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Varieties of Capitalism and re-thinking the East Asian model of economic growth after the Covid-19: Rebalancing shareholder and stakeholder capitalism

Keun Lee

East Asian economies had shown remarkable performance of high growth and low inequality, thereby forming a separate East Asian capitalism group within the VoC (variety of capitalism) typologies. There are strong signs that these economies have recently been converging to the LME (liberal market economy group), featuring low growth and high inequality, since the 2000s. Financialisation is arguably one cause for these outcomes of low growth and high inequality. This paper re-evaluates East Asian capitalism in the context of the Covid-19 pandemic, which has suddenly halted globalisation and further questioned the superiority of shareholder capitalism associated with financialisation and globalisation. It proposes rebalancing between shareholder and stakeholder capitalism. By doing so, East Asian economies can be reborn as a hybrid capitalism, with East Asian capitalism at its original core, to restore their growth momentum in an inclusive way. It is also argued that the post-pandemic retreat of globalisation is a good opportunity to restore autonomy in domestic economic policymaking over interest rates and exchange rates, while allowing some adjustments over formerly excessive capital mobility.

Keywords: East Asian model, Globalization, Covid-19, Shareholder capitalism, Stake-holder capitalism

JEL Classification: F32, F59, O16, O19, P12, I21

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I. Introduction

In their work on varieties of capitalism (VoC), Soskice and Hall (2001) identified several types of capitalism, such as liberal market economies (LMEs), coordinated market economies (CMEs), and mixed market economies (MMEs). They argue that each type of capitalism is stable and efficient in terms of its economic performance, owing to complementarity among its institutional components. However, Lee and Shin (2018) show that each type corresponds to different economic outcomes in terms of economic growth, unemployment, and equity. They also observe that the change of a country from one type to another has led to convergence and divergence among countries.

A similar contrast was also made in Acemoglu *et al.* (2012) where they considered the US model of capitalism and Western European models as ‘cutthroat’ capitalism versus ‘cuddly’ capitalism, respectively; Cutthroat capitalism is good for innovation but generates inequality, whereas cuddly capitalism is better at redistributing income and at protecting employment and health but worse at producing frontier innovation. Then, Aghion *et al.* (2020) tries to compare again these US and Western European models in terms of how they are dealing with and responding to the Covid-19 crisis.

This paper focuses on East Asian economies led by Japan, followed by the Asian Tigers, namely, Korea and Taiwan, to discuss the evolution of their performance and changes in type over time, from the VoC perspective. First, it discusses the interesting puzzle of the emerging convergence of Japan and Korea toward the LMEs or Anglo–Saxon economy, despite the apparent differences in underlying institutions: labour market, corporate governance, and welfare systems. Then, it identifies the financialisation of an economy as a force that drives this convergence, signalled by decreasing economic growth rates and rising inequality in East Asia. Finally, it re-evaluates Asian economies in the context of the coronavirus disease since 2019, the ‘Covid-19 pandemic’,

which has suddenly halted globalisation and further questioned the superiority of shareholder capitalism, mostly adopted in LMEs and associated with financialisation and globalisation.

I argue that a new balance is needed between shareholder and the stakeholder capitalism in East Asia. I also discuss the implications of the retreat of globalisation for East Asia and other emerging economies in general, in terms of the “globalization paradox” proposed by Rodrik (2011). I argue that the retreat of globalisation is a good opportunity to resolve the paradox or the ‘trilemma’ by restoring autonomy in domestic economic policymaking over interest rates and exchange rates, while imposing some adjustments on formerly excessive capital mobility. These changes in policy stance are required to build a crisis-resilient macro-financial system, given the brewing of the post-pandemic bubble and the increasing mismatch between real and financial sectors around the world.

