



Cultural Background and International Economic Cooperation: Comparative Analysis for Scandinavia and Northeast Asia

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1. Introduction

Processes of international cooperation and regional integration in various parts of the world reflect the simultaneous influence of globalization and regionalism, but differ in their level of development, degree of participation and scope of questions discussed. Although various factors are involved, they are analyzed through the same two models of international cooperation: the rational choice model and the normative model.

The rational choice model is based on the premises of actors' individualism, egoism and rationalism. Rational choice means ability to receive all information necessary for decision-making, the capacity to effectively analyze this information, and rationally choose the most profitable option. To some extent those conditions can be fulfilled, however as regional cooperation progresses, irrational factors of interaction also appear and develop such as trust, collective consciousness and an awareness of common interests. These factors form the basis of the normative model of cooperation.

The active use of a transnational identity (synonymous to collective consciousness) among Scandinavian countries in Europe illustrates that people's awareness of a common fate, notions of belonging to the same political, economic, social and cultural space and working towards a common goal, leads to economical and political integration in the long run.

The Scandinavian economic model represents a developed market economy with a mature social infrastructure. The state redistributes income received in the private sector through a tax system, but does not produce GDP itself. The state also controls the private sector and develops long-term economic strategies.

The Scandinavian economic model turned out to be one of the most stable not only during the 20th century, but also throughout the global financial crisis in the beginning of the 21st

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century. According to the Global Competitiveness Index (2010-2011), Sweden is the second most competitive economy in the world - Finland, Denmark and Norway occupied the 7th, 9th and 14th positions, respectively (The Global Competitiveness Report). According to the Global Prosperity Index (2010), Scandinavian countries also rank among the leaders - Norway, Denmark and Finland make the "top-3", Sweden took the 6th place (The 2010 Legatum Global Prosperity Index).

The economic success of Scandinavian countries has also led to economic development in other countries. According to OECD data, in 2008 Sweden was the leader among donors of economic aid for developing countries. In 2009 Norway became the leader, and in 2010 it was Denmark. Generally speaking, Scandinavian countries are in the "top-12" in the economic aid ratings (Development Aid at a Glance). Norway, Denmark and Sweden are in the "top-5" countries where the proportion of economic aid to GDP exceeds the 0.7% recommended by the United Nations. At the same time according to the Commitment to Development Index, Sweden and Denmark are the leaders, and Norway and Finland occupy the 4th and 7th positions respectively. This means that the economic aid provided by Scandinavian countries is oriented towards the interests of developing countries, not towards the interests of donor countries (Commitment to Development Index).

Adopting similar economic models promotes economic cooperation between Scandinavian countries. The share of mutual trade for Norway, Finland, Sweden and Denmark is 22.7% for import operations and 18.7% for export operations. The share of exports in GDP varies from 26% (Finland) to 32% (Sweden), the share of imports in GDP differs more - from 16% (Norway) to 29% (Sweden). The countries more dependent on exports from Scandinavia are Sweden and Denmark (22-25%). Scandinavian imports reach 24% for Norway, 23% for Sweden and Denmark, and 20% for Finland (Nordic Statistical Yearbook 2010). In other words, Scandinavian countries show a high level of economic openness and trade interdependence.

Northeast Asia (NEA) is also a dynamically developing region. It includes leaders in international economic relations such as Japan, South Korea and China. At the same time relationships in the region are characterized by a weak development of transnational relations and are based on a rational choice model.

In spite of its leadership in global exports and GDP growth rate, qualitative estimates of the Chinese economy, expressed in indexes and ratings, is not particularly high. According to the Global Competitiveness Index, the leader in Northeast Asia is Japan. In 2009 it ranked 8th in the world rating and 6th in 2010 while South Korea and China lagged behind. In 2010 South Korea moved from 19th to 22nd and China from 29th to 27th (The Global Competitiveness Report). According to the Global Prosperity Index, in 2010 all Northeast Asia countries ranked somewhat low. Japan was 18th, Korea 27th, and China 58th. In experts' opinion, for all three countries

social capital is a point of weakness (The 2010 Legatum Global Prosperity Index).

