspect of Protestantism was lacking in the Confucian ethic. To the Puritans, profit making was a religious imperative where idleness was considered a sin.<sup>11</sup> Conversely, Confucians despised commercial activity and merchants were held in low esteem.

In contrast with the adaptability of the Oriental approach, the redemptory nature of Christianity led to an ethical rationalization of one's existence and a subsequent organization of industrial labor.<sup>12</sup> Furthermore, because the Protestant's relationship with God was an individual one that excluded other followers, it led to an individualism that catered for entrepreneurship. Entrepreneurism is what economist Joseph Shumpeter defined as the "creative response in business" and is one of the four fundamental factors of capitalism in addition to land, labor and capital.<sup>13</sup> Its essence is innovation which leads to a reorganization of industry and an acceleration of change driven by risk taking. This dynamic allows the social fabric to evolve by opening new markets and improving efficiency. Clearly, this verve was not cherished or promoted by the Confucian elites whose only form of social mobility was through the rigid memorization of Chinese texts and the passing of civil service examinations.

Thus, for centuries Confucianism retarded economic and capitalist development in China. It lacked a fundamental transformational nature required to kick start industrialization.

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<sup>11</sup> Tai, H., "The Oriental Alternative: An Hypothesis on Culture and Economy", in *Confucianism and Economic Development*, Washington: The Washington Institute For Values in Public Policy, pp. 8

<sup>12</sup> Wei-ming, T. "Confucian Ethics Today: The Singapore Challenge" Federal Publications, Singapore. pp. 72

<sup>13</sup> Tai, H., "The Oriental Alternative: An Hypothesis on Culture and Economy", in *Confucianism and Economic Development*, Washington: The Washington Institute For Values in Public Policy, pp. 130

Furthermore, its emphasis on group and harmony left little motivation for individuals to take entrepreneurial directions. Despite China's failure at modernization the five East Asian Tigers proved adept at accumulating the capital required to transform themselves into internationally competitive economies.

Japan, South Korea, Hong Kong, Taiwan, and Singapore all share similar attributes; they have an insular geography and a high population density. In addition, their scarce natural resources and access to sea made them perfect candidates for export-oriented economies.<sup>14</sup> That transition came in the 20<sup>th</sup> century after Confucian notions of family were adapted for the business realm. The Chinese word *guanxi* is translated as “connection” and describes informal relationships that bind businesses.<sup>15</sup> These connections are made stronger by family ties, friendship and intangible concepts such as trust. *Guanxi* is something to be developed and for that reason many companies consider the cultivation of business networks as a form of commercial investment and insurance.<sup>16</sup> The reciprocal nature of *guanxi* ensures that one company's support for another will be returned when it is needed in the future. Failure to honour this implicit obligation to equity will result in a loss of ‘face’ or *mianxi* (面子). Such an eventuality can have serious repercussions for a firm, such as loss of recognition and social status, both of

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<sup>14</sup> Ibid, pp. 28

<sup>15</sup> Wang, Y. “Business Culture In China” Reed Academic Publishing Asia, pp. 75

<sup>16</sup> Ibid, pp. 36

which are necessary to further expand one's *guanxi* network.<sup>17</sup> Confucius directly refers to this concept of face in The Analects:

*“If people be led by laws, and uniformity is sought to be given them by punishments, they will try to avoid punishments but have no sense of shame. If they be led by virtue and uniformity sought to be given them by rules of propriety, they will have a sense of shame, and moreover will become good.”*<sup>18</sup>

Due to the value ascribed to saving face, transactions are secured not through lengthy contracts or convoluted legal procedures but through the veracity of words. Contracts that are prepared are done so more through formality than legal process. Unlike Western companies, individual signatures are not used; instead a company seal is stamped, which represents the collective nature and joint responsibility of the business decision.<sup>19</sup>

Thus, values of interpersonal trust, collectivism and ‘face’ remove the need for detailed legislation and distribute accountability. The effect is an acceleration of business that is flexible, dynamic and free of costly legal proceedings. Therefore it can be said that these characteristics of Asian business behavior contributed to the rapidity of the ‘East Asian Miracle’. Further sociological differences can be pointed out in the field of Asian business management.

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<sup>17</sup> Luo, Y. “Definition, Principles and Philosophy of Guanxi”, in *Guanxi and Business*, Asia-Pacific Business Series, Vol. 1, Singapore: World Scientific Publishing Ltd., pp. 14

<sup>18</sup> Confucius, *The Analects* 2:3 – Translation by James Legge

<sup>19</sup> Wang, Y. “Business Culture In China” Reed Academic Publishing Asia, pp. 37

Modern capitalism has translated as a separation of business from the household, however in the Far East the distinction between family and enterprise is more ambiguous. The Western notion of company is strictly an economic one whose main goals entail profit-making through the efficient production of goods and services.<sup>20</sup> The Oriental company also desires profit, but not at the expense of human relations.<sup>21</sup> In this sense it is also a social entity which serves to strengthen and reinforce community values. This can be seen in the incorporation of personal affairs such as weddings, birthdays and funerals. Furthermore, companies often sponsor social activities where colleagues are encouraged to share their feelings and viewpoints. By involving the company in these events, a paternalistic relationship is fostered between employee and employer.<sup>22</sup> This bond and the costs associated with it are perceived by some to be uneconomical and wasteful. However to the Asian business manager these are social investments that pay off in less quantifiable dividends. By creating a familial atmosphere, employees feel a sense of belonging and obligation which encourages them to work industriously and selflessly.

