

# A Double Book Review on China and Culture Based Development

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## Abstract

This book review applies the Culture Based Development introversive and extroversive analytical lenses when assessing two books: *Red Flags* (by George Magnus, 2018) and *The Next Factory of the World* (by Irene Sun, 2017). The review identifies a series of cultural and institutional questions that can be a genesis for future research on China. We identify opportunities to replicate and extend prior cultural economic and institutional analyses and to develop new pathways for novel cultural economic explorations.

**Keywords:** *culture, institutions, China, introversive, extroversive, cultural distance, cultural relativity*

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## **Intro – CBD Introversive and Extroversive Book Reviews – More Ideas for a CBD analysis of China**

Both books selected and presented here in this double book review are bestsellers on the recent economic development of China. Millions of copies of each book were sold and both have been reviewed previously (see Khanapurkar 2019; Rajwar 2022). The reason why we have selected these two books is that they contain a profusion of institutional and cultural leads, hints and ideas that can be further elaborated through application of the Culture Based Development analytical approach, presented in this Special Issue. Previous reviews did not discuss the cultural and institutional aspects of the books in enough depth. Thus, we bring forward the focus on an important common aspect in the two books – culture and elaborate on the introversive and extroversive cultural economic perspectives of the books. Below we present the structure of each book, followed by some suggestions for the cultural leads in each chapter, which we suggest for future CBD analysis.

### **Review: Red Flags (George Magnus, 2018) – Through the CBD Introversive Approach**

The author of Red Flags, George Magnus, is a person who has dedicated a major part of his professional life to working in close presence and cooperation with the Chinese reality. For many years, he has spent period of time in China and has traced the development of the country from close, being engaged in analysing its economic evolution and political processes. Thus, the analysis he provides of the current state of economic affairs in the country is naturally seeped with a deep understanding and precise perception of what is culturally natural and expectable from China. This asset of the book, while not necessarily intended by the author, is a very valuable and richly present aspect of the book, leaving cultural leads in every chapter of the book, as will be elaborated below. The ten chapters of the book are grouped in three main parts: (i) Part I, covering the period from the 19th century until the forming of the People's Republic (this extends in the first three chapters of the book); (ii) Part II, which covers the main traps, as Magnus calls them, or the main internal economic challenges in front of China's economic development today (developed in Chapters 4 to 7); (iii) Part III, extending over the last three chapters of the book, which dwells on the presence of China in the global system, focusing again on the main challenges that this country faces, as Magnus sees them. Each chapter in each part offers a clear cultural lead for further food for thought from a CBD perspective.

Part I of the book is the one particularly rich of cultural inferences. Chapter 1 discusses what Chinese collective memory terms "the century of humiliation". The humiliation consists of the fact that in 1920 China was believed to possess over 33% of the world GDP, while in modern times it was belittled and subdued to the West domination. This narrative, although as correctly pointed by Magnus challenged in its factual precision, is still part of the Chinese collective memory. We would suggest here that this narrative is apparently a source of cultural resistance that decreases the appeal of change and modernization that may bring China closer to the West than to its own cultural roots. Moreover, we expect that the geographical spread of this cultural narrative is particularly interesting as a predictor of the development of the reforms in China. Next, Magnus offers a series of innovations, including agricultural ones, that China pioneered

such as textile production, waterpower, private ownership, and basic property rights. As we know from Alesina et al. (2013), the development of the plough and the geography of its adoption in space was crucial for the cultural evolution of the West. Thus, we suggest that the geography of these innovations in China might be particularly important for the geographical spread of the reform in China. Next, particularly interestingly, Magnus reminds us that China invented paper as a substitute to silk and bamboo and the movable printing technology about a century before Gutenberg introduced the printing press in the West. As we know, the latter has an important impact on the development of the West (Dittmar and Seabold 2019) and studies have shown that the bamboo plantations had an important development for China (Chen et al. 2020). Thus, we assume it is further worth asking whether the geography of these innovations has a cultural persistence effect on the reforms that Magnus's analysis is concerned with. Last but not least, the distance to Wittenberg has been shown to matter as a centre of new cultural milieu and new thinking in Germany (Becker and Woessmann 2009, 2010). We ask how the distance to Confucian's bureaucratic centres is related to the spread of the reforms in China today, given the well described by Magnus role of the bureaucratic culture that this place introduced.

Chapter 2 deals with the development in China over the different dynasties from Mao through Deng (with a special accent to the latter) to modernity. This part is engaging with the question of China opening up to the world. The examples given by Magnus himself shows that the Chinese opening up is a subject to a potentially strong cultural distance bias. Certain similarity in the experiences between Hungary and China was the foundation for China starting to adopt certain ideas through the Hungarian channel. We ask here – can the cultural distance with other Western partners be measured and factored in to quantify the degree of Chinese opening up to influence from abroad?

