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Chindia: Does Culture Matter in Hindu and Confucian Economies?

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ABSTRACT *China and India (Chindia) have begun in recent years to enjoy growing measures of economic success, reversing centuries of structural poverty and negligible rates of economic growth. This article examines the influence of varying cultural propensities—Hinduism in India and Confucianism in China—and their impact on each country's economic turnaround. It discusses the historical circumstances that shaped Chindia's perspectives on foreign direct investment and how external forces contributed to domestic policy-making. It also addresses three ways in which culture can affect economy and two major events that cemented the direction of Chindian economic growth. Finally, the paper presents a comparative analysis of China and India and their respective impact of culture on development. It asserts that the forces of culture and its historical development do matter, especially when it comes for a nation to reverse its deprived and stagnated situation and to achieve a status of economic powerhouse.*

KEY WORDS: Chindia, economic growth, Confucian economies, Hindu economies, culture, historical development

Introduction

China and India are ancient empires that were once at the helm of world civilizations and far ahead of Europe. Today, both countries share emerging economic success stories and demonstrate a path to catching up with their own laurels. Despite their varied cultural orientation, both countries seem to share similarities: prior to some 40 years ago in China, and 20 years ago in India, both countries had been failing to sustain their economic growth rates to support the ever increasing, impoverished populations. Both countries are geographically large but were isolated from global economy. Both had experienced extremely low per capita incomes. Jeffrey Sachs summarizes, "there is something deeply ironic about the basic economic fact that China and India are poor countries catching up with the rest of the high-income world" (2005, p. 149).

Since 1980, India has doubled its gross domestic product (GDP) per capita while China's has increased it seven-fold (Bosworth & Collins, 2006, p. 1). The per capita

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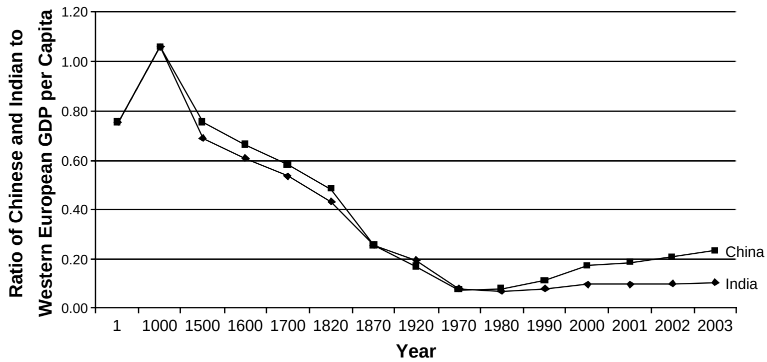

Figure 1. Per capita income in China and India relative to Western Europe.
Sources: Modeled after Jeffrey D. Sachs (2005, p. 149) and calculated from Angus Maddison (2007, Table 3).

income of China and India in Figure 1, which is modeled after Sachs' calculations and economic data from historian Angus Maddison,[1] presents a comparative economic history between Chindia and Western Europe. Figure 1 illustrates that prior to 1500 AD, the per capita income of Chindia approached that of Western Europe. A diverging trend began to appear after roughly 1500 in which the GDP of both countries began to decline or, at the very least, remain constant as the wealth of Western Europe substantially increased. The beginning of the British colonization of India and the history of Chinese isolation likely contributed heavily to Chindia's economic stagnation in relation to Western colonial rulers (see Figure 1).

Today India and China have emerged in their own Hindu and Confucian traditions as major forces in the global economy (Mendis, 2007). This article poses the key question: Does culture matter in the economic development of China and India? Figure 1 indicates that both countries "fell backward not just in relative, but also absolute terms between the mid-19th and mid-20th centuries" (Sachs, 2005, p. 150). Were there any significant cultural shifts that finally allowed China and India to end their economic decline? An examination of the history and culture of each country, as well as their road to economic development, will indicate whether one may have contributed to the other.

Confucian China in the Twentieth Century

The last millennium has been unlucky for China. Centuries of economic decline were finally supplanted by recent decades of speedy growth, as Figure 2 illustrates (Sachs, 2005). Around the time when China's advance began to wane from having closed her doors to international trade, Europe took industrial flight. Highly developed, wealthy and knowledgeable China missed the Industrial Revolution almost entirely and spent subsequent centuries struggling with the internal discord, rifts, and political tumult of a vast country.

Western images of China often evoke clouds of mist obscuring winding walls, ornate temples and sculpted blue landscapes. Yet, most Westerners lack a genuine understanding of Chinese culture. Rich in ethnic variants but lacking racial minorities, Han Chinese make up the vast majority of Chinese population. In

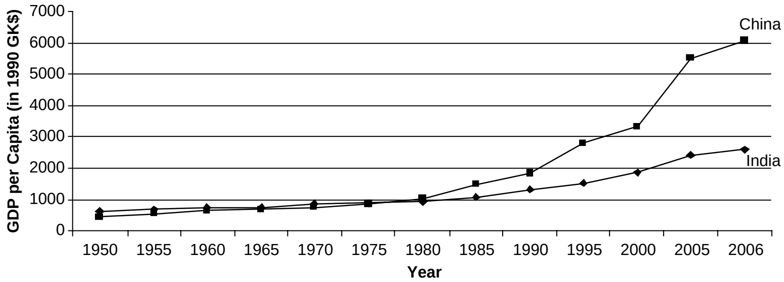

Figure 2. Economic growth in India and China since 1950.
Source: The Conference Board and Groningen Growth and Development Centre, *Total Economy Database*, January 2007, http://www.ggdc.net (accessed 18 September 2007).

turn, Asia's total population makes up 60% of humanity: "Asia's fate is truly the world's fate," observes Sachs, and China contributes "more than a fifth" to humanity (2005, p. 149). The predominant Han Chinese is traditionally characterized as deeply Sino-centric. Travel writer Paul Theroux remarks that the Chinese are highly skilled at recognizing "ethnic variants" from a great distance. Theroux writes, "Muslims have been in China for well over thousands of years and yet they are still regarded as strange and inscrutable and backward, and politically suspect" (1988, p. 334).

