

Impact of Religion on International Trade

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Abstract—As the world economy is integrating, trade between countries is growing rapidly. The exchange of goods not only has an economic but also a cultural dimension. This paper examines the possible ways that religion influences international trade patterns, it is the result of secondary research collected by already researches done in this field. It studies the view of the five world religions, namely Hinduism, Judaism, Buddhism, Christianity, and Islam, on economic activity, and trade in particular. Specifically, we examine whether the sharing of religious cultures enables the formation of exchange networks that can overcome the failure or nonexistence of other social and economic institutions necessary for completing complex international transactions. Religious cultures are clearly legitimate subjects for scientific study. This paper contributes to the research on the economic impact of religious cultures and religious institutions by examining relationship between religious cultures and international trade.

1. REVIEW OF LITERATURE

The area of political economy of religion has seen research on the effects of religious beliefs and economic attitudes, although much of it does not involve attitudes toward trade. One strand of the literature focuses on the role of religion as a form of social insurance against adverse events. Scheve and Stasavage (2005a, 2005b) argue that religion and welfare spending are substitutes for each other and individuals who are more religious will prefer less social spending. Religion serves as an insurance against adverse life events such as job loss or illness. Another area of the literature studies the effects of religious beliefs on general economic attitudes and outcomes. Using the WVS data, Guiso, Sapienza, and Zingales (2003) find that on average, religious beliefs are associated with positive economic attitudes and outcomes. Religious beliefs tend to go with attitudes more conducive to higher incomes and higher economic growth. Barro and McCleary (2002), in their extensive paper on religion and political economy, find among other things that economic growth is positively correlated with religious beliefs but negatively correlated with church attendance. They conclude that believing is good for growth but belonging retards growth.

The literature has yet to put much emphasis on the role of religiosity and trade preferences. Von der Ruhr and Daniels (2003) take into account the role of religious affiliations and denominational differences when measuring attitudes toward trade and immigration. They find that religious affiliation is a

more important factor than other demographic factors such as race, ethnicity, and region. Their findings on religiosity in the U.S. focus on differences between religions but fail to sufficiently address the question of religious intensity.

In a similar study, Daniels and von der Ruhr (2005) argue that differences within a denomination can have an impact on preferences toward trade and immigration. Those associated with more fundamentalist factions of the Protestant or Catholic religions are more likely to support trade barriers and barriers to immigration. Toward the end, they hint at a separate effect of religiosity toward opinions about immigration. For the most part, research has been lacking on the role of religiosity and trade policy preferences.

2. RESEARCH METHODOLOGY

Research starts with the identification of an objective, scope of the study, research design and limitations of the study which gives a definite direction to the paper. From the view point of objectives, the research work undertaken is an exploratory research type which attempts to understand the impact of religion on International Trade. The major purpose of this research is description of state of affairs as it exists at present. From the view point of application, the research project is an applied research. The research paper is prepared to Study the Impact of Religion on International Trade.

3. OBJECTIVES OF THE STUDY

The Study has been done keeping in mind following objectives:

1. To Study whether the sharing of a Religious Culture Facilitate the Formation of Trade Networks.
2. To study the economic effects of religion.
3. To assess the religion's Effect on attitudes towards trade

4. RESEARCH DESIGN

The study is prepared on the basis of exhaustive information collected about the impact of religion on international trade. It includes secondary data and external secondary research.

5. LIMITATIONS OF THE STUDY

The main limitation is that it relies on the information which has already been researched (secondary information), and if there is none, then specific questions on the new study might not be adequately answered. Secondly, owing to different objectives and methodologies (and study designs) of previous studies, the data might not be in the right format or specific enough to answer the objectives of the current study.

6. CONCEPTUAL FRAMEWORK

6.1 Background of the study

Religion plays a significant role in the entire struggle of a human race yesterday and today. It is hardly possible to find an adult grown without a moral teachings of a certain religion what so ever the faith is based. The moral teachings resulted in the moral values of an individual and all sorts of decisions are associated with all the accrued values in his subconscious as psychologists claim that “child is the father of the man” to emphasize the impact of our childhood experiences on our adult hood activities. How we act today or our decision making habits can be traced back to our childhood practices and learning. It is this psychological impact of the religion which might make it to be superior in determining the taste and preferences of goods and services intensely available in the world market. The classical economists emphasize the dissimilarities which derive countries to trade. For a bilateral trade to function the trading partners must have “unlike variables”, unlike technology or unlike factor abundance, as in physics there is a natural rule that “unlike charges attract each other”. It is the dominant feature of the classical trade concepts that “unlike countries attract each other”. But the more revealed view of Linder’s overlapping demand theory which claimed that the more similar the countries are the more intensive trade will occur is a big step forward. It can be associated with the general philosophy of the law of attraction “like attracts like” in the motivational teachings of today, on the book of the secret. The argument is to claim that dissimilarities could not be the poles of attraction whereas individuals all over the world would be attracted to the likes of their own and it has to be clear that trade is finally by individuals. Similarity in religion especially is the dominant variable to influence the likes of the citizens of the world beyond boarders. And this paper would not attempt to nullify any theoretical concept but to strengthen the significance of similarity in religion as a proxy of culture is a means to trade.