In addition to the creation of a family-like setting, managers also employ economic means to encourage solidarity and firm loyalty. By adjusting wages according to the workers' skills and length of service, a long-term commitment is established. This is made stronger by additional pay in the form of bonuses, which can be worth months of

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<sup>20</sup> Tai, H., "The Oriental Alternative: An Hypothesis on Culture and Economy", in *Confucianism and Economic Development*, Washington: The Washington Institute For Values in Public Policy, pp. 19

<sup>21</sup> Ibid, pp. 15

<sup>22</sup> Ibid, pp. 19-20

pay.<sup>23</sup> This stimulus provides motivation for all employees to work together in a coordinated and self-disciplined fashion.

Thus the East Asian firm promotes economical and social agendas which improves both the quality and quantity of work. This is achieved through an emphasis on social relations that extend into the company sphere. The result is a familism backed by strong economic incentives. These company values compliment the practice of *guanxi* and can be also seen as contributors to the East Asian Miracle. Paradoxically however, they have also been attributed to the Asian financial crisis.

Every approach to business has systemic weaknesses, although their degree and phase vary depending on its focus. In the case of Asian business organization, it is its familial nature which brings the economical efficacy into question. The interpersonal trust among family relatives may remove doubts and guarantee relatively smooth operations, however it introduces a secondary limitation; the inability of the business to expand beyond the family. This relationship also encourages favouritism, demotivating talented and inspired individuals who see no chance of upward mobility. Furthermore there can be great instability during periods of leadership succession, due to infighting among relatives.<sup>24</sup> Statistics suggest that these problems might affect a large number of companies. In Taiwan, 80 percent of enterprises are family-controlled small businesses, with similar

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<sup>23</sup> Ibid, pp. 21

<sup>24</sup> Ibid, pp. 20

figures in Hong Kong and Singapore.<sup>25</sup> Interestingly this system has been adapted somewhat in Japan. There, a principle known as *iemoto* extends the notion of family into the corporate hierarchy. Managers are adopted as if they were family which allows the company to grow beyond blood relatives and maintain a relatively stable structure.<sup>26</sup>

The most detrimental effect of a family orientated business is its relation to the market. The large degree of personal relationships within networks and the obligations attached to them has a blinding effect which tends to exclude market forces. This crucial feedback mechanism also known as the ‘Invisible Hand’, directs businesses to consumer demand and sources of profit. Without this external force, a misallocation of resources is inevitable. Instead of following rational business plans based on market trends and sound predictions, a herd mentality results in which investment fads and heavy speculation dominate the corporate scene.<sup>27</sup> The capital required for these large investments ultimately results in the borrowing of large sums of monies from the private sector. When these ‘business plans’ failed, Asian banks were burdened with scores of non-performing loans which were untenable. This can be seen with debt to equity ratios, which measure debt as a percentage of GDP. In 1996 the ratios totalled for China, Korea and the Philippines at 18, 22 and 50 percent respectively.<sup>28</sup> These systemic failures rocked the continent and resulted in massive capital flight causing the recession. What makes this

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<sup>25</sup> Ibid

<sup>26</sup> Ibid

<sup>27</sup> Jackson, K.D., “Introduction: The Roots of The Crisis” in *Asian Contagion: The Causes and Consequences of A Financial Crisis* Westview Press, pp. 5

<sup>28</sup> Ibid, pp. 4

worse is that the extent of the damage could have been lessened had safeguards been put in place. The informal nature of Asian business previously discussed precludes this possibility and is epitomized by the fact that three of China's four largest banks are not subject to independent audits, nor do they report their financial results on a regular basis.<sup>29</sup>

Thus it can be seen how the efficiency of familism introduces weaknesses to the corporate structure. These include bias and cronyism which limit the mobility of human capital and introduce conflict during management change. Such features also insulate the company from the market from which it depends, resulting in irrational business decisions. When confidence is lost, so is the economy.

Behind the financial vagaries which characterise East Asia's swift transition from agrarian to industrial societies, there appears to be a core value which pushes these nations further and further; education. In Japan this is especially so with 99 percent of children attending schools.<sup>30</sup> Although there is intense competition, school is not only for learning, it serves to foster social interaction through a range of extracurricular activities. What differentiates the Japanese model from its Western contemporaries' is a basic tenet of philosophy: that with enough encouragement and hard work all children have the

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<sup>29</sup> Lardy, N.R., "China and the Asian Financial Contagion" in *Asian Contagion: The Causes and Consequences of A Financial Crisis* Westview Press, pp. 84

<sup>30</sup> Country Studies. "Primary and Secondary Education" in Country Studies. Internet, <http://www.country-studies.com/japan/primary-and-secondary-education.html> (1 March 2005)

capacity to succeed.<sup>31</sup> For this reason, individuals' skills are put aside and an egalitarian approach ensures that all children learn at the same level. It is likely that this is the reason East Asian nations have come as far as they have.

In conclusion it can be seen how notions of Asian values stem from the Chinese influence of Confucianism. A philosophy based on group, hierarchy, respect and propriety, it sought an ordered society that was learned and harmonious. Over the centuries this system found itself in several East Asian nations and influenced one of their modern business practices, *guanxi*. This system based on interrelated networks stems from the family unit and branches to others through trust and 'face'. Such measures remove the need for legal bindings or detailed contracts thereby streamlining operations. This system introduces problems such as expansion limitations and transition difficulties. Furthermore, cronyism may insulate a firm from external market forces and lead to a misallocation of resources. It is clear that these dynamics have occurred in 20<sup>th</sup> century Asian history and it is likely they may happen again. The challenge of the 21<sup>st</sup> century will be educating a new generation of Asians who can strike a healthier balance between the values of economic rationalism and the values of social harmony.

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<sup>31</sup> Ibid

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