



The Impact of Europe's Individualism/Collectivism on the International Trade

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Abstract

If we are to choose between two distinct statements, that the interest of the group prevails over the interest of the individual for the majority of people and that a minority of people in our world live in societies in which the interests of the individual prevail over the interests of the group, we can conclude, as Hofstede did, that there are two categories in which nations can fit: individualists and collectivists. The purpose of our study is to investigate the impact of this cultural dimension on the international trade of the European countries. Panel regression model with country fixed effects has been applied to the 21 years' data (1997-2017). Based on prior studies conducted by Inglehart, the analysis of the World Values Survey, the cross-national values databases of Schwartz, Hofstede, Triandis, GLOBE, and Trompenaars, we proxied the individualism with three variables, i.e labor productivity index, higher education rate, and urban population growth rate. The findings of previous studies suggest that individualism has significant positive relationship with the imports and exports of Eastern European Countries, notably, Poland, Lithuania and Romania. Concurs with previous studies, our results show there is a significant positive relationship between individualism and international trade (both imports and exports).

Keywords: European Culture, International trade, Hofstede's cultural dimensions, Individualism vs. Collectivism, Cultural complexity

Introduction

Nations all around the world are defined by culture, there can be no doubt about this, and we can all agree that the beauty of a nation lies in its culture. History tells us that for the most of the human existence people did their best to accumulate culture by every means, and of course, by any type they believed it suited their interests or the + amounts. We will see in the next lines that we won't find extreme constructs applied in the 21st century and that is hardly believable that we will ever have such applications in the future. What has to be retained is that countries are more or less individualistic or collectivistic and this impacts the overall economy including international trade, taking into account that as cultures transform, becoming more complex and dynamic, they also become more individualist. This is also why this difference is often perceived as a contrast between „the West“ and „the rest“ (Triandis, 1995), assuming that individualism is found mostly in Europe and North America, mostly in the developed countries, while collectivism is found in the rest of the world.

During the eighteen century, English political philosophers used for the first time the terms of individualism and collectivism. Synonymous with the term liberalism and opposed to authoritarianism, individualism was seen in terms of freedom and equality, while collectivism was defined by the obedience to authority. The American Revolution, as well as the French Revolution made room for the collectivistic movements. Views about the relationship of the citizen to the state are found in the work of one of the biggest advocates of individualism, John Locke with a sound adversary in Jean-Jacques Rousseau who found great support for his statements, arguing that the individual is free only by submitting to the general will; the general will being always right which tends to the public advantage (Encyclopedia Britannica, 1953). The work of Adam Smith with an emphasis on laissez-faire individualism was also contrasted by the Marxist collectivist ideas that found much support and application, focusing on the property rights of the means of production. The French intellectual de Tocqueville (1840, 1985) also emphasized on the concept, being the first to present individualism as more than just egoism in the context of American democracy. Also, in exploring the connection between individualism and democracy, Kateb (1992) saw a strong link accusing Rousseau as theorizing based on a small community which no longer describes modern societies.

Nevertheless, the concepts, or the idea, even though not clearly stated, of individualism and collectivism first appeared in the Greek philosophy, whereas the Greek Sophists of the 5th century proclaimed: „In Crete do as the Cretans“, the individuals having the option to decide on how to behave. Socrates and Plato opposed to their ideas because they lacked standards of what is good and what is not. In the same period, Confucius conceptualizes on virtue as proper behavior in a society. Most of the Eastern religions today are based on these considerations. One of the clearest differences between the West and the East comes from religion: the West is more

concerned with belief, logic, analysis, and theory, while the East is concerned with ethical behavior, self-improvement, ritual, meditation and the correct way of living (Hofstede, 1991). Dumont (1986) argued that individualism is a consequence of Protestantism but also of political developments and economic developments. Some other scholars, including Elias (1991) say individualism started with Descartes, with the famously known „Cogito, ergo sum“. At the same time, Confucius emphasized the importance of individualism, perhaps with no clear intention. He advocates that „the superior man can find himself in no position in which he is not himself. In a high situation he does not treat with contempt his inferiors; in a low situation he does not court the favor of his superiors“ (Confucius, 1915, pp. 105-106). It is clear that religion play an important role in defining cultural patterns, but maybe it has a bigger role in defining individualism and collectivism as long as much of our behavior is shaped by our in-groups.

Dewey (1930) explored the concepts of old and new individualism. He argued that the old individualism was based on the liberation from legal and religious restrictions, while the new individualism has its main focus on self-cultivation.