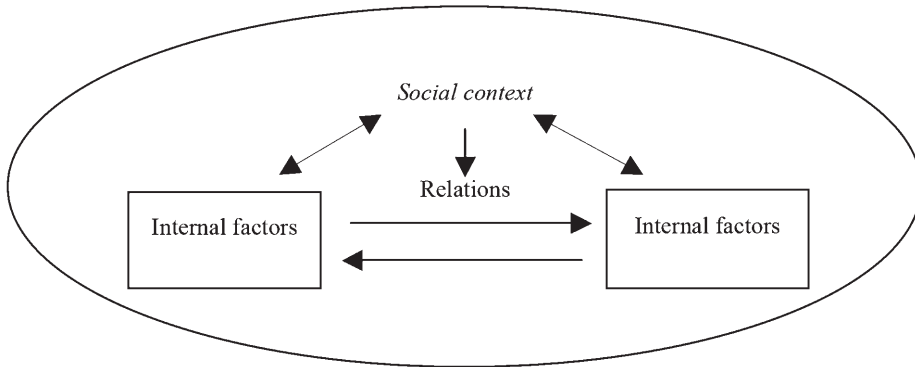
Differences in the level of economic development are expressed through the actions of Northeast Asia countries domestically, regionally and globally. Japan is the biggest in the regional donor of ODA (16th place in the world in 2010), and China receives most of this aid (Development Aid at a Glance 2011). However, according to the Commitment to Development Index, Japan and South Korea are not even in the “top-20” (Commitment to Development Index). This demonstrates that the aid is provided on conditions that are more profitable for donors than for recipients. This situation eventually leads to economic controversies between aid donors and recipients, which cannot promote mutual understanding and improvement of relations.

China and South Korea receive about 27% of all Japanese exports and produce 26% of Japan’s imports. Japan and China receive 28% of South Korean exports and 32% of South Korean imports comes from these two countries. Regarding Chinese exports, about 12% go to Japan and Korea, yet 20% of Chinese imports come from Japan and Korea (CIA World Factbook). Although there is clear trade interdependence, each state’s level of integration depends their respective economies of scale. For instance, South Korea demonstrates a high level of regional trade dependence and China is the least dependent on intra-regional trade.

The model of rational choice can work for an indefinitely period of time, as shown by Robert Axelrod in his book “The Evolution of Cooperation” (Axelrod, 1987). In his opinion, the basis of cooperation is not trust, but the durability of relations. Under the right conditions two sides can cooperate through a process of trial-and-error, learning mutually beneficial possibilities, copying behavior of most successful actors, or even through a process of elimination by which actors choose more successful and reject less successful strategies. While Axelrod believes cooperation based on reciprocity is stable, he worries about speeding up the process.

In other words, transnational identity as the primary causal factor of normative models of cooperation can promote the development of cooperation in Northeast Asia by moving it from the rational egoists’ level of interaction to the level of collective participation in the decision-making process.

Transnational identity means actors’ awareness of their belonging to the same political, economic, social and cultural space, understanding their interdependence in the past, present and future, and ambitions for common prosperity. Three groups of factors affect transnational identity formation, as shown in Figure 1.

Figure 1. Factors of transnational identity formation

Source: made by the author

Internal factors generally mean national cultural values and norms such as relations based on historical interactions in situations of conflict and peace. These experiences constitute the social context of regional economic cooperation.

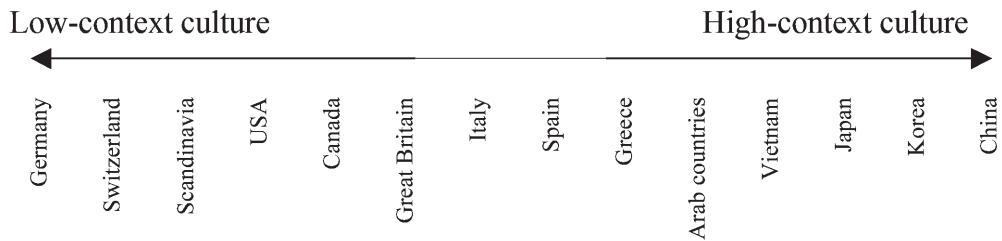
The goal of this paper is to estimate the influence of internal factors – the cultural values of Scandinavia and Northeast Asia – on the possibility of transnational identity formation, which promotes international economic cooperation between countries of the region. For this purpose research data collected by Edward Hall, Geert Hofstede, Ronald Inglehart, Fons Trompenaars and Charles Hampden-Turner were used.

2. Comparative analysis of cultural background for Scandinavia and Northeast Asia

2.1. Low and high context culture by Edward and Mildred Hall

The earliest research was conducted by Edward Hall. It ranged cultures by high and low context. Low context means that information is transferred in open forms, verbal skills have priority, and words have no double meaning. In high context cultures the conditions of communication play an important role for mutual understanding. Scandinavian countries are placed by Hall on one end of scale, and Northeast Asia on the other end, as shown in Figure 2.

