

Editor's Introduction to the Special Issue

Re-thinking East Asian Model of Economic Development After the Covid-19

Guest Editors, Vladimir Popov and Keun Lee

Every new crisis forces us to reevaluate our perceptions of the past and to reconsider forecasts for the future. The Covid-19 pandemic is no exception. Economists and social scientists are now trying to explain the differing performance of countries in terms of the spread of the infection and the economic costs of the recession. However, more general questions are gradually moving to the center of the discussion, such as what are the current pandemic and recession telling us about the competitiveness of different economic models?

Economics, according to a popular definition, is about the optimal distribution of limited resources or about the nature and the causes of the wealth of nations, to borrow the well-known formula of Adam Smith. From the historical perspective, the question about the wealth of nations becomes the issue of growth rates. Here, the record of East Asia is truly unprecedented.

Even before the Covid-19 pandemic, the superior performance of East Asia was attracting the attention of economists and sociologists. The

Vladimir Popov, Research Director, Dialogue of Civilizations Research Institute, Französische strasse 23, Berlin, 10179, Germany; Principal Researcher, Central Economics and Mathematics Institute, Russian Academy of Sciences, Nakhimovsky prospect 47, 117418, Moscow, Russia. (Email): VPopov@doc-research.org; vpopov@nes.ru, (Tel): +49 30209677900; Keun Lee, Professor, Department of Economics, Seoul National University, 1 Gwanak-ro, Gwanak-gu, Seoul, Korea. (Email): kenneth@snu.ac.kr, (Tel): +82 2 880 6367.

[**Seoul Journal of Economics** 2020, Vol. 33, No. 4]

bridging of the gap between poor and rich countries has been happening since 1950 is due largely to the rapid growth of East Asia. Only five countries or territories from the Global South – Hong Kong, Japan, Singapore, South Korea, and Taiwan – managed to join the “rich country club” since the Great Divergence of the 16th century due to their high growth rates¹. In recent decades, Southeast Asia and China have been catching up with the developed countries as well².

The 2008–2009 economic recession, known as the Great Recession, was deeper in advanced economies than in the Global South. In China, no recession occurred at all, only mild slowdown of growth (from 14% in 2007 to 9%–10% in 2008–2009). In 2020, China and other East Asian countries handled the coronavirus pandemic better than most Western countries did – the number of contaminations and deaths per one million inhabitants in East Asia was by two orders of magnitude lower than that in the West. Furthermore, the recession associated with the restrictions imposed to fight Covid-19 is much deeper in the West than in East Asia.

These developments give new arguments to the views that the East Asian economic and social model is more viable than the Western model. The continuation of the rise of East Asia and the proliferation of the East Asian model in the developing world will lead to profound changes in the world economic order.

This special issue of *Seoul Journal of Economics* is devoted to the old debate in light of new data: what new insights could be obtained from the recent coronavirus pandemic for the question of competitiveness of various economic models, in particular the East Asian and Western

¹ Some developing countries became rich not due to rapid economic growth but because of the improvement of their terms of trade, such as increases in relative prices of their export goods. The most known example is oil-exporting states of the Persian Gulf. With the exception of Oman, these countries did not enjoy high growth rates of physical output, but their per capita income approached the level of developed countries due to increase in oil prices since 1973.

² The USSR in the 1920–1970s and East European countries in the 1950–1970s were catching up with developed countries, but later they slowed down considerably and in the 1990s experienced transformational recessions. For the period 1950–2020, high average growth rates (over 3% of per capita GDP annual growth) in the developing world were observed in Botswana, Israel, and Oman, in addition to East Asia.

economic models?