Chinese themselves are often perceived as ashamed of their years of delayed development and "backwardness" following centuries of their proud civilization. For China, the twentieth century has distinguished itself from the rest of its extraordinarily long dynastic past. However, it would be neglectful to begin a brief summary without first mentioning China's ancient culture.

Asian philosophical and moral values are heavily influenced by the *Analects* of Confucius, which remained a pivotal part of the intense, meritocratic Imperial Examination system for 1300 years until the fall of the Qing Dynasty around 1905. Confucianism itself is a Chinese political and cultural institution. Traditional thought generally championed high scholastic attainment and merit-based systems of achievement. Remote and exclusive Chinese officials were academics and scholars; commercial careers were relegated to weaker minds. Innately qualified politicians were expected to be intelligent, vigorous and charismatic leaders, while profits were seen to corrode one's thoughts and character. The elements of Marxist ethics and morality likely appealed to Confucian intellect. Classical Chinese philosophy, personal relationships and even cuisine reflect a consciousness of harmony sourced in disharmony. It is arguably due to cultural resonance that the Chinese took to Marxism as quickly and completely as they did.

Evolving Ideology

China's economy had been static long before communism entered its borders, but not for lack of natural resources. In his 1776 masterpiece *The Wealth of Nations*, Adam Smith so observed:

> China seems to have been long stationary, and had probably long ago acquired that full complement of riches which is consistent with the nature of its laws and institutions. But this complement may be

> much inferior to what, with other laws and institutions, the nature of its soil, climate, and situation might admit of. (Smith, 1904, Book 1, chapter IX, in paragraph I.9.15)

Communism continued not only a closed economy, but a closed political ideology. After splitting with the Soviets mid-twentieth century, China adopted a policy of self-sufficiency and reliance. Ideologies of Leninism and Marxism, along with Confucian traditions, were combined to form a sort of Chinese Marxism while the country focused on modernization and relief from imperial enemies (Munro, 1997). Communist leader Mao Tse-tung followed a Soviet model of urban-led industrialization and the Great Leap Forward was the first of many economic reforms, culminating in the Great Proletarian Cultural Revolution of 1966.

In *Asia Times*, Henry Liu offers a contemporary Chinese perspective on the cultural drive behind Mao's reforms, as they set the stage for Deng Xiaoping and present-day economic reform. Liu comments on Mao's massive socio-economic upheavals in characteristically Chinese "not all bad" fashion. In Chinese politics, explains Liu:

> Loyalty is always preferred over competence. The ideal is to have both in a minister. Failing that, loyalty without competence is preferred as being less dangerous than competence without loyalty—the stuff of which successful revolts are made. For socialist China, loyalty is to the socialist cause. It is imperative that leaders remain loyal to the socialist ideal. Confucianism (*Ru Jia*), by placing blind faith in a causal connection between virtue and power, has remained the main cultural obstacle to modern China's attempt to evolve from a society governed by men into a society governed by law. The danger of Confucianism lies not in its aim to endow the virtuous with power, but in its tendency to label the powerful as virtuous. (Liu, 2004, paragraph 4)

In short, loyalty matters most to the Chinese, while power and virtue may each be mistaken for the other. If true, this is a formidable ideological obstacle to overcome, similar to the belief that any given administration's policy agenda is cut from morally impervious cloth. The irony is that power and virtue are rarely combined. This strange mix honoring Confucian ideals of scholastic realization and Mao's virtuous poverty and sacrifice, combined with Deng Xiaoping's glorious riches, captures China today.

Reforming Economy

The cultural thought behind Chinese economic reforms is explained in part by Chinese history. Under the socialist model and among other things, "China's economy suffered from inefficient allocation of resources and lack of incentives for workers, resulting in poor agricultural and industrial performance" (Spero & Hart, 2003, p. 364). Following the catastrophic failure of the Cultural Revolution, Deng Xiaoping reoriented his reform scheme by using a socialist market economy model. Intent on continuing one-party rule, China revitalized its stagnant economy by a burst in agricultural production. This burst resulted from farm privatization which disbanded "People's Communes" and bestowed some land use rights to peasant farmers. Farm sector reform "freed up labor for the manufacturing export sector" (Sachs, 2005, p. 161). Special economic zones (SEZs) liberalized trade and attracted foreign investment. These events laid the foundation for an economic turnaround.

In the early days of reform, there was an idea among Chinese bureaucrats that "the sole purpose of political reform was to produce economic growth" (Theroux, 1988, p. 309). Former World Bank research administrator Deepak Lal comments, "Unlike the Indian (Hindu society), the Chinese policy elite has fully embraced capitalism ... recogniz[ing] that this is the only route to both prosperity and power for their nation" (2005, paragraph 11). Liberalization would be scrapped for something else if prosperity and power were not the result. The upheavals of the 20th century are, if anything, a testament to the uniquely determined spirit of Chinese pragmatism.

