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# China's Culture Drives Its Economic Success

by Lothar Katz

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## Amazing Economic Progress

Over the last few years, China and its economic development have received a lot of media coverage; increasingly, they have been the subject of a fierce debate. Driven by a mix of information, allegations, and hype, suddenly China has become a lightning rod of controversy. Some of the perceptions are worth noting:

- *The New Economic Superpower.* It isn't just yet. China's Gross National Income (GNI) in 2003 was approximately \$1.4 trillion<sup>1</sup>, making it the sixth largest economy in the world, behind the US, Japan, Germany, UK, and France. The US economy was still nearly eight times the size of China's. Given the difference in population, Americans' average gross income was 35 times higher per person. However, it is estimated that China's economy will surpass the UK and France soon, Germany around 2010, and Japan between 2015 and 2020. Without doubt, the country is on its way to becoming a huge economic force.
- *The Big Job Killer that's taking away all our manufacturing jobs:* It isn't. Between 1995 and 2002, China's manufacturing employment base declined 15%, as opposed to 11% in the US. The world average also declined by 11%.<sup>2</sup> Advances in technology and processes, and the productivity gains they resulted in, are behind this worldwide trend. The US lost many more jobs to productivity gains than it did because of job outsourcing to China. Studies<sup>3</sup> show that the financial benefits of outsourcing have also created new jobs in the US.
- *The Most Attractive New Market.* It undoubtedly is. China's total imports of goods and services in 2003 were around \$460 billion<sup>4</sup>, up from only \$190 billion in 1999. This increase alone is almost as large as the GDP of a country like Sweden. While raw materials were a significant portion of the imports, there was also dramatic growth in imports of equipment & machinery, cars, consumer goods, and so on.
- *The Dangerous Export Nation, a threat to all other economies:* Yes and no. China is a strong export nation, growing its exports in goods and services consistently over the past decade, often at double-digit rates. However, while in 1999 it exported 22.3% and imported only 19.2% of its GNI, those numbers were 33% and 32%, respectively, in 2003<sup>5</sup>. In other words, imports of goods and services grew relatively faster than exports, meaning that China has gained importance as a market for companies in the US and elsewhere.
- *The Hungry Dragon that swallows the world's resources:* Again, yes and no. China's oil imports grew 31% in 2003<sup>6</sup>, and the 2004 pace so far even exceeded that rate, making the country the second-largest oil consumer in the world behind the USA. It also has become a large importer of coal, iron ore, copper, and many other raw materials. Nevertheless, its resource consumption in all but a few areas is still far lower than its population of 1.3 billion, more than 20% of all people in the world, might suggest. The per-capita electricity consumption of China is one-twelfth that of the United States<sup>7</sup>.

Even though some of the myths are overblown, the recent progress of the Chinese economy is nothing short of extraordinary. China is well on its way to becoming an economic superpower that could ultimately rival the United States in size and business strength.

## **Driving Forces**

Much of what makes China such a formidable force today goes back to its long-standing traditions and core aspects of its culture.

From a simplified economist's perspective, the primary asset of the country is its almost unlimited availability of low-cost labor combined with its relatively robust infrastructure. However, as numerous countries in Asia and Africa demonstrate, these facts alone are not sufficient to attract international investment and grow an economy to a large scale. Rather, several aspects founded deeply in its culture continue to help China expand its economic influence at such an astonishing pace.

## **Business-Mindedness**

Twentieth-century U.S. President Calvin Coolidge's oft-quoted line that "*the chief business of the American people is business*" could well have been coined for China during many of its long and prosperous periods throughout its history. The country has a rich legacy of trade and merchantry, extending into its imperial past. Today, that quality is still alive. While the nation's culture and its people developed and maintained a strong commercial orientation over many centuries, surprisingly little of it has been lost during the decades of Communist rule.

As the current government dropped restrictions and allowed private business initiatives, a new breed of Chinese entrepreneurs quickly mushroomed all over the country. What had previously been Hong Kong and Macao trademarks, namely being fast-paced, bustling marketplaces of commerce and trade, quickly expanded across all of China, from Shenzhen and Guangzhou to Chongqing, Shanghai, Tianjin, Beijing, and many other of its industrial and commercial centers. Unpleasant side effects such as bribery and nepotism have surfaced, too, but most of the people's energy seems devoted to making deals and growing successful businesses.

Another advantage for the country's business people is the fact that most of them are skilled and effective negotiators. Their spectrum of negotiation techniques and bargaining tricks is much broader than is usually found in Western societies. From extreme openings to angry demands, from applying time pressure to using silence as a psychological weapon, negotiating with the Chinese can be an entertaining and occasionally chilling experience. Foreigners engaging in business negotiations in China thus need to prepare well if they want to be successful.

