



## VÝCHODNÁ ÁZIA: KULTÚRNE ZÁKLADY A TRHOVÉ PARADIGMY

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### EAST ASIA: CULTURAL FUNDAMENTALS AND MARKET PARADIGMS

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Hoci súčasná globalizácia eliminuje a zahmlieva rozdiely medzi kultúrami rôznych regiónov, historicky zakotvené myšlienkové inklinácie a preferencie rozličných kultúr zohrávajú dôležitú úlohu v prístupoch pri riešení mnohých problémov dnešného sveta. Rozdiely kultúrnych základov medzi krajinami východnej Ázie a západnými krajinami sa prejavujú v celom rade konceptov, svetonázorových postojov, hierarchiách hodnôt a odrážajú sa v odlišných sociálnych konštrukciách, organizačných modeloch, vládnych schémach, ako aj v ekonomických systémoch a podnikateľskej kultúre. Prejavujú sa v individuálnych i systémových prístupoch. Rozsah odlišností ich sociálno-kultúrnej identifikácie je tak veľký, že môžeme hovoriť o rozdielnej „geografii myslenia“. Článok vysvetľuje historické súvislosti a základné faktory, ktoré sa podpísali pod tieto divergujúce koncepty a prináša ich manifestácie v trhových mechanizmoch a ekonomických aktivitách týchto krajín.

Kľúčové slová: civilizácie, konfucianstvo, myšlienkové inkubátory, koncepty interakcie, schémy vládnutia, implikácie na dnešný svet

Although the current globalization eliminates and blurs differences between cultures in various regions, historically grounded thinking inclinations and preferences of various cultures play important role in attitudes to solutions of many world problems. Differences of cultural fundamentals between East Asian and Western countries are mirrored in numerous concepts, worldviews, hierarchy of values and are reflected in different social constructs,

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organization models, governance schemes as well as in economic systems and business culture. They are present both at individual and systematic approaches. Scale of dividing lines of their socio-cultural identification is so great that we can talk about different “geography of thoughts”. The paper explains historical circumstances and basic factors that have subscribed to these divergent concepts and elaborates on their manifestations in market mechanisms and economic activities of these countries.

Keywords: Civilizations, Confucianism, thought incubators, concepts of interaction, governance schemes, implications for today's world

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## **1 INTRODUCTION**

General comparison of Eastern and Western cultures includes many disciplines, such as philosophy, psychology, archeology, sociology, political science, history, economy, business practices and can be traced through the various corridors of perceptions. The main objective of the study is not to bring fully exhaustive comparison of Eastern and Western cultures, but to examine some of the most important processes through which these two cultures in a parallel way have developed their divergent features and how their cultural specificities have been manifested into social constructs, organizational models, government schemes, solution approaches as well as into economic systems, market paradigms and business cultures. The study focuses on basic conceptual differences between the West and Confucian East through a prism of historical evolution and elaborates on a shaping of major factors of cultural fundamentals, main “thought incubators”, basic “man – nature” and “man – man” frameworks as well as divergent concepts of “harmony-relationship” for the East and “liberty-individuality” for the West. Following explanation of philosophical differences between the West and Confucian East the paper analyzes how these conceptual differences are mirrored in economic systems, market models and business practices. The purpose of the study is to contribute to understanding of the connectedness between cultural fundamentals and economic activities of East Asian countries and to elaborate on broader conceptualization how their cultural and social factors have subscribed into their economic success.

## **2 DEFINITIONS OF THE TERMS**

“West” and “Western” are the terms referring to European and North American cultures that have been dominating international order in the modern history from the time of colonization. Their values are based on democratic principles, individual rights, rule of law, open debate, market economy and on ontological approaches in philosophy. The cultural orientation of the West is based on Judeo-Christian values and on the Greco-Roman heritage.

“East” and “Eastern” are the terms taken in this paper in a specific context and are referring, from a cultural point of view, to countries affected by Chinese Confucianism,

namely China, Japan, Korea, Hong Kong, Singapore, Tai-wan, Vietnam and with regard to business aspects also to strong Chinese communities in South East Asia. In other words, the East is defined as a summary of societies and social groups, sharing Confucian values. They are called "Confucian Asia" or "Confucian East Asia". "East Asian economies" is the term affiliated in this paper with the countries Japan, South Korea, Hong Kong, Singapore, Tai-wan.

"Confucianism" is a term denoting the essence of Chinese tradition that has spread through centuries across East Asian region. By the late nineteenth century, the whole East Asian region was thoroughly "Confucianized", that is, Confucian values and practices penetrated daily lives of people and the whole system of government were justified with reference to Confucian ideals. Confucian teaching is associated with the person of Confucius (approximately 551-479 B.C.) and his followers - Mencius (approximately 371-289 B.C.) and Xun Zi (approximately 313-230 B.C.). Confucianism is not a religion, it does not possess belief in gods and avoids metaphysical and ontological questions. It represents an ancient moral and ethical code. Confucianism together with Taoism and Buddhism represent a harmonious unit of three basic teachings in Chinese history of thought. Within this "triangle" Confucianism and Taoism are syncretic and highly complementary.