Hindu Indian Economy in the Twentieth Century

Like China, India's colorful and ancient past is no more apparent than in its brightly hued silks and textiles. Social castes sourced in "apartheid" have given way to occupational strata, where Muslim Moghul emperors, "maharajas, princes and warrior kings" once ruled (Sachs, 2005, p. 172). However, broad swathes of India today continue to remain "mired in its ancient equilibrium" (Lal, 2005, paragraph 18). This large, fractured and dynamic country would ultimately realize one of China's worst fears: falling prey to a private and foreign corporation.

From Raj to Revolution

With regards to the East Indian Trading Company, Adam Smith has this to say about mercantilist monopoly: "Such exclusive companies, therefore, are nuisances in every respect; always more or less inconvenient to the countries in which they are established, and destructive to those which have the misfortune to fall under their government" (1904, Book IV, chapter 7, part third, in paragraph IV.7.194). In 1602, the first British factory was built in Java for the purpose of getting "pepper and other spices to the European market" (Prakash, 2005, p. 6). The spice trade graduated to textiles and between skirmishes with the Dutch, the British used trade as an instrument of economic growth and prosperity.

Adam Smith sums up England's treatment of her colonies as follows:

> Liberality of England ... towards the trade of her colonies has been confined chiefly to what concerns the market for their produce, either in its rude state, or in what may be called the very first stage of manufacture. The more advanced or more refined manufactures even of the colony produce, the merchants and manufacturers of Great Britain choose to reserve to themselves, and have prevailed upon the legislature to prevent their establishment in the colonies, sometimes by high duties, and sometimes by absolute prohibitions. (1904, Book IV, chapter 7, part second, paragraph IV.7.62)

The subcontinent's experience under imperial rule left her citizens reluctant to court foreign investment and influence. The sentiment lingers today, and India appears to slow to warm to the premise that "persistently free" economies attract more foreign investment, although the annual Economic Freedom of the World Report[2] consistently ranks India ahead of China (Gwartney & Lawson, 2003, paragraph 8). The historic transmission of wealth from India to Britain inflamed Britain's own Industrial Revolution but left India intent on "Do or Die" when it came to shrugging off foreign governance and acquiring independence.

India's population under the British Raj remained illiterate, underclass and unseen. Indian tradesmen went from exporting high quality textiles to importing cheap British goods which dominated the international market. Cyclical famines resulting from a combination of British trade policies and drought devastated the Indian population. While Britain was generally disdainful of local industrialization, this neglect cannot be singled out as the sole cause for India's reluctant modernization and poverty. Some interpretations view the "Indian value system and social structure" as convenient contributors to a "diminished entrepreneurial drive" (Prakash, 2005, p. 36). Economist Om Prakash offers this explanation for the lethargic rate of growth in Indian economy:

> Rapid and sustained industrial expansion on the broad front required not only an extensive array of basic social, political, and economic preconditions, but also the development of an institutionalized mindset-one that solved the new problems that continually emerged. Despite its other virtues, the Indian system had not possessed these features at the beginning of the nineteenth century. (2005, p. 37)

Yet there are still other reasons for India's lagging growth. When the British left India in 1947, Jawaharlal Nehru became Prime Minister. Part of his legacy is what remained after he left office: the License Raj system of a state-managed economy. This reflected the Soviet model of planned economy resulting partly from "Indian resentment of its colonial experience and to the fact that socialism was seen as anti-imperialist" (Prestowitz, 2006, p. 29).

The License Raj came to an abrupt halt as the 1991 Persian Gulf War gave rise to a foreign exchange crisis and forced economic policy reform and liberalization almost overnight. The state of India prior to 1990s-era reform was dreary: low rates of employment, high degrees of state intervention, no genuine social security, a less-than-efficient banking system, tightly-managed trade and investment regimes and a sizeable portion of the population living below the poverty line (Gurumurthy, 2006). Of the event, R. Gurumurthy at the Institute for Indian Economic Studies writes, "Crises come in handy as they can mobilize the requisite political will which is hard to come by in peacetime" (2006, p. 3).

A charged atmosphere of change combined with a turn-of-the-century scare provided chance for Indian opportunists. The Year 2000 (Y2K) panic arose from the use of abbreviated date formats to preserve precious memory in the initial stages of computer development. With banking and government software facing the possibility of an infinite number of erroneous minutiae, an urgent need for capable software engineers emerged. One author wrote of the subcontinent, "In the last two years of the twentieth century, it became nearly impossible to book a flight out of India because the planes were full of programmers fluent in arcane computer languages" (Prestowitz, 2006, p. 93).

This was the beginning of outsourcing software and information technology (IT) services to India. Both Chinese and Indian growth is unexpectedly sourced in areas "the State had overlooked as being of little importance: the small-scale rural industries in China, and the information based service sector in India" (Lal, 2005, paragraph 9). In both areas, Lal observes that both areas rely on liberated capitalist forces and innate business sense for success (2005). The underlying assertion is that absent specific cultural predispositions and perhaps in a different location, the economic resurgence recently experienced by China and India would be stifled.