II. Varieties of Capitalism, Financialisation, and the end of East Asian Capitalism

Soskice and Hall (2001) have provided an important way to understand and compare economic systems around the world. They focus on how firms enter into a relationship with other actors, such as workers, suppliers, business associations, governments, and other stakeholders. According to Soskice and Hall (2001), an economy is classified as an LME when firms use market institutions, such as competition and formal contracts, to coordinate a relationship. Alternately, an economy is classified as a CME when firms use a non-market relationship, such as strategic interaction among actors, as a form of coordination. Accordingly, they classify the US, the UK, Australia, Canada, New Zealand, and Ireland as LMEs; Germany, Japan, Switzerland, the Netherlands, Belgium, Sweden, Norway, Denmark, Finland, and Austria as CMEs; and France, Italy, Spain, Portugal, Greece, and Turkey as countries with an ambiguous position as MMEs. These classifications are similar to the existing conventional classification, that is, most LMEs are UK or US-offspring countries, whereas CMEs comprise mostly Continental and Northern European countries.

I aim to understand East Asian economies, especially Japan and the Asian Tigers, namely, Korea, Taiwan, given their spectacular

achievements in terms of growth and equity. Their economies tended to feature high growth and low inequality during their peak growth, which has earned them the label of East Asian miracles by the World Bank (1993). Kalinowski (2015) shows that East Asian capitalism remains a distinct state-led model that differed from the liberal, neo-corporatist, or welfare state capitalism in the West in terms of its reaction to the global economic crisis in 2008 by using big fiscal stimulus packages. This difference may be associated with a path-dependent transformation of the East Asian developmental state (Kim and Thurbon 2015; Thurbon 2016).

However, these economies have recently been going through radical changes as they record slow growth and rising inequality. The new situations lead to questions on whether we are facing the end of East Asian capitalism (characterised by high growth and low inequality) and convergence toward the LME (characterised by low growth and high inequality). Lee and Shin (2018) confirm this hypothesis by using a quantitative (cluster) analysis. This is different from the VoC literature, which tends to use the variables representing the underlying institutional characteristics of economies. Lee and Shin (2018) use outcome variables to compare economic performance, including the growth rate of GDP per capita, employment rate, and top 10% income share.

As shown in Table 1, a statistical analysis by Lee and Shin (2018) indicate that the LME group is associated with slow growth, high inequality, and a medium level of employment, whereas the CME group has modest growth, low inequality, and sound employment rates. Between these two groups is the MME group, with the lowest rates of employment, which probably reflect labour market rigidity. The East Asian group exhibits the highest growth and lowest inequality but only before the 2000s. In the 2000s and after, Japan and Korea joined the LME group and Taiwan joined the CME group, leaving the former East Asian group empty. Their choices may imply the end of East Asian capitalism. These results are not that surprising because the top 10% share of the national income is currently the highest in the US, at over 45%, followed closely by Korea, reaching 45% in 2010, and Japan with 40% (Lee and Shin 2018). Korea and Japan have experienced disruption, or crisis, such as the bubble and burst of the 1990s in Japan and the 1997 financial crisis in Korea, that led to a liberal and open economy (Shin and Lee 2018; Lee *et al.* 2020). During the crisis,

TABLE 1
FOUR TYPES OF CAPITALISM AND THEIR ECONOMIC OUTCOMES

Period	CME: (Coordinated Market Economy): modest growth; high employment; and low inequality	LME: (Liberal Market Economy): low growth; high employment; and high inequality	MME: (Mixed Market Economy): low growth; low employment; and low inequality	East Asian Capitalism: extremely high growth; high employment; and low inequality
GDP growth (%)	2.10	1.41	1.64	6.83
Employment (%)	60.32	59.23	47.15	59.54
Top 10% income share (%)	30.15	39.66	31.91	28.47

Source: Table 1 of Lee *et al.* (2020).

Korea implemented IMF policy prescriptions in exchange for a bailout loan (Lee *et al.* 2002). Japan has also experienced a similar change since the burst of its economic bubble in the late 1990s. In particular, the Koizumi administration implemented liberalisation policies, such as privatisation and deregulation, from 2001.