### **3 SHAPING OF CULTURAL FUNDAMENTALS**

For understanding the cultural fundamentals one should start to look at broader scope of time and space how did humankind in its long journey on our planet almost simultaneously two to three years ago, began to formulate distinct civilizations in so many regions of the earth. The crucial breakthrough is thought to have occurred around fifty thousand years ago with appearance of Homo sapiens (intelligent humankind). Homo sapiens had to wait around forty thousand years until the end of the Fourth Ice Age around 10.000 BC when they could move from nomadic hunter-gatherer lifestyle to a sedentary pattern of agriculture and animal husbandry. This changed human affairs in a revolutionary way. Around 3000 BC the writing marked the beginning of human history as opposed to prehistory. The dawn of first urban communities appeared with new political, social, ethical problems. Knowledge began to increase settings in motion of a cultural evolution as opposed a merely biological one. Finally, around one millennium BC the accumulation of knowledge and facing problems began to reach "critical mass" in societies all across the globe. It was at this stage when gradually, around 500 years BC, most of major religions and teachings appeared – Judaism, Zoroastrianism, Hinduism, Taoism, Confucianism, Buddhism and later on but still at this stage of evolution - Christianity and Islam. They subscribed strongly in forming two different concepts – "harmony-relationship" for the East and "liberty-individuality" for the West. These contrasting approaches further developed through Greco-Roman tradition and Judeo-Christian religions in the West and Daoism and

Confucian teachings in the East into number of distinguishing attitudes, world perceptions, thinking inclinations, social constructs and organizational patterns of the society.

### ***Nature environment***

Physical environment and its role in the evolution of Eastern and Western civilizations can hardly be overemphasized. Land and sea played important parts in generating cultural frameworks. It created a context of living conditions that influenced the shaping of cultural fundamentals in the East and West. Though the large expanse and east – west axis of the Eurasian continent provided both Europe and China with favorable environment for producing complex civilizations such as long-crop season, number of sorts of animal husbandry, species diversity and opportunity to interact with new inventions from other regions, on the other side, Europe was very different from Chinese landscape. While China was situated in low latitude with abundance of fauna and flora, Europe was covered by ice sheets throughout the Ice Age. Nature conditions started to form different modes relating to nature, family, community and different patterns of behavior and living in those relevant regions. Geographic confinement was another important factor. Chinese culture essentially developed in isolation, thousands kilometers, from the two cradles of Western civilization. Vast distance and difficult terrains separated China from the West and it has persisted until the Silk Road was opened two thousand years ago. This was in sharp contrast with the development of ancient civilization around the Mediterranean, where open communication and cross-cultural exchange were common (Tai 2015).

### ***Extrovert versus introvert cultural orientation***

Western civilization has become extrovert and expansive oriented focusing on exploration, exploitation and expansion. In such a civilization individual initiative was cherished and individual liberty became the ultimate value. Though there were periodic fluctuations in the West, for instance during medieval society, yet the mainstream West remains, from a broad perspective, characterized from Greco-Roman times to the modern era, by liberty ideas. Law and force were the major tools to be employed to manage society problems. Ethics and harmony between individuals was of secondary importance as the prospect of immediate profit urged and favored initiative and freedom. These two features as positive aspects are the flipside of its negative characteristics - exploitation and absolutism (Choi 2016). The East, in contrast to the West, has given a rise to introverted civilization reliant on ethics. It was the quality of modesty, moderation, humility and balance that became recommended as human virtues instead of vitality, absolutism and extremism. As China lived in a much more circumscribed environment than the West, Chinese social life was highly interdependent and it was not the liberty but harmony that was watched, harmony of humans with nature for Taoists and harmony of humans with other humans for

Confucians. With its highest imperative on harmony the East was not keen in focusing on individual liberty for keeping order. But the East had also to pay its price for not expansive culture. To confront the world is a way to free oneself and through resistance to make a way to liberty. This had subsequent impact on cultural and social development.

### ***Contextualization versus categorization***

Concepts of liberty for the West and harmony for the East were the elemental seeds, from which defining features of these respective civilizations blossomed. From these seeds grew the Western tendency of categorization (partition/separation) and Eastern tendency of contextualization (unification/integration). In other words, Western thinkers tended to detach elements from the context for their categorical consideration and discern characters of objects as separated individual entities (reductionism). Eastern thinkers in contrast tended to consider elements within context of relations, to discern objects in a complex environment focusing on relations while considering the whole much more than a sum of its elements (holism). The West had and still has the tendency to organize the world in terms of categories while the East perceives things in terms of context, in their relationships. Western focus on individuality and Eastern focus on relationships engendered two contrasting thought systems that impacted their social and economic life.

### ***Laws and liberty versus ethics and harmony***

Great teachers of the critical period were facing the problem how to lead the critical mass of people toward order, peace and self-preservation amid constant fears of raid, piracy and warfare. Laws and ethics were two fundamental concepts and two primary means they found to achieve their goals. Western expansive world gave priority to laws that guarantees the liberty, on the other hand, Eastern circumscribed world gave priority to ethics that promotes the harmony. There is a clear difference between these concepts with longstanding consequences. In the East, in contrast to the West, within the social groups, any form of confrontation such as a debate was discouraged in the pursuit not to undermine harmony. Confucian social structure and code of conduct supported this “non-rebellion” mentality and suppressing individual identity. The person was first and foremost not an individual but a primarily member of a collective or a clan, village and especially family. The individual was not, as for Greeks, an encapsulated unit who maintained a unique identity across social settings. In Confucianism, there can't be a man in isolation but only as a part of relation network.