Cultural Reflections on Economy

Assessing the degree to which cultural propensities might impact development is no simple task. It is not enough to say that Indians did not have a spirit of entrepreneurship, or that Chinese are accustomed to working for very little. Besides generalizing, statements such as these fail to detail the manner in which culture might imprint economy. The extent of influence may be best identified by virtue of achievement, keeping historical context in mind. There are at least three simple ways in which cultural dispositions might affect economic development which may be explored in three different instances.

Fiscal Atmosphere in the United States

Following World War II, the US government was nearly the only entity left relatively intact and unscathed by conflict. Subsequent decades saw a shift in American consumer habits, giving rise to a trend which fuels the global consumption gap between wealthy and poor. One reason for the emphasis on consumption was a fear that the economy, which had seen a surge in productivity thanks to wartime demand, would fall back into its prior state of depression (Prestowitz, 2006, p. 12). American culture was concurrently imported with American goods as the US generously contributed to institution-building and reconstructing global economy through trade and technology transfers.

In stark contrast to American policies, "Europe and especially Japan focused on saving, investing, producing, and exporting" (Prestowitz, 2006, p. 12). This seeming lack of fiscal responsibility and deficit discipline by the US was a decisive course of action to reverse the economic devastation following World War I, which contributed to the Great Depression and sparked subsequent global conflict. Exporting democracy through infrastructure restoration reinforced America's position in the international system and solidified alliances that would carry the US through the Cold War.

Some of these policies have proved problematic over time. Along with consumerism, America's reputation as the largest safe and stable market economy has also contributed to a heavy dependence on foreign investment and capital inflows. The extent of American consumerism is now deeply ingrained; it is no more evident than in the overall depression of the manufacturing sector; a high trade deficit and overvalued dollar; waning national savings rates; home lending and readily accessible lines of credit. Strikingly reflected in popular culture and the entertainment industry, our legacy of consumption has not only caused few of our human interactions to be devoid of commercial content, but has most certainly impacted our economic growth.

Even in simple economic terms, the impact of this culturally-absorbed, socially-maintained, rampart consumption is not wholly positive. The threat of undue influence cultivated by deficit-enabling policies is easily identifiable: "East Asian countries have amassed reserves of well over $1 trillion US dollars as a result of their efforts to keep their own currencies undervalued and maintain their artificial comparative advantages in the American market."[3] Not only does currency manipulation impede free trade, large foreign currency reserves gives countries like China "a tool to manage trade tensions" (Goodman, 2006, p. 2). A *Washington Post* article comments on potential Chinese tactics of making "large purchases of oil to create a strategic petroleum reserve" or "possessing US debt . . . [giving] China the ability to influence the US financial situation" (Goodman, 2006, p. 2). More than perhaps anything else, this might speak to what motivates China's controlled domestic consumption and India's less than enthusiastic approach to encouraging foreign direct investment (FDI).

Economic Organization in Japan

The impact of post-World War II consumerism habits remained intact long after reconstruction as America's overconsumption is partly what allows other countries to underconsume. Japan's notoriously protectionist trade practices and export-driven development provided a model for other Asian states like Singapore, South Korea, Taiwan and Hong Kong. However, Japanese development is distinct from other Asian countries. Sociologist Nicole Biggert examines why in offering an explanation of Asian economic organization:

> For example, Japanese organizing practices, such as the subordination of individuals to the group, seniority systems that reward continuity of participation, collective exercises and singing, consensual decision making, are explained as an expression of the widely-held Japanese belief in . . . harmony. Similarly, Chinese business practices and structure are explained as a derivation of Confucianism. The self-discipline of workers, the loyalty to superiors, the preference for patri-lineal relations as business partners—all these and more are explained as organizational outcomes of a Confucian belief system. (1991, p. 207)

Traditional Japanese feudalism and *shogunates* predate contemporary group mind-sets favored in Japanese business organization and collaboration. The basis of national culture naturally infiltrates business practices: what culture is so tightly restrained it does not resound beyond a social sphere? Western institutions reinforce a socially disseminated sense of individualism witnessed in areas such as lobbying, special-interest groups, humanitarian and even international law, along with institutionally-backed concepts of personal liberty, freedom and responsibility. Japanese national institutions, corporate culture and business practices likewise reflect broader cultural values and social behavioral traits. To illustrate,

> Banking laws in the United States . . . prevent banks from investing in corporations, an institutionalized expression of the importance of firm independence for market order. No such laws exist in Japan where inter-firm networks are widely believed to be crucial for maintaining economic stability . . . In contrast, banks of any sort are relatively unimportant in Taiwan where financial activities, including the raising of investment capital, tend to be conducted among families and friends. (Biggert, 1991, p. 221)

Individual autonomy long revered by Western culture contrasts with the national uniformity of relatively homogenous Japan and even more with the familial structure of mandarin Asia. A cultural approach does not purport to explain all facets of economic organization over great periods of time and under all circumstances—it seeks only to indicate that cultural factors can and do forcefully impact institutional development which in turn affect economic and social planning agencies. This ought to be taken into account, then, when considering variables that contribute to shaping a development path.

Policy-making in Government

Traditions are imbedded in institutions, hierarchies, business and social norms and approaches to market economy, filtering through virtually every level of socio-economic organization including government. Asian populations tend to be inclined (even recommended by government) to convert savings to gold: weak financial institutions, currency fluctuations and economic instabilities serve to strengthen this inclination. Besides this, Indian and Chinese hold a preference for the color, believing 24k gold to bring lasting luck and happiness. In 1991, when India dealt with the Bank of England to bail the country out of financial crisis, it was forced to agree to sign over part of the national gold reserves upon loan default. "Though the deal was signed, it was seen by Indians as a national disgrace," which ultimately severely weakened India's socialist bureaucratic stronghold and led to immediate economic policy reform (Rai & Simon, 2007, p. 95).