Chapter 3 delves on the end of “extrapolation” for China, i.e. a debate on where the reforms in China were successful and where there are still open issues to develop and modernize. We ask here, especially regarding the energy and water aspect, how does this relate to the cultural historical distribution of waterpower management in China in the pre-age of the humiliation period? Is there any cultural persistence in these patterns, in terms of higher environmental sensitivity in places that were previously centres of waterpower management? Such persistent cultural patterns are documented by Fritsch et al. (2020) in the distance to the Roman wall in Germany and in post-Germany colonies and their entrepreneurial levels in Kaliningrad (Fritsch et al. 2019). Is there such a cultural persistence effect documentable in China in the implementation of environmental policies?

Part II starts with Chapter 4 which discusses the debt problem of China, the presence of shadow banks and riskier products and asks whether inflation or deflation will be adopted as a policy to address the debt problem and what the socio-economic consequences will be. We know that banks are institutions that respond to cultural and geographical distance biases (Hahn 2014). Thus, feeding on the rich information about the centres of Confucian bureaucracy many interesting CBD questions can be asked about the variation in shadow banking throughout the country. Similarly, the socio-economic consequences across China from either inflation or deflation can vary as economic shocks, according to CBD, are subject to cultural hysteresis in

terms of how they are received in different cultural milieus (Tubadji et al., 2016).

Chapter 5 discusses the ability of the Renminbi to maintain a status of a stable currency that can be a global currency, and the structural problems that challenge this possibility. The curious cultural element here is the desire of China to create local partnerships while avoiding the most beneficial tie between the Renminbi and the IMF. The question that we raise here is what is the trade-off between the preference for cultural proximity and one's rational economic interest?

Chapter 6 is devoted to the demographic problems of China, the aging that goes faster as a process than the growth and distribution of income. The demographic issues in China raise many cultural and institutional questions. Clearly, China is aging and the one child policy of China that existed for years is only aggravating this matter. The aging has two cultural aspects. On the one side, the consumption and saving preferences change with aging. We know from happiness and cultural economic studies that more mid-career people are likely to feel most miserable, most engaged in relative comparisons with peers, and hence most prone to conspicuous consumption rather than saving. This on aggregate level will of course result in what Magnus predicts as decreased savings and investment rates. Furthermore, it is a question to what degree the one child policy has become a question of new living culture habit. There are many studies that reveal that the allowance of more than one child is not always taken (Hvistendahl 2010; Shen and Jiang 2020). The dialectic interplay between culture, institutions and economic development has a lot to learn from this aspect of the Chinese demography and economics.

Chapter 7 continues the topic of income, accentuating on the middle-income problem in China. Specifically, the quality of governance and institutions as determinants for ensuring a healthy middle-income class and economic growth in China is debated. The middle-income trap was coined as a term in 2005 by World Bank economists, Gill and Kharas, as pointed by Magnus, and its essence is that the consumption pattern of the country and its public investment needs will not match, as well as the needs for investment in technology. But this, more than any other chapter of the book, raises questions about the interplay between individual consumption behaviour and its values and the overall behaviour of the system. The answer to this question is clearly in the interaction between the individual and her milieu and the taste for redistribution and public good consideration, which are cultural and institutional questions.

Part III offers a different cultural angle on China, asking whether the Chinese economy can be a global power when being loyal to its cultural and political worldview. Chapter 8 is dedicated to the topic of Chinese trade. It debates the USA-China trade deficit and the trust deficit experiences of China. The second aspect is particularly related to what CBD calls cultural distance. One way to explore the role of cultural distance in the building of trust and taste for cooperation preferences in trade is shown in the paper *"Tea for two: language and bilateral trade with China"*, available in this Special Issue. This paper uses linguistic proximity to express the extent of cultural distance and trust between China and its trade partners. It is also important to consider the reverse aspect – which parts of China internally are most open to trade with the world, after controlling for the geographical advantages of some areas for trade and whether there are cultural barriers and frictions in this process.

Chapter 9 engages with the famous Road and Belt initiative of China, which is questioned in its international intentions and impact. Ryan Kapma's paper in this Special Issue, entitled "*The Belt and Road Initiative and Cultural Bias in Bilateral Trade with China*", is inspired from this Chapter 9. The paper demonstrates how the doubts raised by Magnus can be explored in terms of the cultural distance in the impact from the Road and Belt initiative. Similar analysis with cultural distance involved can be carried for all sub-projects of the Road and Belt initiative, replicating Kapma's CBD application for Israel. Furthermore, from an introversive perspective it can be analysed which parts of China itself get involved in the Belt and Road initiative.