Figure 2. High and low context cultures

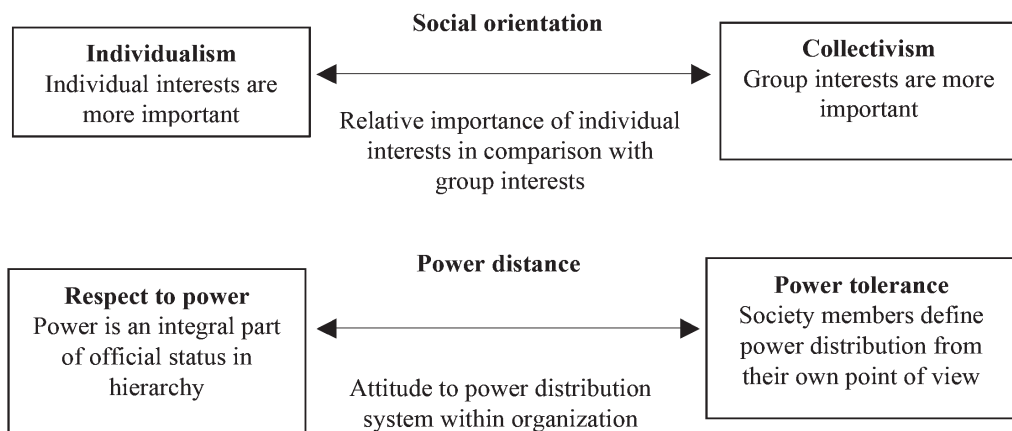


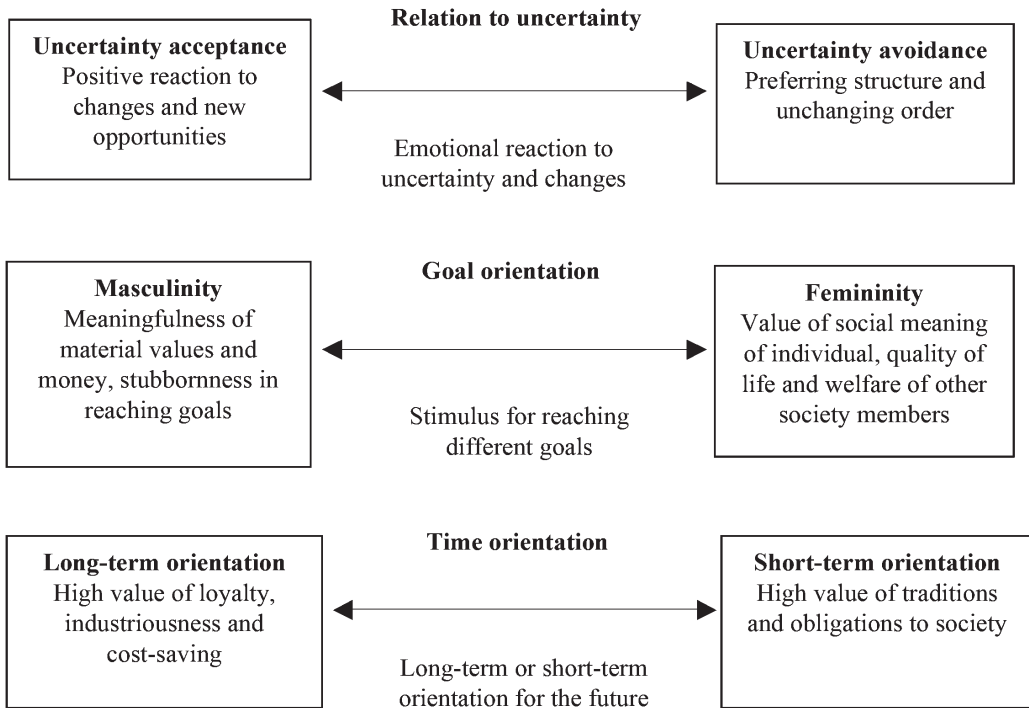
For transnational identity formation low-context culture is preferable, because group members work in the same cultural context. High-context culture divides participants of the communication process, because expressions used carry additional meaning to one culture and are frequently misinterpreted in the context of another culture. Scandinavian countries reach mutual understanding relatively easily, but for Northeast Asia such understanding can be possible only through mutual awareness to each other's cultural context complexities. This can be interpreted as a reason for the rational choice model and functional economic cooperation in Northeast Asia.

2.2. Five dimensions of culture by Geert Hofstede

Geert Hofstede considers five dimensions to describe cultural differences: individualism, power distance, uncertainty avoidance, long-term orientation, and masculinity.