The role of government itself mirrors perceptions of fundamental social units. For Americans, individual units function as the social norm. In many East Asian cultures, "the tested norm is the family unit ... the building brick of society" (Zakaria, 1994, p. 113). These different social conceptions are reflected in government: the idea of state intervention in industry has long been uncomfortable for Americans who cherish ideas of capitalist-oriented individualism. The *New York Times* published an article in 1990 bemoaning what seemed the inevitable supplanting of America's superior electronics industry by the Japanese. Calling for government to take a "more active role in industrial policy," the article cites the senior Bush Administration's reluctance to pick "winners and losers" (Farnsworth, 1990). Even so, American successes in computer development have not been without the guiding hand of government.

At their times of industrial development, many Asian countries viewed corporations as reinforcing national policies and institutions. In the 1980s, the term Japan Inc. became a euphemism for large, wealthy Asian corporations working closely with government linking big business to politics. Japan's technological leadership is owed in part to interventionism and the virtual nationalization of corporations, but also to a flippant American outlook on Japanese ability to innovate. Through national trade strategies and intellectual property acquisition, Sony Corporation grew to challenge (then one-up) the US's technological edge (Prestowitz, 2006, p. 115). "Differences in attitudes and government policy" can bear an enormous impact on economy (Prestowitz, 2006, p. 115).

Manufacturing capabilities are an essential part of retaining primacy and control within the industrial sector. Microsoft's chief research and strategy officer Craig Mundie recognizes the "symbiotic cycle of innovation." In an interview with *Business Week,* Mundie says:

> ... for many years, those people [outside the US] found that the best place to open a business was in the US. Capital formation, laws, the trained workforce, manufacturing capabilities, educational opportunity—the US had the best of those. Today, many things on that list are being developed in other countries. Their governments realize that technology-based businesses are the key to economic success—and their policies are geared toward that. (Mundie, 2004)

The recipe for commercial and technological hegemony lies not in the product itself, but in industrial capacity to create, improve and produce it. Thomas Friedman, author of a recent bestseller titled *The World is Flat*, identifies the cycle every new product goes through. It starts with "basic research, then applied research, then incubation, then development, then testing, then manufacturing, then deployment, then support, then continuation engineering in order to add improvements" (Friedman, 2007a, p. 29). At present, China and India can only manage isolated segments of the process. However, "the structure of the US high-tech industry is coming unglued with innovation and design losing their tie to prototype fabrication and manufacturing," says Thomas Hartwick, chairman of the Defense Advisory Group on Electronic Devices (2004, pp. 3–4). When manufacturing capabilities exit, "design and integration capabilities" eventually follow (Hartwick, 2004, pp. 3–4). As the US outsources manufacturing capacity and disseminates technical and specialized production, rapidly industrializing countries anticipate developing the ability to handle the entire cycle. Often reflective of trends and respective social norms, attitudes and preferences, government policy-making can directly determine economic development.

Y2K, the WTO and Chindia

Does culture matter in Chindian development? These authors contends that it does—among other things. First, Figures 3 and 4 offer an isolated side-by-side comparison of the juxtaposition presented in Figure 2. Each figure contains markers and roughly indicated periods which contributed to economic growth. Markers include China's farm privatization; trade liberation in the form of SEZs; and entry into the World Trade Organization (WTO). India's include the 1991 beginning of economic liberalization and License Raj policy reform; the Green Revolution which led to food self-sufficiency and curbed mortality rates, malnutrition, and freed laborers to

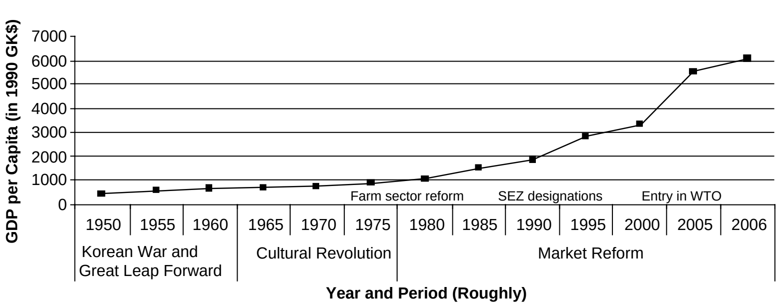

Figure 3. Economic growth and period in China since 1950.
Source: The Conference Board and Groningen Growth and Development Centre, *Total Economy Database*, January 2007, http://www.ggdc.net (accessed 18 September 2007).