Chapter 10 raises an exciting question whether economic development can indeed be achieved by an authoritarian regime, in terms of achieving real equality, adequate care for the environment, and rigorous technological innovation. As the book notes, such an achievement will be a first in human history. Two papers in the current issue engage with what is culturally possible in terms of development in China, beyond the predictable based on the western experiences and expectations for political regimes and formal institutional structures. These are the papers "*Culture-Based Development in the Regions of China*" and "*Capitalism and Confucianism: was Weber right?*". The first asks what the cultural heritage foundation for the quality of modern governance across Chinese regions is. The second asks whether Chinese Confucian institutions are conducive to modern economic development. Further, CBD explorations can be done in the same vein by looking at what are the cultural values related to equality, environmental friendliness, and innovation. The distinction between the cultural and institutional impacts on growth are particularly interesting from a CBD perspective, as CBD sees culture as a proto-institution that can evolve and change all other informal and formal institutions. Put differently, could there indeed be identified a cultural species of China (as termed by Herrmann-Pillath, 2006) that explains some institutional and economic development?

In sum, George Magnus outlines many important issues and challenges for China in each chapter of his book, and each of these challenges has a cultural and institutional ring to it. Understanding the current geography of these challenges and predicting the development of the problem based on the cultural persistence of the localities is one way to apply the introversive CBD approach to the analysis of China's economy today.

#### **Review: The Next Factory of The World (Irene Sun, 2017) – Through the CBD Extroversive Approach**

After spending years interviewing private Chinese entrepreneurs in Africa, Irene Yuan Sun drew us a picture of the real life of Chinese businessmen in Africa, focusing on their personal stories, relationships with locals as well as the impacts on Africa. Sun graduated from Harvard Business School, Harvard Kennedy School, and Harvard College and had the experience of serving as a secondary school teacher in Namibia. The book *the Next Factory of The World: How Chinese Investment Is Reshaping Africa* tells the story of what happened in four African countries: Nigeria, Lesotho, Kenya, and Ethiopia. The book consists of eight chapters. The first four chapters dwell on the reasons why the Chinese investments could work and even be successful in Africa –

suggesting explanations that span from what is known as the “flying goose theory” (as explained below) to the adventurous “gambling” mindset of the Chinese. The next four chapters discuss the social and economic possibilities and opportunities that Chinese investors have brought to Africa. These new possibilities are deeply related with cultural and social factors, which are crucial for understanding how China developed its economy and why China contributes to developing African economies.

In the first chapter, Irene Sun talks about the failure of *leapfrogging* development which suggests that African countries could skip industrialization and become economic entities based on service industries by constructing better institutions and policies. Sun suggests that instead of *leapfrogging*, the *flying goose* theory is more applicable at explaining what is happening in African countries. As Irene Sun clarifies in her book, the *flying goose* theory was renounced in certain academic circles in the mid-20th-century with Japanese ideas explaining the East Asian economic rise with the pattern that industries will migrate from region to region and will switch from product to product according to the local level of production costs and needs. To explain the case of Africa requires us to look at both social and economic aspects. The book demonstrates how both China and Africa have the memory of living in poverty and have faced pressure from the West. The experience of living in adverse conditions would shape their mindsets and attitudes about the necessity of life, which is directly related to the way they prioritize their needs for societal and economic development. We suggest that one thing to study this from an extroversive CBD perspective is to look at how people across countries would evaluate the importance of different aspects of life, in order to understand how their evaluations affect their economic decisions and collaboration.

Chapter two talks about today’s rebirth of African industries and the previous industrial decline in Nigeria, which is due to macroeconomic shocks, an incompetent government, and intense international competition. This is a turbulent context that requires psychological endurance to survive in it. It suggests that the secret of success of Chinese investment could be attributed to their personal commitment and willingness to stay. As commitment and loyalty are highly regarded in Chinese culture, it potentially makes the Chinese more willing to endure in unfavourable environments rather than exit. Thus, we suggest that one potential CBD angle of study here is the comparison between the intercultural differences in culturally trained psychological resilience (related to willingness to stay in the new turbulent place) of the foreign (Asian versus Western) investors that might be the reason why we observe more successful Asian investments in Africa.

In chapter three, the author describes how Chinese-invested factories are diversified across Africa. Whether it is labour- or capital-intensive, Chinese investors adopt different investing strategies which in turn strengthens their business resilience in the face of economic disturbances. It shows that Chinese investors are flexible and adaptive. Moreover, it potentially reflects one characteristic of Chinese investors --- they are highly need-driven, which means their entrepreneurial motive is more about making a livelihood than about fulfilling their creative business visions. Thus, from an extroversive CBD perspective, we suggest that it might be worth comparing the motives and individual traits of investors from China with the traits of investors

from other countries in order to gather comparable insight into the mindsets of Chinese investors.