Figure 3. Hofstede's cultural dimensions

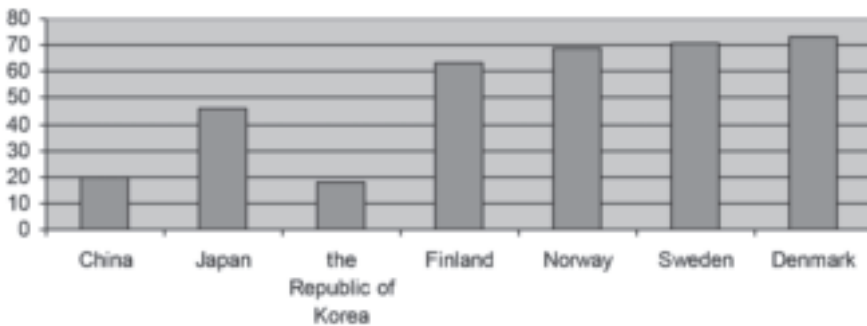




Source: made by the author, based on Griffin, Pustey (2006), p.192

Individualism - collectivism dimension for Scandinavia and Northeast Asia is shown on Figure 4.

Figure 4. Individualism-collectivism dimension for Scandinavia and Northeast Asia, percent

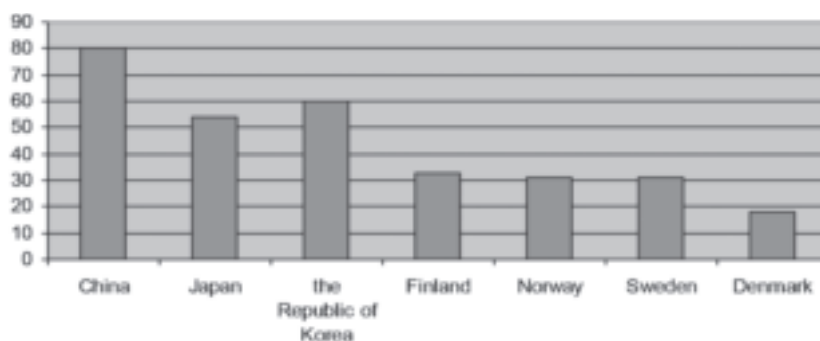


Source: made by the author, based on Hofstede (2011)

Scandinavian countries tend to show individualism and, Northeast Asian countries collectivism. Theoretically, for Northeast Asia this must be beneficial in the process of regional identity construction; however, in Confucian countries collectivism means a high degree of loyalty to one's family, organization, local community, etc. These are the things "inside" and individual's circle of interest. The cultural peculiarities of countries "outside" are pushed to the periphery of collective consciousness. Collectivist values primarily apply to national identity and national interests; however, because there are political (territorial and historical) issues between the countries of Northeast Asia, the "inner circle" cannot be extended to the whole region. Although this does not prevent trade, it does result in trade frictions that escalate if political relationships worsen.

Figure 5 demonstrates power distance indexes for Scandinavia and Northeast Asia. In Scandinavia we see a shorter power distance and more critical relation to power, that means the active involvement of citizens in decision-making. Therefore even with a high degree of individualism among people of those countries, they also realize their own responsibility for creating favorable conditions for regional economic cooperation. This can be connected to the fact that all Scandinavian countries are democratic. Their system of government is multi-layered, allowing citizens to influence power from local communities at the governmental level.

Figure 5. Power distance indexes for Scandinavia and Northeast Asia, percent



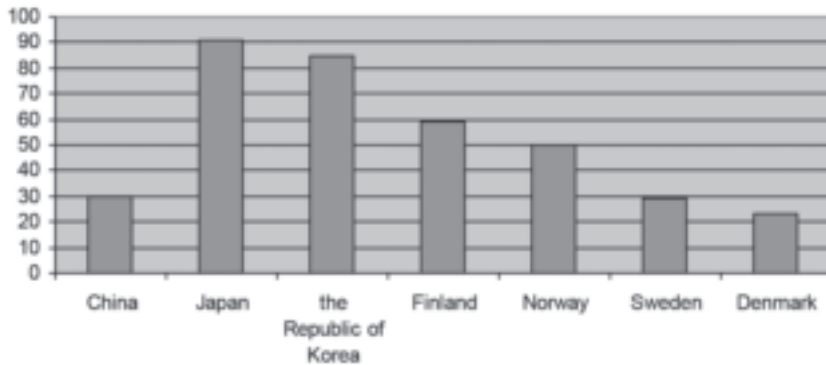
Source: made by the author, based on Hofstede (2011)

Northeast Asia shows high degree of respect to power. People tend to agree with their leaders' decisions because they stand higher hierarchically. In combination with collectivism this calls for a strengthening of national identity. If leaders called their nations to adopt greater mutual understanding and the development of a regional consciousness, then collective borders could be expanded to the whole region of Northeast Asia. The biggest power distance is in

China, which can be connected to lack of democracy in this country.