According to Hsu (1983), the correlation between individualism and competition results in creativity but also large military expenditures while increases the propensity toward racial and religious groups. Among the findings, omitted in the study, it is also the fact that in collectivist cultures people are more likely to mistreat outgroups, Triandis (1995) stating that many of the massacres in our history occurred in the collectivistic societies such as Germany (the Nazi Holocaust in 1940-1945), China (the rape of Nanjing by the Japanese in 1937) or Bosnia (ethnic cleansing in 1991-1994). The determinants of individualism as well as of other cultural patterns are of great complexity including aspects from different domains (Erchak, 1992). In shaping cultural patterns, one should not look for obvious and simple explanations in defining such constructs for they don't exist.

As we have mentioned, many typologies were developed in order to better define individualism and collectivism. Among these, are those proposed by Riesman, Glazer, and Denney (1961): the tradition-directed type formed by people conforming to norms and accepting rigid discipline while having a sense of belonging to groups; and the inner-directed type formed of people capable of making choices, defined by mobility, colonization and production. As a continuation to this discussion, Lukes (1973) included dignity, privacy, autonomy and self-development on the concept of individualism stating that we can find political, economic, religious, ethical, epistemological and methodological individualism among individuals worldwide. Several kinds of individualism are identified by Bellah (1988): religious, utilitarian and expressive, the same author concluding that individualism is maximal in the middle class, individualists being mostly concerned with being unique, are quite utilitarian which ultimately result in ceaseless productivity.

The largest study first conducted based on value preferences is that of Hofstede (1980). Using a factor analysis based on the correlations among the answers of 117.000 employees of IBM, four factors were initially found to be relevant: power distance, uncertainty avoidance, individualism and masculinity. This opened the door for new exciting work among many students of culture including Hofstede and his own son, the results of the studies using similar instruments of measuring culture being consistent with Hofstede's work. Bontempo and Rivero (1992) correlated the individualism score of the country in Hofstedes study, with the relative importance of norms and attitudes as defined in studies that used the Fishbein and Ajzen (1975) theory of reasoned action in that specific country. The findings revealed that the more individualistic the country, the more attitudes rather than norms foretell the behavioral intentions of subjects.

Among the cultural syndromes identified in the literature we can find tightness and looseness, as well as cultural complexity and simplicity for which individualism and collectivism are seen as consequences. Tightness refers to the extent members of a culture agree about what constitutes the correct actions, act according to the norms of the culture and are criticized when they are deviating from the norms (Pelto, 1968). On the other hand, looseness is characterized by multiple norms, sometimes contradicting norms, and people who deviate from these norms are not punished; independent actions are even rewarded. Tightness can be seen in homogeneous cultures that are isolated from other cultures, while looseness is specific to heterogeneous cultures where it is little population density. Looseness is also specific to very hot climates while tightness to colder climates (Robbins, de Walt, and Pelto, 1972). Both looseness and tightness in the studies mentioned are situation-specific characteristics of cultures which means we cannot generalize.

At the individual level, individualism and collectivism received much emphasize from various researchers in order to develop scales of measurement. Among the researchers to develop such scales at the individual level we can name Hui (1984, 1988), Triandis et al. (1985) as well as cross-culturally (Triandis, Bontempo, et al., 1988; Triandis, McCusker, and Hui, 1990). Also, the broad literature reviewed by Triandis (1988, 1990) showed that individualism included ideas such as „independence“ and „self-reliance“, „distance from ingroups“, „competition“ and „hedonism“; and collectivism, „interdependence“, „sociability“ and „family integrity“.

In the broad literature of individualism there were both critiques and defenders of the concept of individualism. Among the researchers that criticized it are Hogan (1975), Smith (1978), Lasech (1978) and Sampson (1977). Other researchers argued on another version, consisting both of individualisms and collectivisms strongest points, defined as *communitarianism* (Rotenburg, 1977; Rakoff, 1978; Kanfer, 1979). From an ethical point of view, we will find strongly embodied in the literature, the concept of *objectivism* with great emphasize on values and virtues with remarkable contribution from Ayn Rand, Leonard Peikoff and Nathaniel Branden. The concept of

objectivism in Ayn's Rand vision consists of a basic social principle defined as follows: „...that just as life is an end in itself, so every living human being is an end in himself, not the means to the ends or the welfare of others, that man must live for his own sake, neither sacrificing himself to others nor sacrificing others to himself“ (Rand, 1961).

We conclude with the fact that most of the studies reviewed on individualism and collectivism are indicating that never in the history of human being an extreme form had ever worked well for the society, that people are both individualists and collectivists in different phases of their lives and that more or less individualism/collectivism can only be learnt.