## **Long-Term Orientation**

A core value deeply engrained in Chinese culture is its devotion to what could be called the "three P's": patience, persistence, and (long-term) perspective. Contrary to typical Western cultures, where business planning is usually done on an annual basis and any timeframe beyond 3-5 years is considered long-term, the Chinese, both at an organizational and an individual level, often think and plan in much longer timeframes, sometimes spanning several generations. That long-term perspective comes combined with persistence and firm patience, characteristics of the culture that also apply in many areas of business.

The Chinese are not unlike the Japanese, who over the course of more than thirty years have followed a consistent strategy that enabled them to work their way up from being suppliers of cheap consumer goods to becoming a premier vendor of high-quality products. China's grand business strategy is laid out and orchestrated over decades rather than years. It continues to follow a long sequence of coordinated steps designed to open up its markets, liberate commerce and trade, and stimulate foreign investment at a gradually increasing pace. Whenever the economy threatens to overheat, as was the case in early 2004, the government quickly steps in to take appropriate countermeasures. In China, "*as effective as possible*" will often take precedence over "*as fast as possible*".

To the Westerner, it may sometimes be difficult to see the value in the patient and persistent ways of China. In Western culture, patience is confused with slowness. Taking a long-term perspective may be read as a risk to overlook near-term opportunities. Americans in particular, living in one of the fastest-paced societies in the world, generally favor fast and swift over careful and persistent. However, the latter are important forces within China's culture which have served it well throughout the country's economic development. The rapid progress of recent years is in no small part a result of the momentum these cultural values helped build.

### **Group Centeredness**

In China, as in many other Asian cultures, group influence generally weighs more heavily than individualism. One's family is treasured as a prototype for society, and, in both, people believe that the collective good is much more important than any individual's benefit. Respect for elders and superiors is considered a virtue. These values trace back to the Confucian belief system and remain intact in spite of past attempts by the Party to eradicate them.

At times, the strong group orientation can be a hindrance to the effectiveness with which business is conducted. For example, the decision making process is often slower in China than in the US, since several people are involved and need to understand everyone's viewpoints before the group carefully establishes a position. When conflicting opinions exist, decisions may need to be postponed until they can be resolved, even if that introduces a substantial delay. On the other hand, when a decision has finally been reached, the group will quickly gain traction as it acts. The momentum built by all group members acting in unison and with full commitment more than compensates for the initial slowness. Once Chinese groups and organizations have figured out how they will go about reaching a goal, they become very difficult to stop.

Further aiding the efficiency of business in China is the principle of *Guanxi*. Although usually translated as "relationship" or "connection", this term has a much more powerful context than either word conveys. It denotes a system of mutual and reciprocal obligations. Favors that have been paid can and will be called upon later. This is not a generic system of untargeted goodwill, but rather focused and specific to support an individual's and group's best interests. In business, *Guanxi* is an important key to getting things done, and successful companies and their leaders apply it skillfully to open doors and achieve fast results. Collectively, it helps the country achieve and maintain a high level of collaboration, which again fosters its economic progress.

Traits that are usually stimulated by individualism, such as creativity, may be less powerful in China. Many people aren't willing to stick their neck out and take risks while trying to break new ground. That does not support the conclusion that the country as a whole is unable to come up with great innovations. Numerous important scientific and medical innovations, from the clock and the compass to acupuncture, originated in China in the

past. The populations of some other countries may, on average, be more creative, but there are still many among the more than a billion Chinese who generate fresh ideas prolifically and are eager to put them in motion. Today's new class of Chinese entrepreneurs includes many who are pursuing unorthodox product ideas and innovative business concepts; this helps China further strengthen its role as an export nation.

### **Work Ethics**

The Chinese people possess a strong work ethic. This is another asset of Chinese culture that has helped re-stimulate its economy. Modesty, dedication, and commitment to one's work as a contribution to the larger community are powerful values shared by most individuals in China. While the overall work pace may not be quite as hectic and work hours not as long as in the United States, people will usually do whatever it takes to get the job done, as long as they see the benefit to their family, group, organization, or to society at large.

### **Conclusion**

China is on its way to becoming one of the world's most powerful economies. It owes its breathtaking economic success in recent years to more than low wages and decent infrastructure. Cultural influences, such as its business focus and long-term orientation, combined with group centeredness and a strong work ethic all had a significant impact on the country's progress once it started opening up to the global economy.

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<sup>1</sup> World Bank – World Development Indicators database

<sup>2</sup> Wall Street Journal, October 20<sup>th</sup>, 2003

<sup>3</sup> E.g., McKinsey Global Institute, "Exploding the Myths About Offshoring", April 2004

<sup>4</sup> World Bank – World Development Indicators database

<sup>5</sup> World Bank – World Development Indicators database

<sup>6</sup> BBC News, September 14<sup>th</sup>, 2004

<sup>7</sup> CIA – The World Factbook 2004 (2001 data)

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A seasoned former executive of Texas Instruments, a Fortune 500 company, he regularly interacted with employees, customers, outsourcing partners, and third parties in more than 25 countries around the world. These included many parts of Asia, e.g., China, India, and Japan. Originally from Germany, he has lived and worked both in the United States and in Europe.