Many institutions in Japan and Korea have evolved similarly to those in the US. First, the financial market is liberalised to allow more foreign shares of stocks and to strengthen shareholder capitalism. Second, the labour market is liberalised to promote labour flexibility and weaken the long-term employment system. Consequently, the share of part-time or irregular workers to the total employment rate has rapidly increased in Japan and Korea (Shin and Lee 2018; Lee *et al.* 2020). In the meantime, the divergence between Korea and Taiwan seems to be driven by the top 10% income share; the top 10% income share has increased gradually in Taiwan but at much slower rates than in South Korea since the late 1990s. This difference in the evolution of inequality between these two economies may be caused by various shocks from the Asian financial crisis, which strongly affected the South Korean economy, but minimally affected the Taiwanese economy, which avoided the crisis (Lee *et al.* 2020).

The above discussion presents the foundation to argue for the convergence of East Asian capitalism toward Anglo-Saxon capitalism. However, the question remains as to how this convergence can happen despite the continuing differences in underlying institutions, such

as labour, financial systems, firm ownership, and governance. For instance, despite some trends toward flexibility, the labour markets in Korea and Japan are still less flexible than those in the US or the UK. Moreover, the nature of firm ownership and government in Asia is also quite different from that in the US or the UK, where ownership is quite dispersed over a large number of individual investors. Consequently, the forces that push these economies toward the LME group in terms of slow growth and high inequality remain unknown. The strong candidate variable must be the tendency for financialisation (Lee *et al.* 2020).

An increasing volume of literature has focused on the negative aspect of financialisation coupled with shareholder capitalism, which forces firms to pay high dividends to shareholders rather than use profits for reinvestment, which leads to slow growth (Dore *et al.* 1999; Lazonick 2010, 2014). The growing dominance of financial sectors is related to rising income inequality in developed countries (Alvarez 2015; Godechot 2012; Hacker and Pierson 2010; Kus 2012; Lin and Tomaskovic-Devey 2013; Stockhammer 2013; Tomaskovic-Devey *et al.* 2015). In the Korean context, Kim and Cho (2008) confirm that firms with high shares of equity owned by foreign shareholders tend to be associated with low investment because they are subject to demands by shareholders for more dividends. In many economies, including the US and Korea, capital markets no longer function as sources of additional funding for listed companies, but rather as a channel for value extraction in the form of stock repurchases and dividends (Lazonick and Shin 2019).¹ Lee *et al.* (2020) confirm this tendency for value extraction, which is that more money has flowed out of, rather than into, Korean listed firms since 2003, although such firms previously enjoyed a net positive inflow of money.

The macro-level consequences of this situation are the decreasing of fixed capital investment as a share of GDP and the increasing outflow of capital (in the form of repatriated profits and interest payments) in balance-of-payment figures.² In other words, the rise of shareholder

¹ Lazonick (2014) shows that 54% and 37% of US companies' earnings had been spent on stock buybacks and dividends in 449 firms among the 500 S&P firms from 2003 to 2012, respectively.

² Lee *et al.* (2020) also show that the amount of outflow funds of the Korean economy in the form of dividends and interest income is greater than that of foreign direct investment (FDI) inflow. For instance, Korea gained 26.9

capitalism, which prioritises distributing profits as dividends to shareholders rather than funding reinvestment, seems to be slowing down investment, which in turn slows down economic growth rates. This symptom, associated with financialisation, is also a source of increasing income inequality, in addition to effects of skill-biased technological changes, including automation. Shin and Lee (2019) show that increased shares of stockholders in profits or financial resources of non-financial sectors have led to rising inequality, measured by the top 10% income share in OECD countries, whereas the influence of skill-biased technological change (which is perceived to lead to more inequality among labour-based incomes) is not a robust enough variable to explain inequality.