Hypothesis development

H1: There is a significant positive relationship between individualism measured by GDP growth rate, urbanization population growth rate, higher education rate, labor productivity index and international trade (both imports and exports).

In measuring cultural complexity authors usually use GDP per capita. Affluent cultures are more complex than less affluent ones in the sense that there is more differentiation in the various domains of life (Triandis, 1995; Hofstede, 1980). Cultural complexity tends to be related to looseness in this case (Stewart, 1971; Ember and Levinson, 1991).

There are different studies suggesting that rate of change, in the case of people, migration, has significant impact on the degree of individualism of a society (Ziller, 1965; Triandis, 1990; Lalone and Silverman, 1994). Usually, people migrate in order to establish in big cities where they can find better opportunities. If members of a society come and go and new members keep coming in, there is more heterogeneity and more complexity which means a more individualistic culture. At the same time, living abroad increases the probability of being able to take one's own decisions; one is exposed to different views, opinions and experiences which most of the time leads to individualism.

Education leads to greater exposure to cultural diversity (Triandis, 1995) which if continued will lead to individualism. The more we know about the world, history in particular, the more individualistic people we become. We can find various examples to support this idea in people that come from a village to study in a big town university. Most of the time, these people lose touch of their groups in order to fit the new environment and the opportunities that are available make it hard to go back. One important aspect for this characteristic is self-perception: collectivists have realistic self-perception about their abilities while individualists have rather flattering self-perceptions (Markus and Kitayama, 1991b; Triandis, 1995). A study conducted by Cohen (1991) concluded that collectivists have fewer skills than individualists in dealing with new groups as is the case of establishing new

partnerships or finding new clients. The explanation is simple: they are used to deal with the members of their ingroups.

Economic development is according to Pareek (1968), a function of high need for achievement which is often linked to individualism and competition. We can conclude that economic development is a result of high productivity too, as well as high education among people in a society.

Data and Methodology:

The objective to current study is to investigate the relationship of individualism/collectivism of European society on their international trade. The sample includes all the European countries for which data is available for the analysis period. In total, following 30 countries are included for analysis, Austria, Belgium Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland and United Kingdom. The time period for the study is 21 years starting from 1997 until 2017. Data has been gathered from the World Bank and Eurostat websites.

Renowned study of Geert Hofstede provides 5 dimensions of cultural values including individualism. Based on Hofstede's score, 10 countries in our sample have the score of 70 or above, and are categorised as highly individualistic societies, while 7 countries have scores of 35 to 20, being categorized as collectivistic. Rest of the countries have the value scores between 51 and 59 which makes them more individualistic than collectivistic. Further details are given in the Table 1.

Table 1: Hofstede Score for Individualistic/ Collectivist for European Countries

Collectivist		Individualistic		Highly Individualistic	
Country	Hofstede Score	Country	Hofstede Score	Country	Hofstede Score
Albania	20	Austria	55	Belgium	75
Bulgaria	30	Czech Republic	58	Denmark	74
Croatia	33	Estonia	60	France	71
Greece	35	Finland	63	Hungary	80
Portugal	27	Germany	67	Ireland	70
Romania	30	Iceland	60	Italy	76
Slovenia	27	Lithuania	60	Latvia	70
		Luxembourg	60	Netherlands	80
		Malta	59	Sweden	71
		Norway	69	United Kingdom	89
		Poland	60		
		Slovakia	52		
		Spain	51		
		Switzerland	68		

Source: Hofstede website

The main challenge for study was to develop the construct to measure the individualism/collectivism of the European region. Based on the detailed literature review about the individualism, theoretical reasoning and data availability a set of four proxies are used to measure the individualism dimension. These are labour productivity index, urbanization rate, population growth rate and higher education rate.

GDP growth rate: The GDP growth rate measures the degree to which the economy is growing. It does this by comparing one quarter of the country's gross domestic product to the previous quarter. Hofstede's study (1980) concluded that a country's individualism score can be accurately predicted from the country's wealth (richer countries were associated with higher individualism score). If individualism leads to wealth, the scores in the original study should be positively correlated with economic growth, which was not the case, the relationship being negative: the more individualist countries showed *less* economic growth than the less individualist ones. This is the reason we have to agree that it is national wealth that is causing individualism, and not otherwise. The strong relationship between national wealth and individualism is there for undeniable, with the arrow of causality directed from wealth to individualism, which is why countries having achieved fast economic development have experienced a shift toward individualism. It is there more than obvious that as far as the poor countries of the Europe, and of the world are concerned, will not become more individualist as long as they remain underdeveloped. Also, if the gap in wealth between rich and poor countries continues to increase, this will also increase the gap on the individualism-collectivism dimension which doesn't seem quite of a brilliant future.