Keun Lee's article claims that East Asian economies used to form a separate East Asian capitalism group within the Varieties of Capitalism typologies. Some signs indicate that these economies have recently been converging to the Liberal Market Economies group with low growth and high inequality, features shared by East Asian economies since the 2000s. Financialization is arguably one cause for these two outcomes. The paper re-evaluates East Asian capitalism in the context of the Covid-19 pandemic, which has suddenly halted globalization and further questioned the superiority of shareholder capitalism associated with financialization and globalization. It proposes a rebalancing between shareholder and stakeholder capitalism. By doing so, East Asian economies can be reborn as a hybrid type of capitalism, with East Asian capitalism at its original core, to restore their growth momentum inclusively. The post-pandemic retreat of globalization is argued to be a good opportunity to restore autonomy in domestic economic policymaking over interest rates and exchange rates while imposing some adjustments over formerly excessive capital mobility.

Vladimir Popov argues that the East Asian model is superior to the other models in the Global South, at least in the catch-up development and possibly even in the innovations beyond the technological frontier. The crucial features of the East Asian economic model are relatively low income and wealth inequalities, strong state institutional capacity (as measured by the murder rate and the share of shadow economy), high patriotism, and trust in government institutions. In short, the East Asian model is more based on solidarity and priority of collective interests than on guarantees of individual rights and competition.

Peter Heller's paper is a brief investigation, based on historical and empirical research, into the role of entrepreneurship as a major factor of competitiveness and a key driver of economic development in both models. International reports based on data of the Global Entrepreneurship Monitor and the World Economic Forum's Global Competitiveness Index arrive at diverging conclusions about which model might prevail. The paper outlines why entrepreneurial dynamics in East Asia cannot be adequately captured by standards and ratings systems based on the theoretical framework of liberal

capitalism because the historical, cultural, and social factors of the East Asian model are beyond its reach. However, the Western narrative envisages a determined course of history that economic progress will inevitably drag East Asia on a trajectory toward the Western model. Sound evidence indicates that this change will not happen.

Varinder Jain and Lakhwinder Singh examine the differences across countries in terms of spread and factors that determine infections and mortality from Covid-19. A novel approach has been developed to examine the socio-economic variables that determine the spread of infections and death caused by the pandemic. The most important methodological innovation has been made to identify the best- and worst-performing countries in terms of controlling infection and mortality. An important finding that emerged from the regression analysis is that democracy and good governance reduce mortality rates. However, the presence of democracy and higher per capita income is positively contributing to the rise of infected patients. A higher health expenditure shows a higher level of infections. The policy implication is that in the absence of a definite treatment (such as a vaccine), physical distance, masks, and hygiene save humans from infections and mortality.

The paper by Dr. Seo-Young Cho and Dr. Cho's colleagues analyzes how South Korea's responses to the Covid-19 pandemic have changed the perceptions of the country in Europe. Through a survey conducted with Korea experts in 16 European countries, the paper first documents the positive recognition of South Korea's pandemic management by the European public, which can be attributed to South Korea's extensive testing, high technology, and face mask-wearing culture. However, it also finds that opinions are more mixed on the comprehensive tracking and tracing strategy in Korea. Given the general improvement of Europeans' overall perception of South Korea owing to its Covid-19 management, the paper observes that Korean success in pandemic management can be an instrument of public diplomacy to enhance its soft power.

Djun Kil Kim reviews the book by Deepak Nayyaar on Resurgent Asia and analyzes the experience of 14 Asian countries in the past 50 years. Unlike Latin America and Africa, most Asian countries had a

long history of well-structured states and cultures that were not entirely destroyed by colonialism. Thus, political independence restored their economic autonomy and enabled Asian countries to pursue national development objectives and to drive motivation in their quest for catching up. Economic openness has performed a critical supportive role in Asian development, wherever it has been in the form of strategic integration with, rather than passive insertion into, the world economy. Governments performed a critical role, ranging from leader to catalyst or supporter, in the economic transformation of Asia spanning half a century. Success at development in Asia was about managing this evolving relationship between states and markets by finding the right balance in their respective roles, which also changed over time. Countries where governments did not or could not perform this role and were unable to evolve their role vis-à-vis markets, lagged in development. The Asian experience suggests that efficient markets and effective government, in tandem, provided the way forward to development.