Financial globalisation is argued to cause rising inequality. Stockhammer (2013) finds that financial globalisation, measured by the log of external financial assets and liabilities divided by GDP, is significantly and negatively correlated with labour income share by using country-level data. Distinguishing financialisation and 'financial development', meaning 'better functioning of financial markets', Lee and Shin (2019) find no support for the argument that financial development, such as the high ratio of stock market valuation to GDP, reduces inequality by relaxing the credit constraints of the poor and see no evidence that financial development aggravates inequality. A simple focus on financial development or high education is not sufficient to reduce inequality (Lee and Shin 2019). Thus, government policies or reform measures, including differentiated taxation on dividends and reinvestments, are necessary to curve financialisation by inducing non-financial firms to focus on productive reinvestment from profits and by discouraging high dividends for shareholders.

billion USD FDI inflow in 2018 but released 29.7 billion USD in the form of dividends and interest payments to foreign investors in either FDI or portfolio investment (financial investment trading stocks and bonds in capital markets). The dividends payment to GDP ratio is rapidly increasing from less than 1% in the early 2010s to more than 1.3% in 2018. In Korea, the fixed investment to GDP ratio was above 35% during the pre-crisis period in the 1990s. However, it declined to 30% in the 2000s and has continued declining in the 2010s.

III. Covid-19 and the Rebalance between Shareholder and Stakeholder Capitalism

The Covid-19 pandemic has been a major shock to the world economy and its constituent economies, including the varieties of capitalist economies. A big blunt has been observed in the US, which has not recovered as quickly as Western European economies and Asian economies such as China, Korea, and Japan (Popov 2020). Western European economies have also revealed their weaknesses in their initial responses and thus suffered greatly. One of the common weaknesses of the Western world is its reliance on East Asia for the production of masks and other medical devices, including the test kits. Overall GVC (global value chains) have revealed weakness associated with a fragmentation of production over diverse countries. Thus, Covid-19 also signals the retreats of the Anglo-Saxon style shareholder capitalism that has driven globalisation or neoliberalism since the 1980s. Since the 1980s, the efficiency or profit maximisation forced by shareholders seeking short-term profit has resulted in a high degree of globalisation of production chains.

Lazonick (2010, 2014) points out that the US economy maintained manufacturing until the 1980s but the rise of shareholder capitalism and financialisation since then has forced US firms to relocate their factories abroad to meet the demands of shareholders and increase profitability. This change has turned the US economy into a service-oriented economy with the hollowing out of the manufacturing industry. Lee and Shin (2019; table 1) confirm that the LMEs as a group with more than two member economies was only observed in the mid-1980s, and the US joined Canada and the UK to form the LME group only during the late 1980s or the early 1990s. This emergence of the LMEs since the mid-1980s is consistent with neoliberalism being dominant only since the 1980s.

Shareholder capitalism is again being criticised after the Covid-19 pandemic outbreak. For example, Boeing was heavily criticised when the company asked for financial help from the public sector because it paid – before the pandemic outbreak – a huge amount of money to its shareholders (with its top five shareholders who are all PEFs) in the form of dividends and stock buybacks, rather than reserved profits for in-house reserves or reinvestment funds. Even before the pandemic crisis, the top firms and their business leaders declared

their desire to reset capitalism toward more consideration for various stakeholders besides just shareholders. These changes have been signalled by a series of occasions, including the August 2019 ‘Statement on the Purpose of a Corporation’ by the top 181 business leaders in Washington DC in the US, which was immediately followed by the initiatives of the *Financial Times* under the heading of ‘Capitalism: Time for a reset’. These movements culminated in the January 2020 Davos Forum, which endorsed stakeholder capitalism as the vision for the future of capitalism.

The pandemic is the final blow to globalisation, or over-fragmented GVC, after the two preceding blows of the 2008-09 global financial crisis (GFC) and the US-China trade war. The GFC was the first blow to financial globalisation, followed by the setback against trade globalisation of the US-China trade war. Finally, the pandemic outbreak signalled a major setback to production globalisation. Just as the pandemic is considered a warning against human destruction of the environment, it is also a call to restore the vitality of the capitalist market economy by rebalancing against over-globalisation and overloaded shareholder capitalism. Shareholder capitalism and globalisation have been pointed out in economics literature as the main sources of low growth and high inequality, as discussed in the preceding section.

