

## Chapter 14

# The Role of Religion and National Culture in Economic Growth of Emerging Markets

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### ABSTRACT

*Religion can influence economic growth and economic growth can influence religiosity (Barro & Mitchell, 2004; Barro & McCleary, 2003; McCleary, 2007). Earlier, Weber (1904, 1930, 1958) had suggested that the protestant work ethic gave rise to capitalism and that other major world religions including Catholicism, Judaism, Islam, Hinduism, Buddhism, Confucianism, and Daoism were not conducive to capitalism. However, the data on predicted growth rates and the current majority religion for the 24 emerging economies (Yeyati & Williams, 2012; IMF WEO, 2010) suggest these emerging economies with high growth rates include a variety of geo-political regions representing many different religions, national cultures, and even “no-religion” affiliation. For the same majority religion, the economic growth rates and Hofstede’s (1980) national culture dimensions vary among nations. Thus, religion alone is not sufficient to explain the higher economic growth of the emerging economies. The economic growth is influenced by additional social, political, and macroeconomic variables including human capital, infrastructure, technological progress, political stability, capital formation, domestic credit to private sector, foreign domestic investment, inflation rate, exchange rate, and international trade. In a secular sense, the religious beliefs and cultural values related to work and social ethic are conducive to economic growth through entrepreneurship and organizational effectiveness.*

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## INTRODUCTION

In the post–World War II era, the United States of America (USA) was the predominant force in the global economy, with Japan, the U.K., and Germany also playing leading roles. The US dollar has remained the reserve international currency, although the Euro has come to represent a growing proportion of international transactions and foreign exchange reserve holdings. However, a number of dynamic emerging economies are evolving to take their place at the helm of the global economy. The distribution of economic growth in the global economy has become multipolar. The six emerging economies – Brazil, China, India, Indonesia, Russia, and South Korea – will lead global growth, expanding on average by 4.7 per cent annually between 2011 and 2025, whereas the developed economies will grow by 2.3 per cent during the same period (World Bank, 2011).

These six emerging economies will lead the world's economy with more than half of all global growth by 2025. They have demonstrated high economic growth in terms of the rate of increase of Gross Domestic Product (GDP) after the 2008–09 global financial crises. The World Bank also notes that developed economies will remain prominent in the global economy with the USA, the Euro zone, Japan, and the U.K. still playing a core role in contributing to global growth. The most likely global currency scenario in 2025 will be a multi-currency one including the US dollar, the Euro, and the Chinese Yuan (RMB). Data on predicted growth rates and the current majority religion for the 24 emerging economies (Yeyati & Williams, 2012; IMF WEO, 2010) suggest these emerging economies include a variety of geo-political regions representing many national cultures, different religions, and even no religious/undeclared affiliation. The major world religions represented in the emerging economies include: Christianity (Catholic, Protestant, and Orthodox), Confucianism, Daoism, Buddhism, Islam, Hinduism, and Judaism.

A WIN-Gallup global poll (2012) indicates that 59 percent of the global population is religious, 23 percent is not religious, 13 percent is atheist, and five percent do not know. The major religious groups in the world include Christians (33%), Muslims (21%), Non-religious including atheists (14%), Hindus (13%), Buddhists (6%), Daoism and Confucianism (6%), Primal or Nature (6%), and Jews (0.23%). Of the 33 percent who are Christians, there are Catholic (17%), Protestants (6%), Orthodox (4%) and other Christians (6%). Most people are born into a religion, but more and more people are choosing religions different from in which they were born (WIN-Gallup International, 2012).

The relationship between religion and economic growth can work both ways. That is, in relation to economic growth, religion can be an independent or a dependent variable. As an independent variable, religion influences the economic growth through work ethics and social ethics. For people with no religion, work ethics are derived from their personal values. As a dependent variable, religion is affected by economic growth. Economic growth can lead to a change in work ethics and social ethics. Additionally, people born in one religion sometimes choose another religion or no religion. With economic growth, secular spirituality can compete with traditional organized religion (Barro, 1997; Barro & McCleary, 2003).

However, religion alone is not sufficient to explain the economic growth since the emerging economies with the same majority religion have varying growth rates. From a broader perspective, the economic growth of a nation is a complex function of economic, political, and social variables. Some of the economic variables include capital formation, infrastructure, exports of goods and services, inflation rate, exchange rate, domestic credit to private sector, foreign direct investment (FDI), and international trade. Some of the political variables consist of political stability, government policies, and public institutions. The social variables include human capital, labor force,

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