

China special issue B introduction: cultural distance, households, innovation, and cultural industry

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Published in:
Forum for Social Economics

DOI:
[10.1080/07360932.2020.1838937](https://doi.org/10.1080/07360932.2020.1838937)

Publication date:
2021

Document Version
Author accepted manuscript

[Link to publication in ResearchOnline](#)

Citation for published version (Harvard):
Wang, Z & Giovanis, L 2021, 'China special issue B introduction: cultural distance, households, innovation, and cultural industry', *Forum for Social Economics*, vol. 50, no. 4, pp. 357-362.
<https://doi.org/10.1080/07360932.2020.1838937>

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Cultural Distance, Households, Innovation, and Cultural Industry (Journal Ranking Q2)

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Published in:
Forum for Social Economics

Publication date:
2020

Document Version
Peer reviewed version

[Link to publication in ResearchOnline](#)

Citation for published version (Harvard):

Wang, Z 2020, 'Cultural Distance, Households, Innovation, and Cultural Industry (Journal Ranking Q2): Editor Keynote for China Special Issue', *Forum for Social Economics*, vol. 49, no. 4, 1, pp. 1.

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China Special Issue B 49(1) 2020 Introduction

Cultural Distance, Households, Innovation, and Cultural Industry

Journal:	<i>Forum for Social Economics</i>
Manuscript ID	RFSE-2020-0062.R1
Manuscript Type:	Special-issue or special forum-section research
Keywords:	Cultural Distance, Households, Innovation,, Cultural Industry

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China Special Issue B 49(1) 2020 Introduction

Cultural Distance, Households, Innovation, and Cultural Industry**ABSTRACT**

Special Issue B continues to address a set of research questions to complement Special Issue A which focused on China's rapid economic growth and the associated challenges. Examples discussed include unbalanced domestic growth, Africa-China migration, a game theoretic perspective on cooperation, and industry structure and policy changes. Critically, Issue B identifies opportunities as well as uncertainties for Chinese enterprises and institutions in their quest to become the world's leading economy. Specifically, papers examine issues related to the China Multinational Corporations (CMNC), workforce mobility, technological innovation, and the economic development of cultural industry, specifically, the film industry, all of which are having a profound impact on China's economic landscape. Their research focus includes: CMNC sociocultural distance and its impact on cross-border replication of activities; socio-political decisions in relation to innovation efficiency; the 'middle-income trap' and its effect on workforce mobility and 'functional inequality'. The frameworks, models, and theories discussed in these papers should help scholars to gain a better understanding of some of the social determinants of economic decisions as they relate to China's economic development.

KEYWORDS- Cultural Distance * , Households * , Innovation, * , Cultural Industry *

1. Introduction

Welcome to Issue B, the second part of this double issue which contributes to interdisciplinary research within Social Economics, Political Economics, and International Business. In earlier FSE papers, Wolfram Elsner and Henning Schwardt (2015) pointed to the challenges facing China's response to the complex and unpredictable environments that permeate both economic and social trade in a world of divergent institutions. Janet Knoedler and Geoffrey Schneider (2010) point to several political and social uncertainties germane to the papers in this issue. Asimina Christoforou and Fikret Adaman (2018) argue the case for cooperative motives in processes and objectives for enhancing social values and human capabilities. Alice Sindzingre (2015) examines developing countries' resilience from the perspective of inconsistencies and their effects on policy reforms. The above works continue to stimulate debates, especially in this FSE special issue on China's economic development. In several respects, Issue B takes a step forward in improving our understanding of the social determinants of economic decisions at multiple levels: societal, governmental, firm, social groups, and individuals, which continue to be relevant for understanding China's economic growth. Issue B papers can be interpreted in the spirit of George Akerlof's (1997) work on 'social distance' and George Akerlof and Rachel Kranton's (2005) study of how employees' identity affects work effort and influences financial incentives within organizations. The Issue makes a strong connection to Karla Hoff and Joseph Stiglitz (2016) concept of 'social balance' as it relates to the China Multinational Corporations (CMNC), labour wellbeing, capability development, and regional development. Collectively, the papers demonstrate why a better understanding of social determinants of economic decisions is required.

2. Issue B content

The opening article, by XXXX, examines cultural determinants of China's economic growth using gravity equations. Gravity models have had some success in calibrating how economic and geographic distance affects physical and non-physical trade at both the national and firm level. The authors add several cultural variables to a gravity type model and, using firm level data drawn from a sample (289) subsidiaries from some of China's largest MNC. The study explains how socioeconomic behaviour enables the CMNC to offset, at least in part, the effects of cultural distance between China and their host country trading partners. The influence of social context on economic behaviour is reflected in CMNC cross-border activity. The inclusion of cultural variables in gravity type models can provide new insights on how economic activity can replicate across country borders in international markets.