As a future examination into the mindset of Chinese entrepreneurs, chapter four depicts the Chinese business adventures as bribery, smuggles, and occasional industrial accidents. On the one hand, considering the enormous amounts of efforts and sacrifice people made to run businesses in Africa, it is easy to understand why Chinese are not reluctant to cross certain lines. On the other hand, having developed their economy in a backward institutional environments, these people are used to conducting their business in an “informal” way. This posed the question regarding the individuals who made their fortunes during the near past periods in China, with China improving its institution and regulation system, would these individuals be still thriving under the new institutional regime or they would be limited in their ability to do business? Moreover, which people will get to enjoy the new opportunities in the new era of China and which will seek shadowy opportunities in less developed places in the world? A negative cultural spillover from the development of China for territories around the world can be another interesting extroversive topic of analysis.

Chapter five depicts the industrialization process in Africa and how it led to both industrial related “dehumanizing transformation” from working in plants as well as social economic opportunities. The chapter mentions the unavoidable conflicts between Chinese business owners and their African employees, due to cultural and racial differences. However, as has been noted by the author, racism might not explain these conflicts. Rather, we suggest here that one aspect to study about Chinese investment in Africa is to compare the relationship of African people to Chinese investors and also to Western investors, and look into the racial and cultural attitudes of these two sets of investors toward the human relation in business. This comparison might offer us some insights into the right cultural factors that contribute to the success of cross-country cooperation in Asia and Africa and how much the “human factors” influence business outcome more generally.

Chapter six tells the importance of trust as an essential ingredient for economic success. Chinese society is known to build on interpersonal relations and Chinese are better at making informal relations than formal relations. In this context, the ability to build interpersonal relations might be crucial for conducting business in an under-constructed institutional environment, such as Africa. Thus, we could look into whether Chinese people are better at building interpersonal relations with people from outside China, and whether this assists their businesses in Africa only or internationally, perhaps dependent on the local cultural milieu in different countries.

Chapter seven focuses on the role of institutions and how the co-evolution of institutions and economy progresses together. Institutions seem not to be fixed but malleable to better fit social and economic contexts, while also taking local cultures and social norms into consideration. Why and how previous efforts of building better institutions in Africa (such as the Washington Consensus) had failed is something that we suggest should be studied in an extroversive CBD approach. Namely, we suggest that for people living in a certain locality, in order for a particular institution to be effective, it should not add to people’s overall costs, consisting of social,

economic, and other types of costs. The failure of a certain formal institution or business entity to establish itself in a place might be because it adds a certain intangible burden to its users. And this burden, this cost, might be both economic or an intangible cultural cost (e.g., dealing with intercultural differences in the work process). In the context of developing economies with under-developed institutions, like Africa and China, these costs might be implicitly better understood and optimized due to cultural proximity.

Chapter eight talks about the building of a pharmaceutical project in Ethiopia, which contrasts investing attitudes of the West and China. The former is careful and calculative, while the latter is optimistic and confident. This type of optimism and confidence, can be interpreted as a different form of “rationality” (Kalberg 1980), as documented to be different from the West's gender employment policy of modernizing China, as discussed by Summerfield (1994), or what indeed Weber originally called a different cultural attitude (Weber 1905, 1915). In addition, attitudes stemming from certain past Chinese economic experiences may indirectly shape Chinese entrepreneurs' mindsets and expectations in ways much different from the Western entrepreneurs in terms of their way of decision making and their way of shaping of their strategies. Thus, in order to understand the Chinese economy, we need to dig deep into its cultural traits and how it shaped their use of different types of rationality in terms of their economic activities.

In summary, contrary to the thinking that there could be a prescribed route to economic development for Africa, so far, the Chinese way is relatively more practical. In practice, it recognizes the differences of local cultures and conditions and optimistically seeks informal channels to solidify the cooperation at the micro level. This can be described as the Chinese concept to “cross the river by feeling the stones”. This concept was propelled by the former Chinese leader Deng Xiaoping in his speeches and Irene Sun used it as the title of her Epilogue. Very much in agreement with Sun, we suggest that as an extroversive CBD approach should be used to analyse not only how the differences in rationality are fundamental explanations for differences of the Chinese investment style in Africa and the Western international investments in Africa, but also to account for and explore how the success of the Chinese approach may depend on the local recipient cultures.

### **Conclusions of the Double Book Review**

This double book review demonstrates how the Chinese case offers many further opportunities to both replicate and extend cultural and institutional research, and to notice novel aspects from the Chinese attitudes that may help disentangle the lack of success in certain attempts of the West to collaborate economically with the rest of the world. Thus, the Culture Based Development value free analysis of values (Tubadji 2020) is made easier to understand as an approach where no cultural determinism is applied and instead the cultural relativity of values vis a vis their contribution to different socio-economic targets is recognized. Eventual adoption of this non-deterministic cultural analysis will be a paradigmatic shift in the cultural economic analysis of the world economy and its disparities and fluctuations in space.



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