### ***Complementarity versus dichotomy***

Ancient Greeks in the West defined two mutually exclusive spheres of reality – “the sphere of being” (human being with limited knowledge) and “the sphere of becoming the multiple and unlimited knowledge” (God - Spirit) that served as a basis for Western metaphysics. It represents perception of two different “worlds” separated from each other. This kind of thinking is connected with the western propensity of ontological issues. Principal view was a separation and exclusivity of elements, not their mutual interconnectedness. Opposites were considered as contradicting, not complementing and soul and body as two separated things. In Eastern culture the *yin-yang* philosophy represents the foundation of Eastern thought and is accepted by all schools although it is associated particularly with Taoism. This ancient concept implies interconnectedness between opposites (sun/moon, summer/winter, male/female, active/passive, creative/receptive etc.), mutually complementing and not contradicting each other. One can find similar philosophies in the West, including Heraclitus unity of opposites, but that was not a norm as in Eastern thinking. The pairing of harmony explains the relative lack of dynamism in the history of the East compared to rebellion mentality in the West. It brought the East not to dialectics but to assimilation and peaceful patterns of societal development and mechanism of ethics in contrast to the laws of the West. Yin-yang philosophy of complementarity prefers power of persuasion instead the power of enforcement (pen versus sword).

#### **4 EASTERN AND WESTERN “THOUGHT INCUBATORS”**

Based on thinking inclinations one can distinguish Western philosophers as “Truth seekers” and Eastern thinkers as “Way seekers” (Tai 2015) with significant contrasting approaches that have affected worldviews and key relationship concepts in both cultures.

##### ***Greece: incubator of public debates and “Truth seekers” culture***

Western thinking was born in the Greek thought incubator (Lloyd 1992). The Greeks were seeking truth via explicit knowledge. They thought deeply about thinking itself and pondered the “what” questions – what is the truth, what is world made of, what is real. Tradition of the debate itself acted as a key institute. Critical attitudes to authorities were common, loyalty of students to the teacher remained only while his reputation lasted. Open disagreements and questioning of teachings authorities were common practice. Reputation was obtained by reasoning with rivals and not through the position in the administration.

Early Greeks rejected empirical experience of non-casual character, non-rational way of thinking and recognized nothing less than rational, analytical, logical and explicit. The central question of the Greek philosophers was to find the durability

and stability (the unity, the being, the whole), necessary for understanding of the universe with its ever ongoing changes (plurality, birth and termination of cases).

There is a strong ontological aspect in the Western thought. Greeks with their perseverance and insistence in search for truth through logical procedures adopted ultimately idealistic dualism as an important philosophy of life and the religion that has lasted thousands of years in various forms. As a result, the western approaches and preferences become more abstract, theoretical, atomic, rational, seeking substance of things. It was only after Enlightenment that more inclusive perspectives on thought were opened. Even then dualistic thinking continued to affect the Western attitudes.

In terms of methodological approach, western thinking is analytical with inherent reductionist procedures and anatomical analyzes on elements of the whole in order to understand the whole through its components while solely relying on logical procedures. The humanity must be highly grateful to early Greeks for their immense contribution in the field of mathematics, science, philosophy and political science.

The Roman Empire continued on the Greek civilization and further developed Greek arts, literature, philosophy, adapted the Jewish ethical system, the new Christian religion, absorbed Babel astronomy and astrology, the cultural elements of Persia, Egypt and other Eastern civilizations. Romans created Greco-Roman synthesis, a rich mix of cultural elements that formed two millennia Western tradition.

### ***China: incubator of memorizing classic works and “Way seekers” culture***

Institutional framework of the birth of Chinese thought was completely different. In China, the authority of Confucius was accepted as an axiom, as a Canon, as the eternal truth that can't be questioned. Official Confucian classics prestige was enormous, although medicine, astronomy and mathematics deserved also considerable status. Education was in this context the issue of conservation, interpretation and appreciation of classical texts and in addition to that - the way to a career in the ranks of well-paid administrators and provincial councilors to the supreme ruler and ministers (Lloyd 2002). The authority was not achieved through the institution of public discussion, as in ancient Greece, but by the position in the administrative machinery, into which the scholar was positioned, depending on the results of state tests. These examinations were based on memorizing Confucian Analects, ability to reproduce, understand and to interpret the text, not going into thinking beyond the content of the text.

The Chinese long accepted the fact that the only constant in the world is the change. This was for them the apparent reality and they were seeking the way to accommodate this phenomenon. The Chinese did not asked questions “what” is the essence of the world, they were not preoccupied with the goal of providing rational accounts of reality but raised “where” questions - where is the Way of the harmony with the Nature in order to get the effective functioning of the society. Eastern thinkers

considered the thinking not as a process of abstract reasoning, but more as an activity whose immediate result should yield into practical use to society. In contrast to the Greeks they sought to understand the world more through experience than seeking explanations of the world finding theories that stands behind it. For them the reality was a concept based on a concrete observation and an empirical knowledge of the world was a kind of experiential know-how.