Returning to the home setting, the second paper by Yan Liang, directs attention to the 'middle-income trap' (MIT) as a major impediment to China's economic growth and argues the case for domestic demand and technological development as the most significant drivers for alleviating it. The paper focuses on 'functional inequality', the declining labour share in national income which has had a 'dampening effect' on aggregate consumer demand, and, in turn, has undermined technological development. In addition to deteriorating income inequality, the paper argues that functional inequality can exert a stronger 'market effect' than the 'price effect', further disincentivising innovation. The paper concludes by noting various recent government initiatives to boost declining economic growth, emphasizing that policy

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3 makers will need to examine the reasons for the declining labour share and identify measures
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5 to increase it.
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9 The MIT theme continues in the third article by Jan Franssen, where it is linked to
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11 technological innovation as it relates to economic and other policy reforms in China. Using the
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13 Yiwu region as a case study, the author investigates the role of regional industrial development
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15 policies in traditional industrial areas. Yiwu was transformed from one of the poorest rural
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17 regions in the 1970s to one of the richest modern city regions in the 2010s. The research focuses
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19 on factors within and outside the industrial structure that led to lock-in and path decay. The
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21 author argues that path extensions provide a means of reducing path decay by deepening
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23 capabilities and diversifying markets, products, and technologies. The author notes the
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25 limitations of path-dependent related policies and argues against industrial policies. While
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27 these policies have extended 'regional pathways' the paper argues they have had limited impact
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29 in Yiwu. The limitations are also revealed by the innovation policies in under-developed areas
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31 such as education, training, housing services and investments in public infrastructure.
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33 Crucially, as China moves towards a knowledge-based economy, innovation policies and a
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35 negative public perception of mass production have led to only a few isolated examples of
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37 innovative industries in regions such as Yiwu. The study points to the importance of innovation
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39 efficiency, which needs to be combined with the functional aspects of multilevel industrial
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41 policies. The study offers several implications, recommending multilevel experimentation in
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43 creating alternative innovation-driven industrial pathways for China.
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52 Industrial policy initiatives are also relevant for the cultural industry, which becomes the
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54 focus of the fourth paper by James McMahon. The paper provides an analytical framework to
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56 analyse the crucial role of China's film industry, together with cinema, theatres, and the
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58 performing arts, as a driver of China's economic development. Globalization accelerated the
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3 domination of the Hollywood movie industry worldwide, yet this has not been the case in
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5 China. Hollywood studios experience political and cultural complications in China's cinema
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7 market and film industry. The paper reveals how China applied a film-quota policy that
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9 restricted the number of theatrical releases by foreign distributors and how this affected
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11 industry evolution. The paper documents how the Communist Party has nurtured the Chinese
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13 film industry to ensure a steady flow of film releases with its own movie star network. China's
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15 film industry is a prime example of the difficulties being experienced in forging collaborative
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17 arrangements with other countries' film industries. Crucially, future economic development of
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19 China's film industry will depend on its ability to encourage deep collaborations with proven
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21 industry leaders such as Hollywood.
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31 **3. Discussions and concluding remarks**