Labor Productivity: Labour productivity is defined as the output per unit of a labour input while the output index shows the rate of change in production as compared to a chosen base period, in our case, 2010. People that are employed in an individualist culture are expected to act according to their own interests which means work ought to be organized in a way that the self-interest and the employer's interest would coincide. In individualist societies, the relationship between the employee and employer is primarily based on a business transaction, a kind of relationship between buyers and sellers in a labor market. Poor performance of the employee and better offers from another employer are both socially accepted reasons for terminating a work contract. It is largely accepted that, for example, *the American individualist participants performed best when operating individually and with their names marked but abysmally low when operating as a group and anonymously* (Hofstede, 1980).

Urbanization rate: The rate of urbanization is described as the projected average rate of change of the size of the urban population over the given period of time. It is well documented that urban living is a quite recent development because for most of

our history people lived in low-density, rural settings. It was not until the 20th century that urbanization across the world began to increase rapidly. The Population Reference Bureau released data on global urbanization by continent in 2018. According to the source, Europe ranked third at a global level in terms of degree of urbanization. As a result of increasing urbanization is the increase in population density which is subject to the individualism dimension, many authors arguing that societies with high population density tend to be more collectivistic (Hofstede, 1990; Triandis, 1990, 1995).

Higher education rate: Higher education is composed of education and training on 5 to 8 levels, meaning college, university and post-university studies. The more educated people are, the higher are the chances that they will become more individualistic because exposure to new information makes people less dependent of in-groups. This can be seen as thinking of the purpose of education that is clearly different between the individualist and the collectivist societies. In the former it aims at preparing the individual for a place in the society, by teaching them to act according when new, unknown, unforeseen situations appear and there is a positive attitude toward what is new. In the collectivist society, there is high pressure on adaptation to the skills. Learning is more about *how to do* things in order to perform well in the society.

Similarly, as in prior studies, international trade is measured by the Imports and Exports of goods and services, alternatively. Imports are foreign goods and services bought by residents of a country from outside their country, while exports are the goods and services produced in one country and purchased by residents of another country.

To investigate the empirical impact of Individualism on international trade of European countries, we regress imports and exports of goods and services (**Int. Trade**) on individualism proxies (**Indi**). GDP growth (per capita) is used as control variables. Specifically, Following econometric model with cross section fixed effects (country fixed effects) has been used:

$$\text{Int. trade}_{i,t} = \alpha + \beta_j \text{Indi}_{i,t} + \gamma_k \text{Control}_{i,t} + u_i + e_{i,t}$$

where:

Int. Trade represents international trade, alternatively measured as imports of goods and services (% of GDP) and exports of goods and services (% of GDP);

Indi represents individualism, measured as Labor Productivity index, Higher Education rate and Urban population growth (annual %), Alternatively;

Controls represent country-level control variable i.e GDP growth (per capita);

i represents country *i*, and *t* fiscal year *t*;

u_i represent individual country effects;
 e is the error term.

Table: 2 Pearson Correlations

	Imports (% of GDP)	Exports (% of GDP)	Labor Producti vity Index	Higher Educat ion rate	Urbaniza tion rate	GDP Gro wth (per capit a)
Imports (% of GDP)	1					
Exports (% of GDP)	0.974** *	1				
Labor Productivity Index	0.140** *	0.208** *	1			
Higher Education rate	0.067	0.169** *	0.392***	1		
Urbanization rate	0.205** *	0.319** *	0.237***	0.295* **	1	
GDP Growth (per capita)	0.126**	0.067	-0.122**	- 0.152* **	-0.273***	1

***, **, * denotes the level of significance as 1%, 5%, and 10

Before applying the statistical model defined above, some pre regression tests are estimated. First of all, Variance Inflation test for multicollinearity reports VIF vales less than 1. So, there is no multicollinearity issues. Similarly, Wald test and Wooldridge Test suggests no issue of heteroscedasticity and autocorrelation.

Table 3 shows the results of panel regression estimates with the country fixed effects. Countries fixed effect model is selected for the final analysis because both Husman test for random effects and Likelihood ratio test suggests that fixed effect model is better fit for the study. Moreover, fixed effect model accounts for most of the endogeneity issues. The comparative results of country fixed effect; country random effect and simple OLS regression are reported in the Appendix B for reference.