Figure 6 shows uncertainty avoidance index in the two regions. Scandinavian countries show a more positive attitude to uncertainty, when new opportunities appear. Flexible thinking and rapid adaptation to change have already allowed a Scandinavian identity to exist for several centuries. Among the countries of Northeast Asia only China shows uncertainty acceptance. Japan and South Korea prefer stability, risk avoidance, and waiting before acting. As a result, cooperation in Northeast Asia continues to develop according to the rational choice model and transnational identity formation is postponed.

Figure 6. Uncertainty avoidance index in Scandinavia and Northeast Asia, percent



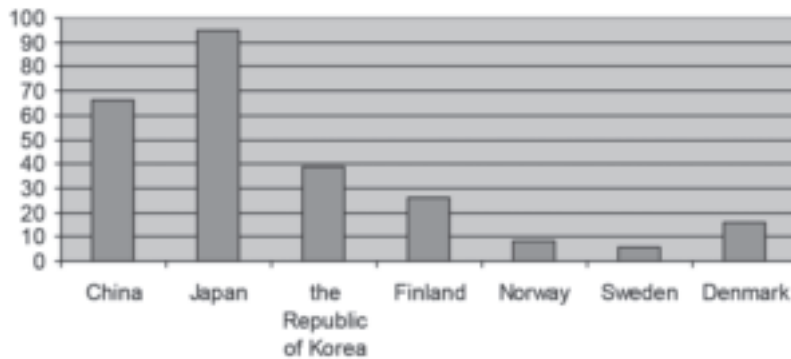
Source: made by the author, based on Hofstede (2011)

We can understand high uncertainty avoidance in Northeast Asia by examining the 1990s, when Japan experienced its “lost decade”, and South Korea suffered from the Asian financial crisis. Past experiences give good reason to avoid risks, but for future trade and investment growth these states ought to follow the example China.

Figure 7 shows masculinity index for the two regions. Considering that the countries of Northeast Asia show a high level of goal-orientation (masculinity) and officially declare regional cooperation as their goal, it seems strange that Scandinavian countries with a more passive attitude show better results in cooperation. However, we must understand that the rational choice model means prioritizing individual goals over collective goals, even at the cost of cooperation. In such conditions strong goal orientation prevents collective identity formation. However, for economic development ambition and motivational drive are beneficial factors, and explain the success of Japan, China and South Korea during the first stages of their market economy development. The passive goal orientation (femininity) of Scandinavian countries means that their

interests are strongly oriented towards relations with neighboring countries. This cultural feature is directly connected to the Scandinavian identity. They strive for interdependence that stimulates economic interactions, such as trade, investment and labor migration among Scandinavian countries.

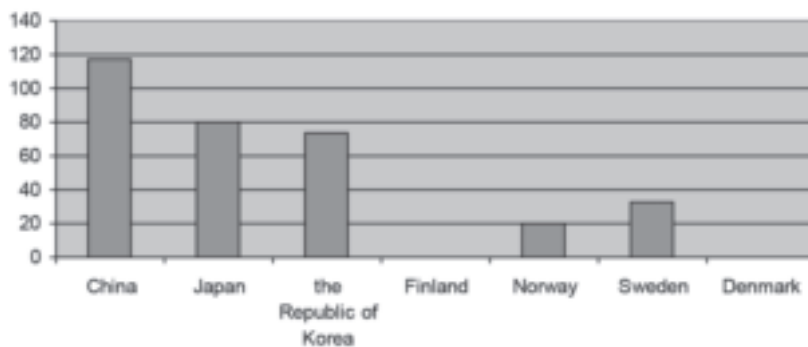
Figure 7. Masculinity index for Scandinavia and Northeast Asia, percent



Source: made by the author, based on Hofstede (2011)

Finally, Figure 8 shows the long-term orientation indexes for Scandinavia and Northeast Asia.

Figure 8. Long-term orientation indexes for Scandinavia and Northeast Asia, months



Source: made by the author, based on Hofstede (2011)

Northeast Asia shows a long-term orientation, meaning that in combination with their uncertainty avoidance, these countries prefer maintain the status qup when the profitability of

new conditions of cooperation in the long term is in doubt. Even during modernization and economic growth these cultures opt for a conservative approach. In Scandinavia a short-term orientation allows implementing small projects of cooperation, which in time grow into important initiatives.

Thus, we can say that Hofstede's dimensions of culture can be used for explaining the economic behavior of Scandinavia and Northeast Asia countries, in particular, their tendency to cooperate on the basis of a rational model or building a collective identity. Scandinavian cultural preferences include individualism, small power distance, low uncertainty avoidance, femininity, and short-term orientation, which support the development of transnational identity in the region, which builds trust and promotes economic cooperation. In Northeast Asia countries prefer collectivism, large power distance, high uncertainty avoidance, masculinity and long-term orientation support rational choice model. Thus building a regional community is not necessary in order to promote cooperation. National interests are more important than transnational interests.