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34 The collection of papers included in Issues A and B builds on recent theoretic developments
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36 in social economics, political economics, and international business. Papers in Issue A bring
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38 out critical issues with respect to decision choices, showing why they are the product of
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40 interdependent social interactions, with social consequences, and are to be distinguished from
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42 the standard economic model. Issue A provides new insights on China's political weight in
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44 using state-owned enterprises (SOE) as policy levers both domestically and in contracting with
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46 overseas organisations and institutions, creating sources of competitive advantage that may not
47
48 be available in other countries. Yet, despite the government created advantages for China's
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50 economic growth there is also evidence of 'unbalanced development'. Drawing on
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52 'institutional economics' theory, papers have further revealed the social cost of large-scale
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54 Afro-China migration, nevertheless, changes in industry structures at home have had a
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56 profound effect on social relationships, resulting in 'shrinking trust' due to the disintegration
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3 of 'rural kinship communities' and increased 'social distance' in the new city regions.
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5 Moreover, Keynesian 'socialisation of investment' has contributed to economic growth by
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7 creating space for capital rather than consumption investments while such differences also
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9 reflect the relatively homogenous collectivist societal values of China and the heterogeneity of
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11 Western individualism.
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16 Building on these different perspectives, Issue B, therefore, continues to demonstrate the
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18 importance of developing shared social values, beliefs, and social preferences, which have
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20 become central features in the emerging field of identity economics, pioneered by the work of
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22 **George Akerlof and Rachel Kranton (2000, 2002, 2005)**. These papers also complement
23
24 arguments raised by Asimina Christoforou and Fikret Adaman (2018) concerning social values
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26 and human capabilities, which builds on the paper by Karla Hoff and Joseph Stiglitz (2016)
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28 with respect to social balance in relation to equality of educational access, labour wellbeing,
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30 and childbearing. **George Akerlof and Rachel Kranton's (2005)** identity and the economics of
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32 organizations show that a change in identity may have a greater motivational effect than a
33
34 change in financial incentives. Moses Shayo (2009), Robert Akerlof (2017), and Paul Collier's
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36 (2016, 2020) studies examine why objective characteristics, the amount of education,
37
38 occupation, gender, and nationality have considerable subjective significance. Issue B extends
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40 this theme by building on aspects of social balance and social status, for example, the paper of
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42 China MNC replication provides empirical evidence for how different genders cross-borders
43
44 not differently contribute to economic activity, and how the 'middle-income trap' (MIT)
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46 reflects the 'functional inequality' in China. The papers also provide ideas on how innovation
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48 in the knowledge economy can help to resolve issues such as MIT, and how this is to be realized
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50 through appropriate government interventions, and to be addressed through regional policy
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52 measures.
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3 Theory development further builds on ideas proposed by Wolfram Elsner and Henning
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Theory development further builds on ideas proposed by Wolfram Elsner and Henning
Schwardt (2015) concerning the challenges China is facing in responding to the complex and
unpredictable environments that permeate both economic and social trade. Janet Knoedler, and
Geoffrey Schneider (2010) point to political and social uncertainty in a world of diverging
institutions, exemplified by the recent escalating tension between the USA and China on trade
and other issues. With increasing globalization and rising global mobility, Issue B recognizes
the complex relationships among nations, groups, and individuals, with some seemingly
paradoxical situations that go beyond the usual socioeconomic conventions. For example,
China's policies within the cultural industry impose constraints concerning its openness in
cross-country collaborations. Also, CMNC cross-border replication generate the type of
interdependencies that can increase *economic* trade while simultaneously imposing a constraint
on *social* trade, as evidenced by increasing cultural/social distance, creating the need for greater
conformity and the development of prosocial behaviours such as cooperative reciprocity based
on trust. Many of the issues raised have suboptimal Nash equilibrium outcomes. The Issue
helps address some critical issues currently raised from social frictions such as China-Hong
Kong emanating legal and institutional changes, China border conflicts with India, and CMNC
Belt-and-Road Initiative. Although the initiative provides opportunities for China to boost
economic connectivity, it presents several challenges, especially for international interactions
across ever increasing cultural distances such as Eurasian, African, and Latin American
countries. The pertinent question is how can CMNC in an integrated China extend coordination
and cooperation among a continually increasing social space? Addressing this question
concerns not only the objectives of such initiatives, economic decisions crucially depend on
national and organizational identities that may bolster or undermine China's global
socioeconomic ambitions. Christina Bicchieri (2006, 2017) has shown how a social norm could

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3 change the game to one of coordination where there are multiple equilibria, some of which may
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5 have outcomes superior to the Nash solution.
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9 The China Special Issue has emphasized how social forces affect economic decisions. This
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11 has led to a flourishing body of research across a range of areas of concern to economics. For
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13 instance, the double issue builds on theoretical frameworks published in the FSE and related
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15 social/political economics in relation to the social determinants of economic growth, the
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17 distribution of income and wealth, identity, prestige, and social norms. The concepts also build
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19 on a modified gravity model by George Akerlof (1997) that predicted the existence of stable
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21 sub-groups, with social outcomes of varying quality located at different points in social space
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23 that would generate ‘low level equilibrium traps’ for some people (Akerlof, 1997: 1010).
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25 Recent work has further shown how diverging identities is influencing how people vote in
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27 democracies, with consequences for government policy. Whether the lower income majority,
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29 who tend to make nationality salient, influence policy (e.g., human rights, workers rights,
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31 income redistribution) (Shayo, 2009), or whether a minority elite group are ‘disproportionately
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33 influential’ is dependent on whether those with high incomes switch identity by dropping
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35 nationality and creating an ‘elite class’ (Collier, 2020). The point here is that a change in some
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37 objective characteristic (i.e. income) leads to a switch in subjective identities, which change
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39 social preferences, and hence behaviour, with far reaching consequences for policies in
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41 democratic societies. For China, four decades of rapid economic growth has made it the world’s
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43 second largest economy, as measured by GDP US dollars, yet its ranking of 68th in 2019 for
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45 GDP per capita (World Bank, accessed 22 Sept 2020) reminds us that it remains a middle-
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47 income country, and as papers in the special issues indicated, China is facing considerably
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49 challenging economic and social conditions, with implications for the future wellbeing of its
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51 people.
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China Special Issue Editor

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