First row of table 4 reports that in total four models (i.e. M1, M2, M3 and M4) are used. The dependent variables in all the four models are imports and exports. While in M1

independent variable is labor productivity index (proxy for individualism), higher education in M2, Urban population growth rate in M3 and all the three (i.e. labor productivity index, higher education, and Urban population growth rate) are in M4. GDP growth rate is used as control variable in all the four models.

M1 shows that labor productivity index have significant positive relationship with both imports and exports. For each unit increase in labor productivity there is 0.4% increase in imports and 0.56% increase in the exports of the country alternatively. Similarly, M2, and M3 reveal significant positive relationship between higher education, growth in urban population and imports and exports alternatively. M4 also affirms the above relationship. R squared values at the bottom of the tables shows that all the models explains more than 90% of variations in the variables. Chi-square and F-statistic values of the Likelihood ratio test at the bottom of the table shows that country fixed effect model is a best fit model for our study.

Overall, above empirical findings confirm our hypothesis that individualism is positively linked to the international trade of the European countries. These findings are consistent with previous studies of Kristjánsdóttir et al. (2017) and Zahid and Ilies (2018) who also found significant relationship between cultural values and trade of countries.

Table 3: Panel regression estimates with country fixed effects

	M1		M2		M3		M4	
Dependent Variable	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
	Fixed effects	Fixed effects	Fixed effects	Fixed effects	Fixed effects	Fixed effects	Fixed effects	Fixed effects
Constant	15.39**	2.97	26.66**	19.30**	52.59**	55.59***	15.49***	2.06
	(2.68)	(3.09)	(1.47)	(1.69)	(0.60)	(0.75)	(2.53)	(2.82)
Labor productivity Index	0.40**	0.56**					0.18***	0.28***
	(0.03)	(0.03)					(0.03)	(0.04)
Higher Education Rate			1.19**	1.63**			0.93***	1.22***
			(0.06)	(0.07)			(0.08)	(0.09)
					2.44**	1.38	0.54	-0.89
					*			

Urban population growth (annual %)					(0.78)	(0.97)	(0.66)	(0.74)
GDP per capita growth (annual %)	0.13	-0.04	0.41**	0.34**	0.05	-0.21	0.36	0.27
R-squared	(0.10)	(0.11)	(0.09)	(0.11)	(0.11)	(0.14)	(0.09)	(0.10)
Likelihood ratio test	0.93	0.93	0.94	0.94	0.90	0.89	0.94	0.95
Chi-Square	1578.8***	1588.8***	1700.8***	1715.6***	1417.7***	1314.9***	1656.4***	1672.6***
F-statistic	243.2**	247.5**	309.8**	318.02***	175.08***	145.62**	296.5***	305.32**

***, **, * denotes the level of significance as 1%, 5%, and 10%. And (----) shows standards errors.

Conclusions:

Effective intercultural businesses are an effect of a good understanding of the values and practices of a specific culture and Europe has a multitude of cultures that learnt to coexist in order to flourish. The international relationship across the continent is of specific importance when new values and practices are encountered especially in situations that imply negotiation. The purpose of our study resumes at analyzing the impact of the individualism dimension on the international trade of 30 European countries using an unique set of proxies revealed from the exhaustive literature on the different types of individualism and collectivism concepts that preoccupied authors even thousands of years ago. Consistent with previous studies (Kristjánsdóttir et al., 2017; Zahid and Ilies, 2018) the individualism dimension is found to have a significant relationship with both imports and exports of the European countries analyzed.

All four models used in our study confirm the hypothesis that there is a significant positive relationship between individualism and the international trade of the countries analyzed. First model (M1) shows that labor productivity index have significant positive relationship with both imports and exports and that for a unit increase in labor productivity there is a 0.4% increase in imports and 0.56% increase in the exports of the country alternatively. Similarly, the remaining models reveal significant positive relationship between higher education rate, urban population growth rate and imports and exports alternatively.

The main limitation of the current study is the lack of theoretical background in linking the individualism dimension with international trade. More appropriate proxies, as well as different statistical analyses can be used in order to see the impact of individualism/collectivism dimension on the international trade. Further research is much needed on the subject since the differences between societies are best seen across the continent; the values, as well as the practices are much more heterogeneous in big countries like the US, Russia, India, China, Japan, Brazil, Canada, and so on. Another issue that is worth analyzing is the type of industry that perform best in international trade according to the degree of individualist a society is, as well as the international trade between countries that have similar scores on this dimension.

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