6.2 Individualities of each religion

- *Hinduism*

Hinduism is a religion that is based in India where it developed in the 1st millennium BC. Hinduism is a polytheistic religion that was highly influential in the development of Indian culture. Hinduism is based on sacred

scriptures called Vedas which were written by several authors, the Rishis. In the Vedas are found important concepts of economics such as production, exchange, wages, interest, rent, profit, and the market. Every Hindu is free to pursue these aims as long as he or she also fulfills his or her dharma. The dharma gives everyone the right to pursue economic gains and therefore every individual is also capable of achieving economic well-being.

This market-oriented view of Hinduism finds its limits when it comes to the caste system. Depending on the counting measure one can count up to several thousand castes. Each caste preserves its identity by following a strict and complex set of rules. A Hindu is born into a certain caste and changing caste is nearly impossible.

Hinduism takes a rather ambiguous stance towards international trade. Whereas economic exchange is welcome, trading is traditionally reserved to a specific caste. This system implies high transaction costs that could nevertheless be offset by the high level of trust between the trading castes. For religions other than Hinduism, it might be difficult to find the appropriate Hindu trading partner.

- *Christianity*

During its 2000 year old history Christianity has become the religion with the most numerous adherents worldwide. Christian beliefs are all based on the Bible containing the Old and New Testament. Even though some Christian beliefs put emphasis on the Old Testament, the New Testament is the primary source determining Christian thinking. Concerning economic issues, the New Testament differs substantially from the Old Testament. One of the authors of the New Testament underscores the obligation of the rich toward the poor. The New Testament stresses several times the material necessity of life, but also encourages the wise use of resources. God is seen not only as the creator of the spiritual, but also the material, world. God has given people control over resources and people are obliged to use them to the best of their abilities. The material means need to be produced, protected, and sustained (Wilson 1997). Accumulating material wealth is not condemned by the New Testament, as long as men are not distracted from worshipping God or try to replace God through security in material goods.

A reformist movement that began in the 15th century led to the rise of a new Christian church, called Protestantism. The reforms put forward by the reformists not only concerned theological issues, but also impacted political and economic life. The most prominent reformist leader Martin Luther (1483-1546) argued that one can witness his faith not merely. Through prayer, but also through work. He encouraged Christians to be critical and to assess the secular law against the biblical teaching. In summary, the Christian economic thinking recognizes the market system, but places some

constraints on it which are defined by Christian ethical standards. Trade is not treated explicitly and probably seen more as a necessity than a contribution to the economic well-being

- *Islam*

Islam is the youngest of the five world religions. At the core of Islam is Prophet Mohammed (570-632) who is at the origin of the Koran, the main text of the Islamic religion. Prophet Mohammed grew up in a family of traders. Still young, he also became an important trader with considerable economic and political power. After his rise to power, he turned toward religious issues and his thinking was later written down in the Koran. Concerning trade, the Islamic view differs substantially from the Christian one. Whereas for Christians trade is a necessity that does not add value to the commodity traded, in Islam trading is considered as important as producing. It is argued that without the exchange of goods, production would be worth much less. This trade favoring position is pronounced explicitly in several passages of the Koran. Sura 4:29 warns to keep exclusive control over personal property and postulates "let there be amongst you traffic and trade by mutual goodwill."

However, trade is not seen as beneficial per se. It has to obey rules, most importantly honesty. The Koran condemns any attempt to deceive or to cheat in economic transactions. Furthermore, Muslims should only get involved into trading when they are able to take responsibility for the quality of the traded good.

- *Buddhism*

Buddhism is a religion founded in India around 525 BC by Siddhartha Gautama, called the Buddha. It spread from India along the commercial roads, most importantly the Silk Road, to China, Mongolia, Korea and Japan. Today, Buddhism counts over 400 million adherents worldwide and is divided into two main schools: the Theravada in Sri Lanka and South East Asia, and the Mahayana in China, Mongolia, Korea, and Japan. An important principle of Buddhism is the principle of interdependence. Life should be perceived as an inextricable web in which nothing can claim separate or static existence. Humans form an integral part of this system, but are not supposed to dominate nature (unlike the claims of Christianity). The resources should therefore be used according to the principles of sustainability and provision of all species.