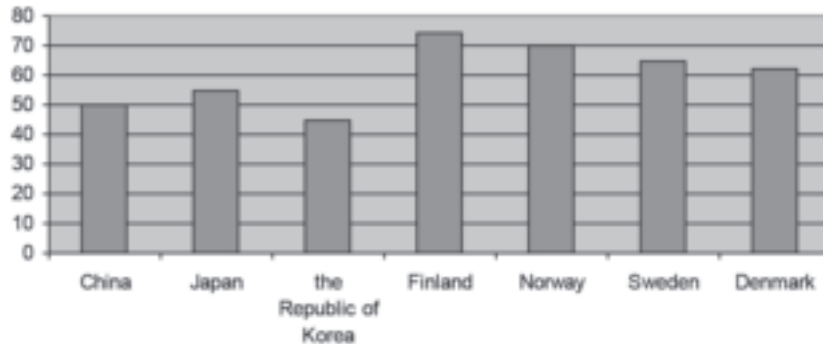
2.3. Seven dimensions of culture by Fons Trompenaars and Charles Hampden-Turner

Fons Trompenaars and Charles Hampden-Turner use seven criteria.

1. Universalism vs. particularism (What is more important, rules or relationships?)
2. Individualism vs. collectivism (Do we function in a group or as individuals?)
3. Neutral vs. emotional (Do we display our emotions?)
4. Specific vs. diffuse (How separate we keep our private and working lives)
5. Achievement vs. ascription (Do we have to prove our status or it is given to us?)
6. Relation to time
7. Internal vs. external control (Do we control our environment?)

As shown in Figure 9, Scandinavia prefers universalism, or playing by the rules with few exceptions. Particularism means paying attention to the special nature of circumstances. For keeping international agreements universalism is safer. Universal rules promote trust and stability of relationships, which must be beneficial for international economic cooperation. Particularism can promote cooperation only if there exists a strong mutual sympathy between countries of a region.

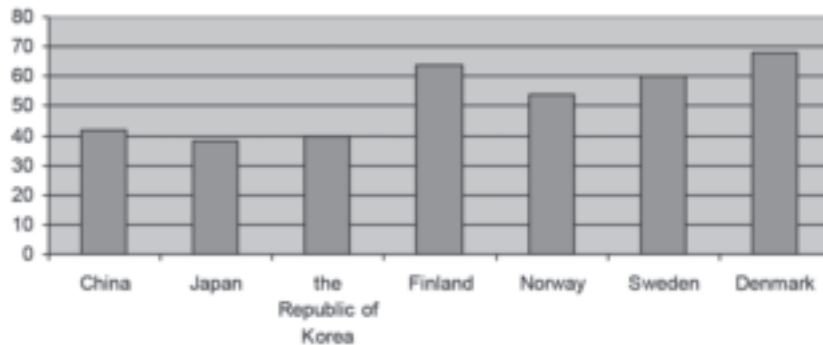
Figure 9. Percentage of respondents who prefer universalism



Source: made by the author, based on Hampden-Turner, Trompenaars (2004), p.83

Results shown on Figure 10 are similar to Hofstede’s data concerning individualism in Scandinavia and collectivism in Northeast Asia.

Figure 10. Percentage of respondents who prefer individualism

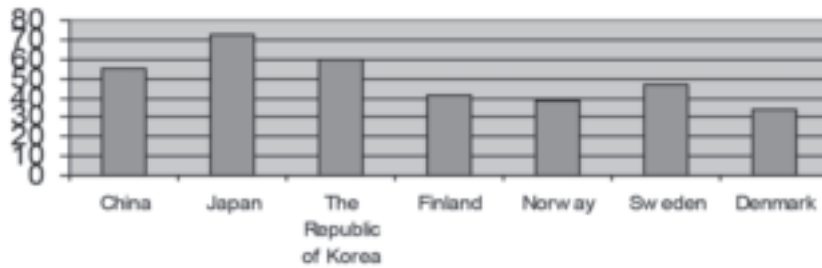


Source: made by the author, based on Hampden-Turner, Trompenaars (2004), p.111

Judging the data from the “neutral – emotional” dimension (Figure 11), the people of Scandinavia express their emotions more openly than the people of Northeast Asia. This difference is between average and low levels of emotional expression, Scandinavian people are not very emotional, either. Still, low level of emotional expression in combination with high-context culture makes communication barriers in Northeast Asia even higher. When verbal communication is heavily loaded with hidden meanings and non-verbal means are limited by

social rules, it become too easy to misinterpret a business partner and his or her intentions and motives.