There is absence of ontological imperatives in Chinese mind. Chinese thinkers do not perceive any “Being” or “One” behind the reality, only Universe – the phenomenon that is universal and omnipresent. Chinese wisdom has no need for the idea of God. There is only an ever-changing processional regularity. This inclination of considerations caused that the Chinese thoughts tend to practical solutions and correlations. Chinese thought is neither analytically nor theoretically inclined but rather very pragmatic. Chinese mind has no tendency to theorize. What is typical for her are considerations in terms of respective analogies and she is prone to see things contextually, through more feminist than muscular eyes. It is avoiding abstract concepts, exclusive formal logic is not her stronghold, rather is synthetic than analytic and showing a lot of intuitive and instinctive aspects. Therefore, Chinese attitudes and thought preferences tend to be practical and correlative.

In opposition to the western reductionism Eastern thought is a holistic, pays more attention to the context, to the connections and coherence. She is interested in understanding the whole complex in its context, not through its elements. The whole is in Chinese thinking more than a summary of its components because relationship among elements are so complex and complicated that even through the deepest analysis of these elements (reductionist method typical for the Western thinking) it is impossible to understand the complex whole. Chinese thought manifests tolerance for contradictions and conflicts, and unlike prevailing majority of the Western philosophy schools it does not perceive the “opposites” (positive pole versus negative pole) as incompatible standing against each other, but as complementary and interdependent variables. In other words, he is looking for integrity and solutions in practical life in which two opposites can exist in symbiosis.

## **5 KEY CONCEPTS OF INTERACTION**

There are striking differences in “human – nature” and “human – human” frameworks of interaction between the East and the West. These differences manifest themselves further in a variety of contradictory concepts such as consciousness versus face protection, community versus individuals, order versus revolt, rule of law versus kinship relationship, obligations versus rights, pragmatic versus ontological thinking, formalism versus openness as well as different role of the trust, justice and harmony in the governing schemes of society.



### ***Human – Nature relationship***

Relationship with Nature is foundational in creating worldviews and acts as a backdrop for finite relationships for the civil society.

Western culture, in searching for answers to the most fundamental question of human existence and the relationship between man and nature, emphasized on the concept of “separation” of mind from body resulting in the separation of man from nature. Traditional western view of human nature was heavily influenced by the religion. Western worship of spirit has not paid enough critical attention to the interpretation of human nature and only Post - Enlightenment period brought the changes.

In contrast, the East considered the man as a whole, as an embodied microcosm of the universe, a part of the nature, instead of a spirit being. The fundamental was the endeavor for harmony with the nature as well as in the society. That is why the relationship between man and nature was conceptualized by “Tao” – “The Way”. It serves a similar role as Gods of the West in the sense of relationship between man and nature but the East focused on the question of human nature instead of ontological issues.

Harmony in the concept of Tao can be best explained by the principle of polarity "Yin - Yang", which explains these two poles as two complementary factors, standing for all movements of the nature. Western culture, characterizes polarity not as complementary, but as separate opposing factors. Such vision of reality greatly influenced the Chinese conceptualization of values and determined the approach to many aspects of life, including social institutions. This makes the Confucian worldview more organic and harmonious, preferring ethics of social relations instead of seeking supernatural phenomena, spirituality and religion. Mankind is considered simply as an integral part of the nature.

Transcendent questions in the Western thought, in contrast to the East, are stretching almost through the entire Western history and the issues of the creation of the universe and search for "Creator" of nature were formalized in the institution of religion.

If to compare the difference between East and West approaches concerning the relationship of the man and nature, the difference is that Tao is a concept of harmonization of the man and nature while God is above nature and by this standing, in a certain sense, separates humans from nature. The perception of these differences between East and West are of paramount importance for organizing the relationships in civil society in Chinese and Western cultures.

### ***Human – Human relationships***

Confucian people's relations are totally different from the Western world. East seeks to instill ethics in human relations for the maintenance of the order in society

without any institution of supernatural being and without religion. On the other hand, the West and Christianity with the concept of the law of God and the faith in the afterlife bring to their civilization theological character (Choi 2015).

In the East, the centerpiece of the concept of human relations is a role of ethics. The basis of this ethics is the moral integrity of every person, including the ruler of the country. The appeal to the concept of morality and the duties behavior of every individual in the vertically hierarchical social bonds represents an important public control element. In contrast to the West, not the individual but the family is the most important aspect of a person's life in the East, the foundation of one's identity, one's morality, and the source of the meaning of the life. Family members are arranged according hierarchical lines, each role with attendant duties and privileges. The ideal Confucian "Six Relations" (ruler/subject, parent/child, husband/wife, older/younger brother, teacher/pupil and between friends) are considered the basis of all social connections. Three out of six are found within the family that is a kind of testament to the importance of family in Confucian society.