Differences in ability and wealth are respected as long as the interests of all participants are maintained. Buddha asks, however, to restrict the acquisition of wealth to the necessary, otherwise the attainment of enlightenment risks preclusion. All in all, Buddhism is a highly flexible and diversified belief. The considerable differences between country-specific versions of Buddhism may limit the trust-enhancing effect of sharing

Buddhism as a common religion between trading partners. We therefore conjecture that the trust effect for trade between Buddhist countries is small. Furthermore, since the activity of trading is not perceived positively, Buddhist countries may have a general disincentive to trade.

- *Judaism*

Judaism is one of the oldest world religions and has its origin in the Middle East. Experts estimate that the earliest date from which Judaism was developed as a religion was 538 BC upon the return of Israelites from exile in Babylon (Hutter 2005). At the core of Judaism is the Torah, which sets out Jewish law and consists of five books. In Jewish life conducting business and trade has always played a very prominent role. One reason might be that the Jewish community, since its beginnings, was surrounded by neighbors with different beliefs. The Torah therefore provides guidance on how to conduct business with non-Jews. Even though the Jews considered themselves as the chosen people, it did not impede normal commercial relations with people of other beliefs. It is reported that Jewish tribes of ancient Israel had intensive trade relations with their neighbors (Wilson 1997). In summary, Judaism can be seen as a religion that not only provides an appropriate framework for economic exchange, but also the incentive to build up trade relations, without discriminating necessarily between 214 Matthias Helble Jews and non-Jews.

7. ECONOMIC EFFECTS OF RELIGION

Religion is an institution that guides general economic behavior, and it therefore also affects the important economic activity of international trade. Religions often promote "economically-friendly" behavior, such as honesty, diligence, and the provision of public goods. But, because religions focus on spiritual issues rather than the "pursuit of happiness," they may also suppress people's motivation to engage in welfare-enhancing economic transactions. Religion's overall influence on trade-enhancing institutions is, therefore, ambiguous. (Iannaccone, 1998) observes in his survey of the literature on religion and economic activity that "religion seems to matter, but its impact is far from uniform." Iannaccone's survey also reveals how sparse the research on this issue is. How religion influences the institutions that directly affect international trade has not been systematically examined by economists. Religion may also have a network effect that facilitates complex economic transactions among people in different countries. Religion's role in creating international trade networks has been investigated by (Greif, 1989; Grief, 1994; Rauch, 1999; Rauch, 2001; Rauch & Trindade, 1999). The sharing of religious beliefs can mitigate problems such as adverse selection, moral hazard, and default. Therefore, religion can facilitate complex economic transactions among people in different countries. These network effects of religion are not necessarily favorable to increased international trade, however. Networks can divert trade as well as create trade. Furthermore, networks may hinder the long-run growth of

trade by limiting the entry of new participants and the inclusion of new products. Recent works by (Mokyr, 1990; Holmes & Schmitz, 1995; Parente & Prescott, 2000) showed that vested interests often obstruct competition and economic change, suggesting that networks may serve to protect certain participants from competition from those outside their network.

8. RELIGION'S EFFECT ON ATTITUDES TOWARD TRADE

One possible explanation is that religion serves as a conservative influence on the attitudes of its adherents. This argument may be familiar to those in the popular media and academics alike. The supposedly "conservatizing" influence of religion is well-known in our world today. After all, the evangelical Christians have become a dominant force in American politics today, advocating socially conservative policies. Halfway around the world, 10 fundamentalist Muslims are attacking Western policies and seeking to preserve their conservative way of life. The social conservatism of religious beliefs can possibly extend to the realm of economic beliefs. Perhaps religious beliefs are incompatible with ideas of modernization and secular progress. Free trade is a modern idea that some religious leaders may oppose as a form of modernization and liberalism.

A more likely scenario, however, is that religiosity is incompatible with free trade to the extent that free trade has some negative consequences. Most religions have a belief in some form of social justice, and religiosity in general creates a social environment in which all adherents should care for one another. Religiosity teaches compassion for fellow human beings and increases the degree of social contact. This argument is a component of the religion as a substitute for welfare spending argument. If religion offers a form of social insurance during adverse events, then it follows that adherents are more likely to feel compassion for others. Free trade creates many positive consequences, but it also brings about economic distress to certain groups of people. It can create job losses or wage decreases for those employed in comparatively disadvantaged factors or sectors. These trade dislocations are generally more visible than any gains from trade. After all, one hardly notices lower prices and equates that with benefits from free trade, but when an acquaintance loses his job because his factory is shut down due to foreign competition, that gets noticed much more readily. In addition, globalization also has a negative reputation from various sources, including protestors and NGOs. World inequality and poverty are often blamed on certain aspects of globalization, especially the multinational corporations and their activities in poorer countries. Combining the negative reputation of globalization with the increased compassion of religious persons, it is plausible that religiosity will be correlated with protectionism. Religion teaches its believers to be socially aware and 11 compassionate. Free trade then creates economic distress to

some, and religious adherents are more likely to identify with the costs rather than the benefits of trade.