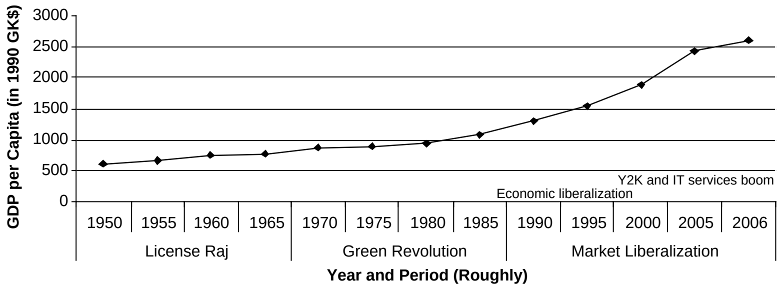

Figure 4. Economic growth and period in India since 1950.
Source: Calculated from the Conference Board and Groningen Growth and Development Centre, *Total Economy Database*, January 2007, http://www.ggdc.net (accessed 18 September 2007) and modeled after Jeffrey D. Sachs (2005, p. 151).

participate in and take advantage of market liberalization; and the accompanying Y2K crisis and the concurrent IT services boom which designate India as a service economy.

Secondly, there are two pivotal moments in Chindian development that most certainly factor into the increase of per capita income graphed in Figure 2. That moment for India was Y2K, as previously discussed. For China, it was acceptance into the WTO in 2001. Lacking the democratic institutions of the Western world, WTO membership was vital to increasing China's attractiveness as a manufacturing platform.

It is not by accident that China became the offshoring location of choice and India became the outsourcing hub of the West. Outsourcing accompanied Y2K: companies that were doing restricted in-house operations transferred those same functions to another company overseas—India, in this case. Then, they "reintegrated the [overseas] work back into [the initial] overall production" (Friedman, 2007a, p. 137). Offshoring physically relocates business processes or part of a manufacturing chain to some place where the same work can be done more cost-efficiently. Neither country could have played the role of the other: China was destined for offshoring and not outsourcing (vice versa for India). Y2K and WTO entry were significant events that reinforced the irrefutability and irreversibility nature of economic reform, but culture plays a considerable role in determining each development model.

Thomas Friedman and Patrick Mendis agree that culture matters. Friedman and Mendis link culture and economic advantage to "glocalization" (Mendis, 2007). Friedman writes, "The more you have a culture that naturally glocalizes—that is, the more your culture easily absorbs foreign ideas and global best practices and melds those with its own traditions—the greater advantage you will have" (2007a, p. 422). India distinctly benefits from a history of absorbing foreign ideas and practices. A dysfunctional political system steeped in socialist bureaucracy held India back, while a foreign exchange crisis and Y2K released Indian commercial character from state control (Mendis, 2007, pp. 341–357).

The same goes for China, although in a different way. Joining the WTO in 2001 was an assurance from the Chinese government to foreign companies that "if they shifted factories offshore to China, they would be protected by international law and standard business practices" (Freidman, 2007, p. 139). While treating non-Chinese citizens or businesses differently than local businesses is a common practice in China, it is not allowed under WTO regulations. This effectively brought a consistent rule of standard business practices to weak Chinese institutions, and bridged the cultural divide exacerbated by a century of isolation from the outside world and a generation virtually fearful of those beyond their borders.

Culture, Politics and Economics

China chronically underconsumes and oversaves, partly enabling America's massive consumption. As Morgan Stanley chief economist Stephen Roach said "… A consumer culture is in the DNA of market-based capitalism and this is not in the experience set of China's macroeconomic managers" (World Economic Forum, 2006, p. 8). Intrepid structural reforms have to be accompanied by familiar statist controls to avoid destabilization. In "bad economic times," suppressed conflicts over the Chinese government's "intolerance of religious and ethnic minorities," the "levels of official corruption" and the exposure of the Chinese worker to "exploitative labor practices" come to the forefront (Spero & Hart, 2003, p. 372). "Thus for political reasons, the Chinese communist leadership [is] particularly anxious to ensure high rates of economic growth" (Spero & Hart, 2003, p. 372).

However, there is another way in which Chinese political culture has the ability to affect the rate of growth: its highly concentrated, top-down capacity to permeate a notoriously widespread socio-economic fabric with reasonable success. "Because China can amass so many low-wage workers at the unskilled, semiskilled, and skilled levels, because it has such a voracious appetite for factory, equipment, and knowledge jobs to keep its people employed, and because it has such a massive and burgeoning consumer market, it has become an unparalleled zone for offshoring" (Friedman, 2007a, p. 140). Not only can China amass, it can direct.

As for mixing culture and politics, American travel writer Paul Theroux comments on a Chinese political advisor in his bestselling *Riding the Iron Rooster*, an account of his travels through a rapidly urbanizing China by train:

> The philosophy of learning from foreigners was spelled out in the nineteenth century by Feng Gui-fen. He regarded all foreigners as barbarians but said it was necessary to use them … "A few barbarians should be employed, and Chinese who are good in using their minds should be selected to receive instruction so that in turn they may teach many craftsmen … we should use the instruments of the barbarians, but not adopt the ways of the barbarians. We should use them so that we can repel them." (1988, p. 320)

Perhaps, and to an arguable extent, this may be the outlook of Chinese government today. While foreign experts (teachers) are welcome in China, their title is faintly derogative, like the word *laowai* ("outside country person") used to refer to foreigners. Just as Japanese government understood that the transfer of American technologies reinforced and promoted Japan's new position in the international system, so the Chinese understand that by attracting foreign interest in the form of low-level manufacturing, they position themselves to ascend the development curve until it is China that leads in research and development, technological innovation and manufacturing.