Figure 11. Percentage of respondents who wouldn't share their emotions in public



Source: made by the author, based on Hampden-Turner, Trompenaars (2004), p.147

According to the data shown in Figure 12, Northeast Asian cultures are diffuse, and Scandinavian cultures are specific. That means that Scandinavian people can easily become friends with strangers because such friendly relations would only expand to the public life sphere and would not impose obligations on one's private life. For the people of Northeast Asia developing friendly relations requires time, because in the end it is necessary to decide whether or not to allow a new acquaintance into all spheres of life, or to keep a distance. However, a diffuse culture combined with particularism has served as the glue that held together the keiretsu in Japan and chebol in Korea, both of which turned were beneficial for their respective export-oriented economies. When companies from Northeast Asian countries find trustworthy partners in another country, there is a good chance that they can form a long-term mutually beneficial relationship, which in turn promotes economic cooperation.

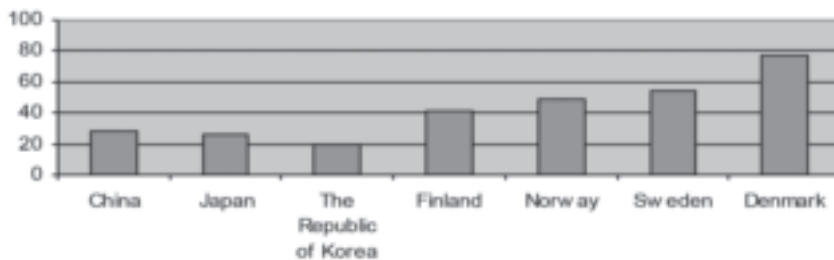
Figure 12. Percentage of respondents who prefer specific relations



Source: made by the author, based on Hampden-Turner, Trompenaars (2004), p.183

Figure 13 shows that in Scandinavian countries status is given as a result of achievements and in Northeast Asia it is ascribed according to age, gender, class, education level etc.

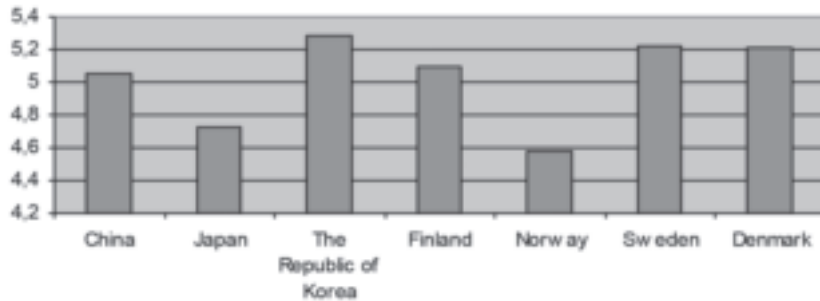
Figure 13. Percentage of respondents who believe respect should be given according to achievements



Source: made by the author, based on Hampden-Turner, Trompenaars (2004), p.216

As for relation to time, in contrast to Hofstede’s data, there little difference between the two regions. Figure 14 shows a long-term orientation in both regions, but Japan and Norway are relatively short-term oriented.

Figure 14. Relation to time



Source: made by the author, based on Hampden-Turner, Trompenaars (2004), p.263

Also, little difference can be seen in each region's relation to the environment (Figure 15). On average 70% of the world's population believes they control their own fate. Excluding Norway and China, other countries feel the same level of responsibility for their own destiny. This can be explained by the impact of similar factors from the international environment on both regions including globalization, regionalism, as well as the necessity of cooperation and further integration.

Figure 15. Percentage of respondents who believe that they are responsible for their lives



Source: made by the author, based on Hampden-Turner, Trompenaars (2004), p.295

Secular education in both regions also helps explain this phenomenon, by placing more emphasis on individual choice rather than fate. Seeing this connection in cause and effect is beneficial for economic cooperation in both regions.

The results of research conducted by Fons Trompenaars and Charles Hampden-Turner

illustrates that Scandinavia prefers universalism, individualism, moderate emotional expression, specific relationships, and defining status by achievements. Contrary, Northeast Asia is more oriented towards particularism, collectivism, low emotional expression and ascription of status. Both regions share long-term orientation and self-reliability.