9. TRADE-ENHANCING NETWORKS AND RELIGION

Only two religions, Buddhism and Judaism, have positive direct and indirect institutional effects as well as trade-enhancing network effects. That Buddhism is so positively and consistently correlated with international trade would not surprise Lal (1998), who argues that the examples of Japan after World War II, and China, India, and many other Asian economies more recently, prove that rapid economic growth can be achieved in non-Western societies. Judaism's positive network effect suggests that Jewish traders may still form implicit networks that expand international trade, not unlike the Jewish Maghribi traders 1,000 years ago as described by Greif (1989, 1993).

The result that the Hindu culture does not generate any noticeable network effect is surprising, given the Hindu Diaspora throughout Asia, Africa and the Caribbean. Perhaps the mixed results are driven by the remnants of the Hindu culture's divisive caste system, or, as Uppal (1986) and Eisenstadt (1968) note, the culture's lack of a single unifying written doctrine. It is difficult to explain why Roman Catholicism, Orthodox Catholicism, and Protestantism, the three Christian religions in our sample, do not provide strong direct institutional support for international trade. The three Christian religious cultures have positive indirect effects on trade through their influence on other institutions that enhance bilateral trade, which may be a very important contribution by those religions in that part of the world where secularism and individualism are also strong cultural traditions. This finding that, indirectly, Protestantism is likely to have inspired other institutions that encourage international trade is supportive of Weber's (1905) hypothesis that Protestantism is instrumental in the growth of capitalist institutions.

10. SCENARIO: INTERNATIONAL TRADE FRACTURES ALONG RELIGIOUS FAULT LINES

(Source: April 6, 2013 by Epiphenom)

International trade is made easier when nations share a common language. Geographical closeness, regional trade agreements, and common legal heritage also help trade along, and former colonies trade more with each other and with the ex-mother country. Chong Wha Lee, at Kongju National University in South Korea, wanted to know if a common religion could play a similar role in boosting trade. Although there's been a bit of research into this before, Lee was particularly interested to know if there was a difference between trade in goods and trade in services. Now, it could be that some religions promote trade more than others, but Lee wanted to know the net effect of shared religion (regardless of

the specific effects of individual religions). So he compared trading partners, and assessed whether both countries shared a dominant religion (which he called the “Institutional effect” of religion). For each religion, he also looked at trading partners where at least 5% of the population were adherents (he called this the “network effect”). In each case, he pooled all the different trading partners to get the average effect of sharing a religion. He found that nations that shared a religion – either on an institutional level or at the network level – had significantly greater trade, even after accounting for the other effects (like language)

For trade in goods, the effect was quite weak (less than the other factors listed earlier). For trade in services, however, the effect was stronger. That was particularly the case for institutional effects, which had a stronger effect on trade than either regional trade agreements or shared legal systems. Lee concludes that “...Religion establishes co-religious networks that positively affect interpersonal trust, thereby reducing institutional distances between countries.” It’s intriguing to speculate why that might be. Presumably people trust co-religionists more than religious outsiders, but Lee’s study doesn’t help us to understand whether trust is more important than antipathy. It could be that religious disagreement actually hinders trade (which would result in a relative positive effect for shared religion). And why is the effect stronger for trade in services? These are things like finance, tourism and telecoms. Intellectual products like inventions also come under this heading. You can imagine that trust would be important here – but more important than for trade in physical goods?

11. CONCLUSION

In light of the apparent religious fervor in many parts of the global economy, this paper is an attempt to study how religious cultures enhance or retard the globalization of economic activity is especially surprising. The literature over the political economy of trade has long focused on economic factors in determining attitudes toward free trade. Although economic factors undoubtedly play an important role, non-economic variables also have an effect. In this paper, I provide evidence that religiosity plays a role in shaping attitudes toward trade. This paper makes a contribution toward filling this void by examining how religion affects international trade. With a seemingly renewed interest in religion in our globalized world today, it is important to examine just what effects these religious beliefs have on our society.

By this paper we can draw many subjective conclusions on as to how trade enhances networks and religion and how attitude and work habits of individual differ depending on the religion they follow. It also draws conclusion on the individualities of the famous five religion followed across the world. It discusses the characteristics and trading pattern of each religion.

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