Chindia. Although China and India are often compared, the two are remarkably different. Figure 5 details the similarities and differences between the two while emphasizing China's lead in growth. Taking Chinese and Indian development markers from the United Nations Development Programme, Figure 5 graphs them relative to scores earned by the US in the same categories. China's economic development, measured as the growth rate of GDP per capita, has remained constant since 1975. India's has been more recent, increasing since 1990. Chinese FDI net inflows have roughly tripled since 1990 while India's have increased seven-fold, yet India's still represent a much smaller percentage of GDP. India's total population is increasing faster than China's, but the overall annual growth rate is declining at the same pace.

Cultural influences on Indian development markers are irrefutable. India's Hindu-sourced caste system has long contributed to gross social disparities in education and income. Even so, there are reasons to be optimistic regarding India's future development: it is India alone whose growth occurs in the presence of an enduring struggle to reconcile Hindu nationalism with necessary multiculturalism and pluralism. There is perhaps no better guarantee for protection of the civil liberties of minorities than the processes of democratic governance—processes which India possesses and China does not.

While India clearly lags according to United Nations methodology, her strengths tend to be China's weaknesses. "It is the nature of the Hindu religion to be tolerant and, in its own curious way, permissive," writes British historian Paul Johnson. "Under the socialist regime of Jawaharlal Nehru and his family successors the state was intolerant, restrictive and grotesquely bureaucratic. That has largely changed (though much bureaucracy remains), and the natural tolerance of the Hindu mind-set has replaced quasi-Marxist rigidity" (Johnson, 2004, paragraph 2). Innate

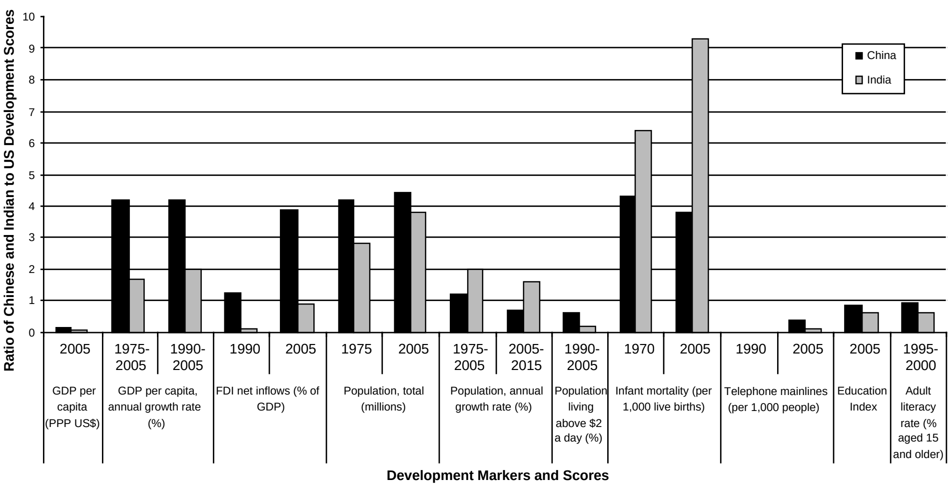

Figure 5. Chinese and Indian development relative to the US (1975–2005).
Source: Calculated from statistics presented by the United Nations Development Programme, *Human Development Reports*, Build your own tables heading, (2007/2008), http://hdr.undp.org/en/statistics/data/ (accessed 26 December 2007).

tolerance and the "consensus approach" inherent to democracy are more likely to ensure the stability of India's reforms (Gurumurthy, 2006, p. 2).

This is why the services industry mainly bears an Indian face: India's designation as a service economy is culturally predetermined. The subcontinent is not unique in having access to globally-connective technology. What is it about Indians that allowed them to use these opportunities to their best advantage? Billionaire philanthropist Vinay Rai offers this insight into the Indian mind and culture:

> ... Inherent abilities for multitasking, multiprocessing and diverse thinking—reflections of our diverse multicultural environment—are strengths that contribute to making India a talent hub. The spiritual and cultural heritage of the Indian people empowers them with an innate sense of action to deal with all kinds of challenges and situations—an ability greatly valued in the business world. (Rai & Simon, 2007, p. 163)

The assets which distinguish India from Chinese low to mid-level manufacturing are inherent: English language skills, IT and management education, hands-on experience and a "soaring innovative streak and driving entrepreneurial spirit" (Rai & Simon, 2007, p. 244). While the Chinese regime can command a factory to increase its output, writes Rai, it cannot demand that its citizens "innovate better" (Rai & Simon, 2007, p. 244). To go further, while trade and economic liberalization accounts for much of Chindian growth, Chinese FDI is a sizeable substitute for "domestic entrepreneurship" (Huang & Khanna, 2003, p. 75). Under pre-reform communist rule, all enterprises were state owned. Post-reform, these same enterprises are still protected by the state from competitive, privately owned firms. This is why Chinese goods find their way to American shelves but are not marketed by businesses operating on a global scale—a true indicator of mature capitalism (Huang & Khanna, 2003). To an arguable extent Chinese private enterprise continues to serve the state, and India continues to edge out China in terms of entrepreneurship development.

India has not sought foreign investment to the same extent as China, perhaps owing to distaste for external influence from her days as a colony. The country brings $5 billion in FDI inflows which represent less than 1% of GDP, as compared to China's $50 million—at one point over 4% of GDP (Bosworth & Collins, 2006). Big businesses such as Jet Airways, Infosys, Reliance Industries and Wipro Technologies, The Indus Entrepreneurs (TiE) Network, and the microfinancing, solidarity-lending Grameen Bank are symbols of India's entrepreneurial success and systemic experience. Growing privatization of a public sector in poor health indicates that while bureaucracy may be steeped in socialism and slow to change, Indians are not.