This Confucian social arrangement has integrated human activities at all levels. Confucian world, society and the state are modeled as an extension of the family. Governance of the state follows the hierarchy – the leader functions as the father, the head of the family, and all citizens as his children. Society is ordered and segmented into distinct statuses, each with its own obligations and prerogatives. Confucian ethics dictates hierarchical relationships, requires subordination, identification with social roles and relies heavily on the self-control of individuals. Proper functioning of the Confucian "cosmos" depends on the loyal obedience of inferiors to superiors in the social order and the carrying out of role-defined duties. Suppression of individual interests to the interest of the group is the natural moral ethics of Confucianism. The Chinese do not understand the emphasis of individual freedoms, they focus only on what is needed for a unit to function, to which everything should be subordinate.

Society is seen as an analogy of the human body. This works only if every human body-organ performs its duties properly. Once the body organs begin to function without control (analogy of expression of individual freedom) the human body as a whole will collapse. Therefore, the first and foremost duty in Confucian society is to harmonize relations by implementation of the obligations of all individuals and groups within the established hierarchy relations. The interests of individuals have no place in such society, only the interests of groups and higher units. This is the essence of ethical principles of Confucianism. Therefore, the concept of individual human rights in Chinese society is considered by Chinese as a foreign element, "imported" from the West and despite the gradual modernization of China it is still considered that it "does not fit" the so-called Confucian tradition.

### ***“Homo Ethico-Politicus” versus “Homo Spiritus-Religiosus”***

Code of Ethics in the Confucian society with prescribed functions and rituals of behavior was the determining factor. Society life represents a set of rules and expectations of behavior of each subject according to established rules. Who swerved from this prescribed model of social interaction, was losing his face in front of others. Confucian society can therefore be described as "a culture of saving face" or as a "culture of shame" because the general pressure to comply with the Code of Ethics was so large that its failure to respect amount to shame.

The West, whose civilization values are based on Judeo-Christian traditions, was long-term building spiritual institution and within this institution the "culture of conscience" based on spiritual approaches. Moral and ethical code of society was based on responsibility of the conduct in the sight of God, who controls everything and sees everything. It meant the appeal to the observance of morality institution in front of the Supreme Creator who will judge the actions of individuals in the end, and not the appeal to respect moral code measured by other members of society. No shame in front of others, but conscience before God has become a determining factor in the behavior of the individual and the religion became an institution that had this man's relationship with God to cultivate and to guard. Regardless of whether one is alone or in the eyes of others, in both normal and problematic situations, this spiritual approach preached the man always to appeal to his/her conscience and to ask whether it is right what he conducts. His conscience as a God's hand is a communication tool with an invisible God to whom the man will confess his/her acts.

History shows that despite these concepts proclaimed by East and West, their ideals passed through periods of deep fluctuations and both cultures slipped in their ideals into deformation scales. What is important, however, is that thought preferences of both cultures resulted in two very important and highly topical issues that the East and the West still perceive in cardinal difference way.

The essence of the difference in respect of individual freedoms is that Chinese society in general emphasizes the obligations of individuals, while the West emphasizes his rights. In matters of correlations the Western culture is looking for differences between the body and mind, the existence and non-existence, the individual and society, the society and state, the man and nature. The Chinese culture strives to seek coexistence, integrity, unity, harmony, mutual respect of all things in nature and finding connectivity between the past, present and future. One of its features is to look for the ideal in the past that is reflected also in its architecture – tend to copy the past style of buildings. This is in contrast with Western architecture which is future and innovative oriented and highly diverse. One can also see beyond that a kind of Confucian effort of Chinese society for the preservation of society and stability and

rejection of social changes, while in Western culture there were in opposite way, the social movements that have become the driving force of progress.

In complexity, reflecting basic thinking inclination, behavioral orientation and socio-economic organization, Confucian society can be described as a community of *Homo Ethico-Politicus* and Western societies as *Homo Spiritus-Religiosus* (Choi 2015).

## **6 MANIFESTATIONS OF CULTURAL FUNDAMENTALS IN EAST ASIAN ECONOMIES**

Cultural identities between East and West are very different and they strongly manifest in economic behavior and economic structures. Confucian ethos and social homogeneity of East Asian countries as their major cultural fundamentals played important role in their industrialization period and served as a kind of a social comparative advantage. East Asian economics have historically embedded value-based and tradition-based behavioral habits of generations that to a high degree entwined traditional practices with economic organization of the region. East Asian economic stories show that their economic activities are not based only on calculus of price and rationality-determined pursuits. If one views these markets only through economic thoughts, one misses a set of social and political institutions that serve to integrate the economy. Complexity of East Asian economies needs to incorporate explanation of their social construct, organizational patterns, thinking inclinations and working tenets as well as the role of leaders in both government and business.

### ***Nexus of culture and economy***

East Asian “tigers” (Japan, South Korea, Hong Kong, Singapore, Tai-wan) successful industrialization stories attracted attention of many economists. Many schools of thoughts analyzed the major factors behind their success and one can find diverse explanations. Political economy, market, cultural, institutional and international approaches have all contributed with useful set of arguments. They do not represent alternative concepts but rather complement each other and are used for different purposes. The crucial moment is that economic actions are not asocial, not merely “economically rational” in an abstract, impersonal way. Economies are built by policies, but that are the people who craft them. They act and behave according their embedded cultural fundamentals.