2.4. Traditional/rational and survival/self-expression dimensions by Ronald Inglehart

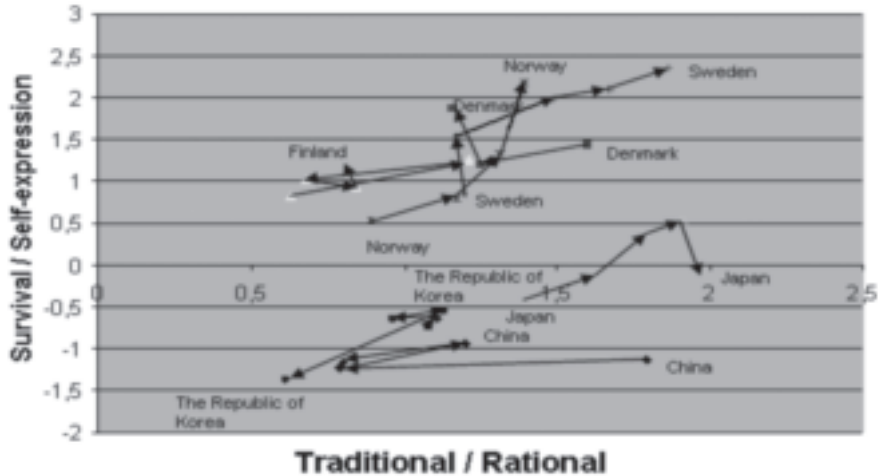
Research based on the World Value Survey data by Ronald Inglehart underlines the dynamic and dialectic character of culture. Inglehart uses only two dimensions – traditional/rational and survival/self-expression. Traditional cultures are based on religious values, respect for power, conservative family values and national pride. Survival is indicated by materialistic values such as public order and inflation reduction in contrast to post-materialistic values (freedom and self-expression, individual welfare, interpersonal trust, political activity, tolerance).

We can see a shift towards a traditional society in China and South Korea, while the rest of the world demonstrates a high level of rationalism. These differences are apparent in the survival/self-expression scale. Post-modern values, which prevail in Scandinavia, are useful for overcoming nationalistic tendencies and transnational identity formation.

The prioritization of “survival” for Northeast Asia can be explained by its economic history. Japan had to make enormous efforts to restore its economy and its national identity after the Second World War. By the 1980s it seemed that it could overtake the United States in economic development, but since the 1990s the country has suffered from a recession that it is still unable to overcome. For South Korea economic development is also prioritized as an aspect of national pride. This preference for materialistic values has rendered it an exemplary NIC. After the Asian economic crisis of 1997 Korea remembered again its need to “survive”. China’s economic development was not easy, either. People suffered for decades during the economic experiments of the “Big Leap” and the “Culture Revolution”. A need for survival and a desire to restore its place in the international arena motivated reforms.

A need to catch up with developed countries resulted in increased nationalism in all three countries of Northeast Asia. Nationalism allowed these states to concentrate human resources on increasing efficiency; however, solely pursuing national interests is not beneficial for regional economic cooperation when national and regional interests clash. In order to develop international economic cooperation through regional integration, a transnational regional identity is needed.

Figure 16. Scandinavia and Northeast Asia on survival/self-expression and traditional/rational scales



Source: made by the author, based on World Values Survey (2011)

3. Conclusion

Traditionally it is thought that the best model for economic cooperation is one that is based on mutual understanding between similar cultures. Yet, an analysis of cross-cultural characteristics in Scandinavia and Northeast Asia, shows that criteria, other dimensions also matter. A high level of communication context, collectivism, power distance, uncertainty avoidance, active goal-oriented behavior, long-term orientation, particularism, low emotional expression, diffuse relations and status ascription can prevent the formation of a transnational identity and only serves to strengthen national identities. In such conditions people of the region rely heavily on governments to define preferences and the choice between nationalism and transnationalism depends on state leaders. It is possible to develop international economic cooperation, but only on the through a rational choice model.

However, a regional transnational identity can successfully develop in similar conditions and with similar declared goals if cultures in under study exhibit a low communication context, individualism, active political involvement, uncertainty avoidance, passive goal-oriented behavior, universalism, average level of emotional expression, short-term orientation, specific relations and defining status by achievements. These values allow independent decision making based on personal experience, without fear of making a mistake. Also, post-modern values such as freedom and self-expression, interpersonal trust and tolerance promote cross-cultural communica-

tion, trans-border economic cooperation and transnational identity construction.

This paper limited the research object by cultural factors. Although they matter, other important factors influence international cooperation such as historical experience in conflict situations as well as peace, the social context of regional environment and institutional framework are of crucial importance. Since cultures are dynamic and change over time, we can only explain the current state of international economic cooperation in Scandinavia and Northeast Asia based on cultural values. It is difficult to predict whether cultural shifts in Northeast Asia will replace the rational choice model with an incentive model due to deepening interdependence and a desire to replicate the successful of economic cooperation among Scandinavian countries.

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