Strengths and weaknesses. What does it all mean? China scores well on paper, but sustaining the rate of growth achieved through transition from communism to "state-directed capitalism" is much more difficult when faced a new transition: from "dirty to clean," or extensive to intensive growth (Friedman, 2007b). India's needed areas of improvement are obvious: infrastructure, infant mortality, illiteracy and deep poverty are among the challenges facing the subcontinent. Even so, the World Economic Forum's Global Competitiveness Index rankings for 2006 puts India at least 10 spots above the nearest BRIC, China. "Efficient capital markets, quality of public institutions, and a sound judicial system, among other factors, account for India besting her competitors," opines Rai (Rai & Simon, 2007, p. 245). This is because the authoritarian Chinese regime causes a systemically inherent dichotomy by creating wealth through "authoritarian discipline and centralized decision-making," instead of through individual, democratic participation (Rai & Simon, 2007, p. 246).

As a melting pot of religions, races and cultures, India understands how to navigate the complexities and ambiguities of the international landscape. Years of Bangalore brain-drain and India's own Bollywood provide ample exposure to Western thought and values in ways that relatively homogenous China has only begun to experience. As Chinese entrepreneurialism serves the state, India's endures despite the state.

Conclusion: The Nature of Hinduism and Chinese Pragmatism

Why does culture matter in economic development? Former Prime Minister of Singapore Lee Kuan Yew famously commented on the effect culture has on the social role of government. Musing on the success of Singapore's development in a *Foreign Affairs* interview, the venerated patriarch remarked:

> We have focused on basics in Singapore. We used the family to push economic growth, factoring the ambitions of a person and his family into our planning. We have tried, for example, to improve the lot of children through education. The government can create a setting in which people can live happily and succeed and express themselves, but finally it is what people do with their lives that determines economic success or failure. Again, we were fortunate we had this cultural backdrop, the belief in thrift, hard work, filial piety and loyalty in the extended family, and, most of all, the respect for scholarship and learning. (Zakaria, 1994, p. 114)

Yew believed that when "cultural factors are lightly touched over" for the sake of universal application, the complexity of cultural and economic study is sacrificed (Zakaria, 1994, p. 116). American culture is uncomfortable with the idea that all people may not be the same. Cultural variants are natural when groups evolve in different locations. Shunning study of inherent dissimilarities between cultures because of political correctness sets policies up for failure simply through inability to address social realities.

If culture is the root cause of America's social problems, it explains the empirical success of Singapore's comparatively plague-free civil society. This article does not purport to determine whether cultural behaviors are inherent or learned, however. Yew's views represent a spectral extreme, but there is no doubt that social awareness affects policy-making which in turn chooses the development model. Culture determines the depth and fortitude of national identity, which in turn forges national ideologies and approaches to economic development. Culture also shapes attitudes toward foreign products, foreign competition and consumption. This is the universal appeal of a market economy: it remains culturally (though not ideologically) unfettered, able to function in and adapt to any geographic location making it an ideal development model. The manner in which a country culturally integrates that model adds nuances that will either enhance or impede its chance of success, in terms of development. This integration is a natural reflection of the culture itself.

Having experienced and exhausted the boundaries of ideology, Chinese reform seems nothing if not pragmatic. WTO membership made China a viable global manufacturing hub. Whether the Chinese can transform that into industrial dominance—a true sign of a world power—without challenging the resilience of its lasting regime is yet to be seen. Indian reforms are gradual, but appear poised to result in more sustainable economic growth. Shunning the classic Asian model, India's growth is the result of entrepreneurship, not investment or state planning. India's poor policies compare with Chinese heavy-handed state policies: both have proved developmentally debilitating, but one appears more malleable to change.

This analysis has made some observations on Chinese and Indian culture after briefly providing historical context, detailing the impact culture can have on the direction of economy, and how this may have affected Chindian paths of development. Some societies seem more progress-prone than others. Formal, institutional rules "can be readily changed as a matter of public policy; cultural rules cannot, and while they change over time, it is much harder to direct their development" (Fukuyama, 2004, p. 29). The difference in capacity to transform human capital into economic growth is linked to socially-innate behaviors shaped by tradition and norms, and accounts for the variety of development models. While the path taken to economic development can differ remarkably, a country's cultural endowments make up the pilings of the bridge that enables the industrial leap.

This article represents neither the policies of the U.S. government nor the views of the affiliated institutions of the authors. Any opinion, findings, and conclusions offered are those of the authors and do not necessarily represent the views of the U.S. Departments of Defense or State where both authors have served.

Notes

[1] The estimates Maddison's Historical Series offered are somewhat not exact, especially from centuries ago but serve our purpose here. See Angus Maddison (2007). See also http://www.ggdc.net/maddison/ under Historical Statistics heading (accessed 4 October 2007), World Population GDP and per capita GDP 1-2003 AD link, Table 3.

[2] See www.freetheworld.com for an up-to-date report (accessed 9 October 2007).

[3] "Testimony on the impact of overvalued dollar on the American economy," (US House of Representatives Committee on Small Business: Testimony of Robert Blecker, 25 June 2003). Available from the Economic Policy Institute at http://www.epinet.org/content.cfm/webfeatures_viewpoints_dollar_value_testimony (accessed 9 October 2007).

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