Today, development economists agree upon two points about East Asia. First, the region’s per capita natural resource base has been meager, the second, region’s recent growth is “meteoric”. In economist’s terms, such a record means that human capital is likely to be the key factor in the East Asian success story. Hence one can assess the weakness or strength of East Asian economies and to take culture and tradition seriously.

From early 80-ies the culture phenomenon has been invoked to explain East Asian economic success. Confucianism is a moral philosophy and in the current context one can find several important tenets conducive to economic performance of East Asian countries. To mention at least some of them: cultivation of self-discipline, codification of behavior norms, promotion of study and scholarship and discounting of secular success as the purpose of life. Through the presence of behavior norms of conduct Confucian ethos clearly has left its imprint on both, collective behavior of the labor force and inter-firm behavior but also through emphasis on study and education.

### ***Role of education in East Asian economy***

Role of education has got a special place in economic development of the East Asian region. While in the West the education has been primarily a tool for the knowledge in the East has been considered as a tool for getting governmental position (today also good job in private sector) that is equal in East Asian minds with good social status, high income and comfortable life. Under these influences, the supreme importance of education has been an imperative in mind of many parents who were ready to struggle to give their children a chance in life through education. Under the constant popular pressure for educational opportunities, from economic point of view, this would facilitate human capital formation providing highly conducive condition for economic development.

Application of cultural fundamental on economic development from evolution point of view needs to understand that moral philosophies undergo generally three stages of evolution: quintessence stage with strong effects, sublimation stage with effects starting to weaken and dissipation stage with effects tapering off (Wan 2014). During the first stage of Confucianism the formation of human capital of a pragmatic type was not likely to blossom because the education was strictly focused on imperial examinations with essay contest writing on pre-set style of obscure Confucian themes and classic text interpretations. Second stage of Confucianism coincides with the sustained rapid growth of East Asia in the second half of twenty century. The content of education has been changed from the focus of Confucian texts and code of conduct to modern practical subjects with sophisticated method of teaching but the perception of the role of education as a tool to better life has remained. Currently, with the globalization pressure, one can witness starting gradually developing the third stage of dissipation Confucian values and mixing with other regions culture fundamentals. The third stage does mean a linear line, it can progress but also get a reverse trend of revitalization Confucian values or merging with other moral philosophies into new moral patterns. Parallels with the second stage can be found also from other societies. For instance, the explosive contribution of scientists of Jewish descent came only when Talmudic scholarship was no longer the exclusive preoccupation of Jewish intellectuals. The flourishing of Western European capitalism under the Protestant

Ethic was possible when doctrinal issues did not pre-empt the best minds in those societies.

### ***Factor of social homogeneity in economy***

In addition to Confucian education phenomenon, almost all East Asian tiger economies are remarkably homogenous and it has been so at least for hundreds or even thousand years. By and large, in the process of catching up, a multi-communal society poses more challenges to human capital formation than does a homogenous society. Social homogeneity has several advantages. Human cooperation tends to be easier within particular community than across communities, transaction cost for coordination is lower and an individual is less ready to engage in opportunistic behavior. Here, Singapore – Malaysia comparison is quite instructive. Social cohesion in economic terms can be translated into corporate practices and organizational behavior and organizational behavior effort can be counted upon to improve product quality. Japanese and Koreans capitalized on such social traits to build up a comparative advantage that foreign rivals find hard to match.

### ***East Asian market practices***

Neoclassical approach can sufficiently cover the functioning of western markets but have its limits in explaining some market practices of East Asian countries because of utility of settings where its institutional assumptions are in force. These assumptions institutionalize competitive “individualism” in numerous ways in its market structure and view economic action as a kind of “asocial” concept. Its economic model conceives actors as isolated units and considers a crucial condition to keep economic actors “apart”. “Capitalists”, in this model, ideally are independent/indifferent as to the parties from whom they buy or to whom they sell. Primary function of the state is to maintain competitive conditions between autonomous economic actors, both individuals and firms and to maintain open market.

Different story goes with East Asian countries that have distinct institutional assumption of market approach. Crucial economic actor in East Asian economies is typically not the “individual” but rather the “network” in which the individual is embedded. East Asian economies are rooted in institutions that encourage and maintain “ties” and are organized through networks of economic actors that are believed to be natural and appropriate to economic development. The “relationship model” of East Asian economies negates neoclassical assumption not only in perception of actors as isolated units but also in term of expectation that price is the critical factor in purchase decision. In East Asian “network economies” with value-based business culture the buyers in series of cases favor suppliers with whom they have established relations, rather than least-cost suppliers. This violates the principle of individualistic competitive approach due to the fact that the market is conditioned with different social

construct and different value preferences. Neoclassical approach describes these practices as unfair and as market imperfections that distort their domestic economies. Criticism has been leveled mostly at the dense “networks of ties” between Asian companies that look in western eyes as cartels.

### ***East Asian “network” economies***

Particular forms of economic “embeddedness” in the structure of social networks of each society have subscribed to different organizational designs of industrialization (Orru, Biggart & Hamilton 1997). That is reflected in types of firms, their management and organizational strategies, giving every economy a distinctive character.

Japanese economy is dominated by *keiretsu*, descendants of pre-World War II family based business conglomerates *zaibatsu* which organized their business through their own financing system. Inheritance practices in Japan are based on “primogeniture”, that means the entire inheritance goes to the oldest son. This practice allowed merchant family’s fortunes to remain intact under stewardship of the heir. Successful families thus had huge sums of money available to finance the business of affiliated branches under the “badge” of the “mother house”. In a post-war period, *keiretsu*, though no more family businesses but rather networks of companies with interlocking shareholding businesses, based on *communitarian logic*, continued to rely on their own finance sources. The important point is that banks are encapsulated within business networks and functioned as direct financing houses to *keiretsu*. These market networks constitute a kind of “intercorporate alliances” or “alliance capitalism” (Gerlach 1992). Many large companies are members of these networks (Mitsubishi, Mitsui, Sumitomo, Fuji etc.). In addition to *keiretsu* there are also other linking forms of Japanese businesses, for example an affiliation of a major manufacturer with its subcontractors (Toyota “independent group”) or common investments of small neighborhood retailers.

South Korean economy resembles on the surface Japan’s market networks, but in terms of decision-making processes has some substantial differences. South Korean economy is dominated by *chaebols*, networks of conglomerates owned and controlled by single persons or families and organized vertically through “central staff”, which may be holding companies or mother firms. In difference to communitarian logic of Japanese businesses, Korean *chaebols* have *patrimonial logic* of business structure, where all powers belong only to the leader of *chaebol*. Patrimonialism has deep historic roots in South Korea and on the related logic of vertical hierarchical arrangements are organized various types of social relations as well. Companies as Samsung, Hyundai Motor, SK, Lucky-Goldstar are major *chaebols* controlling 90% of economic activities of top thirty *chaebol* conglomerates (Kato 2014).

Taiwan network economy is ruled by family firms and family owned conglomerates, which are called *jituanqiye* (entrepreneurial integrity groups). Taiwanese business structure is based on *patrilineal logic*. In difference to Japanese and Korean economies ruled by networks of medium sized to very large firms, Taiwanese networks link less numbers of smaller firms and occupy less central position than *keiretsu* or *chaebols*. They often cross-invest in businesses, hold multiple positions throughout the network and act as suppliers or upstream producers to downstream firms. Chinese societies practice “partible inheritance” that means the division of a family estate equally among all sons. As a result, families divide their fortunes every generation which does not allow accumulation of large sums of money. Instead, there is a great pressure within families to develop multiple businesses so that at the death of the family head each son can claim an independent enterprise. Strong social norms dictate that family members or close friends assist financially each other and system functions as alternative institutional finance arrangements. Due to this system there is relatively weak formal banking system in Taiwan. Ironically, strong family system produced the strength of Japanese banks.

Japan, South Korea and Taiwan economies demonstrate diversity of institutionalized business networks and differing logics behind their structures but all of them are based on network relationships. Japanese firms enact *communitarian logic*, Korean firms represent *patrimonial logic* and Taiwanese firms reflect *patrilineal logic*. This has important implications for the ways of labor organizations, character of subcontracting relations between firms, investment patterns and other business activities. Each of networking logic is a manifestation of common cultural basis and of Confucian patterns of interaction, through which prevailing majority of socio-economic spheres of life have been organized.

Some parallels of East Asian organizational socio-economic patterns can be found also with certain Western economies. In Japan and Germany the legacy of feudalism led in modern times to strong elite classes and solid alliances between private business and the state that have maximized utility of public and private institutions. In Taiwan and Italy, where the state is much weaker and family structures are stronger, modern economic organizations cooperate on horizontal networks with strong cooperative traits at the level of small and medium businesses. In South Korea and France the historical tradition of a strong central state and fragmented regional elites has led to the “dirigiste role” of the central government in shaping their economic and industrial structure (Orru, Biggart & Hamilton 1997).

### ***East Asian governance environment***

Economic activities do not operate in a vacuum, they are rather shaped by the governance environment of every society that has enormous impact on the way of doing business. Governance style in East Asian economies during industrialization



period was very different from Western practices and can be depicted as “relation-based” versus “rule-based” systems (Li 2009). Western societies tend to follow public rules, such as law government regulations and public information. They rely on formal contracts, legal courts, lawyers and accountants to carry out transactions and protect their interest. One can call it “rule-based governance”. Confucian societies in difference to the West relied still in recent past on personal relations to conduct business. Contracts were secured more through gentleman agreements than through written paper, disputes were settled privately, public information was not regarded as trustworthy as personal contact. This is called “relation-based governance”. Rule-based communication and agreements are explicit and formal, they can be verified by third parties, documents and procedures are standardized. Relation-based communication and agreements are informal and implicit, yet each party perfectly understands what it entails. It is difficult to be verified by third party and can’t be enforced in a court of law. Rule-based and relation-based governance represent two types of governance environment that involve different social and business costs. For rule-based governance to work effectively, society must make investments to establish a large complex political and legal infrastructure. Once established, whether this infrastructure is used in one or million cases the costs will always remain approximately the same. In economic terms, rule-based system has high fixed costs but decreasing incremental costs. In contrast, relation-based governance involves low fixed costs, requires a minimal legal infrastructure but has rising incremental costs. The parties of relation-based governance are able temporarily to avoid the large upfront investment costs connected with establishing a complete legal infrastructure because rely for protection on their private connections, not the public legal system. Low fixed costs of relation-based governance system of East Asian countries was one of elements that contributed to their economic success though the system was non-transparent, flawed and with a lot of room for corruption.

Dynamics of growing business and cultivation of business relationships with outside world through global networking impacted East Asian relationship-based economies. This process imperatively moved them to embrace more rules into the governance and gradually transformed them into various stages of rule-based economies. However, old traditions have remained still deeply vested in East Asian societies until today and relation-based systems work in parallel as the “shadow eminence factor” in their business culture.

### ***East Asian business culture***

Manifestations of Confucian culture in business interactions are so wide that this issue goes beyond the current study. For illustration it should be noted at least some signs of Confucian values in the wider context of life of the South Korean society,

which is a typical example of practical reflections of Confucianism in modern business environment.

The most important factor in the management of the South Korean society for all its members is sharing the same values. To support this goal the large and medium Korean companies organize for their employees training camps including education for discipline and loyalty. In all areas of society, including the business community, there is strong hierarchy, austere formalism, career advancement is possible only with increased age, people's interaction avoids showing directly negative attitudes, strict subordination is at every social level and in most cases the responsibility is associated with collective decisions. Korean business culture differs from Western business approaches from the first moment of interaction. Koreans tend to identify themselves as members of the group and from the very beginning they show efforts to find points of contact (kinship, school, hometown, college). They construct their identity typically in relation to people with whom they have close ties, and tend to worry when they feel isolated. This is in stark contrast to Western businessmen for whom individuality plays a high role in constructing their identity (Chaïy 2012). The pride is often a question of people's own perception, but with "saving face" in the Confucian concept is all about how others perceive that person. There is probably no person in the world who would not attempt to protect his/her pride, but Koreans consider the pride and preserving their face as extremely important (Chaïy 2012). In this respect they keep a certain social distance also in the business interaction, a typical feature of Confucian business culture that the West sometimes confuses with the coldness of the person.

One of distinctive traits of Koreans is their ability to unite and bring private sacrifices to the benefit of the country. Korean vitality of unity and of the joint work is unique when being compared to many advanced nations that favor individualism and this kind of cohesion is reflected especially in times of crisis. Koreans, for example, were able to carry out individual collections of gold to help the country to pay off debt and redeem the restrictive measures of the IMF in the year 1988. Employees of companies in case of company's financial difficulties even return their salaries to contribute to the revitalization of the company. In such cases, the Koreans put the state/country to the level of their family and they perceive it as a common goal. This is a very different professional and business approach compared to Western companies.

## **7 CONCLUSION**

The purpose of the study was to contribute to a broader conceptualization of East Asian industrialization success in the second half of 20-ies century through highlighting different "geography of thinking" between East and West and through the role of cultural fundamentals in East Asian economies.

Cultural fundamentals represent a strong part of identity of the nations and multicultural societies. The study has shown that human cognition is not everywhere

the same and that historical connections and cultural affinity certainly matters. There are substantial differences between Western and Eastern civilizations that have been evolved through many centuries. The formation of cultural specificities have been conditioned by many factors including nature environment and basic thought incubators that have been transformed into cognitive processes, thinking inclinations, perception concepts, beliefs, values, organizational models, governance schemes, market structures and solution mechanisms. They are present at individual approaches as well as at systematic level and have been manifested in numerous spheres of societal and economic life.

The key for understanding East Asian cultural fundamentals are the concepts of “man – nature” relationship and the “man – man” relationship that represent basic world perception and major interaction mechanism of Confucian societies. There are numerous contradictory approaches within these two “relationship frameworks”. Confucianism like Taoism is less concerned with finding the truth than finding the Way (Tao) to live in the world. Harmony, interconnectedness and *yin-yang* complementarity instead of individualism and dichotomy are the main variables of East Asian mind. Confucian world, society and the state are modeled as an extension of the family and the society is ordered into distinct statuses, each with its own obligations, responsibilities and prerogatives. The centerpiece of the concept of human relations of the East is the role of ethics rather than the role of the law in the West. The Confucian platform of values has strongly impacted economic activities and business culture of East Asian countries. It has been manifested mainly in market structures in form of “network economies” that are based on community and family linkages where individuals work not for self-benefits but for the entire family or community. This market mechanism is clashing with some western perception where individuals are institutionalized as indifferent market units and networks are considered as cartels, as well as with neoclassic principle of the lowest price that is negated in East Asian markets by preferences of making business with “network partners” despite the higher price. Confucian sense for order and hierarchy as well as labor force mentality have served as comparative advantage of East Asian markets during their industrialization period.

Experience of East Asian economic success appears to be relevant to other countries only to a certain level and not in terms of Confucian values since many developing economies have moral philosophies of their own and the replication of East Asian experience remains intact. Experience can be followed in terms of philosophy behind economic policies. East Asia has shown that effectiveness of their economic policies was based primarily on ability of integrating these policies into their system of values and ability to utilize on social constructs and organizational models of their societies. They organized their economic development in a way that has made sense to their people, draw their economic success on their own social and cultural repertoires,

built on their own traditions and through this way tapped on people's potential. Important lesson to be taken from East Asian economic success is that cultural fundamentals are strongly connected with economic performance of the country.

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