While the Covid-19 crisis has indicated more advantages toward manufacturing-oriented economies than service-oriented economies, East Asian economies, such as Korea, are also suffering from slow growth and rising inequality that have been exacerbated since the pandemic. One aspect of the necessary reforms is the correction of the tendency of financialisation associated with shareholder capitalism, which includes a practice that provides equal rights to short- or long-term shareholders in terms of rights for voting and dividends. Measures that promote long-term holdings of stocks and thus enhance firm value are also needed to provide privileges to long-term shareholders, which is consistent with the idea of stakeholder capitalism.

The idea of stakeholder capitalism is that firms are to be run in the interests of a broad spectrum of stakeholders that include not only shareholders but also clients, managers, workers, and nearby communities, who are often holders of long-term, firm-specific interests and even stocks. Thus, providing the same voting and dividend rights to those who own stocks for only several years and weeks does not promote enhancement of the long-term value of firms, and it may lead

to short-term profits or performance-seeking value.

East Asia may learn from the EU, which has initiated several reforms to curb the negative influence of shareholder capitalism. The EU Parliament passed a law in 2015 that changed its firms' corporate governance (Stabilini 2015). The new law allows firms to provide more voting rights or more dividends to tenured or long-term shareholders who hold their stocks for more than two years. Following this law, the 2014 Florange Act has been implemented in France. Owing to this Act, many of the firms (or more than 54%) in the French stock market, including Electricite de France, Air Liquide, Credit Agricole, L'Oreal, Lafarge, and Group SEB, have opted to issue stocks that provide special favour to tenured stockholders. These new innovative practices are not possible under the current corporate law in Korea, which follows the idea of shareholder capitalism by sticking strictly to the rule of one share and one vote, regardless of holding period.

East Asian states, such as Korea, may learn from other countries and seriously consider changing their corporate law. Even the US allows its firms to issue dual-class stocks in the initial public offering in NASDAQ, which gives special favour in terms of voting power to the founders of the firms. Using this clause, the founders of many high-tech firms in the US may manage their firms from long-term perspectives and tend to be aggressive in trying innovative new projects. These dual-class stocks are all issued to US firms, including Facebook, Google, and Amazon (Zeiler 2014).

In sum, East Asian economies may take the Covid-19 crisis as an opportunity to turn their economies around by adopting measures that can curb the ongoing tendency of financialisation and restore the original strength of Asian capitalism, such as high growth and good equity. Instead of maintaining the old version of East Asian capitalism, they can also be reborn through hybrid capitalism, rebalancing elements from shareholder and the stakeholder capitalism with East Asian capitalism at its original core.

IV. The Globalisation Paradox and a Crisis-resilient Macro-finance system: The case of Korea

Globalisation has become stalled by a series of events, including the Covid-19 pandemic outbreak. The consequences of this change for emerging economies can be interpreted by the "globalization

paradox” raised by Rodrik (2011). In his book, Rodrik (2011) proposes a trilemma that globalisation, national sovereignty, and democracy cannot go together, and thus one can have only two out of the three. He argues that globalisation tends to suppress either national sovereignty or democracy because it often tends to consider the interests of global businesses the top priority against the interests of the national government or workers. Under globalisation, the national government is left with less room or tools for domestic economic policies, including interest rates and exchange rates. With globalisation suddenly stalled after the pandemic and affected by the rising protectionism of the Trump government in the US, alternative economic systemic arrangements can be explored to provide autonomy in domestic economic policies for emerging countries. In particular, given the possibility of financial crises that may result from the mismatch between a quick financial recovery versus weak non-financial businesses, owing to the massive release of diverse kinds of emergency loans, subsidies, and the printing of money in some countries as an aftermath of the Covid-19 pandemic outbreak, emerging countries are advised to install a crisis-resilient macro-financial system in preparation for the coming burst of the financial bubble built over the pandemic period.

The globalisation trilemma can be compared with the conventional trilemma (or the ‘impossible trinity’) in macroeconomics, such that free capital mobility, autonomous monetary policy (interest rates), and free-floating exchange rates cannot go together and at least one out of the three has to be sacrificed. Thus, advanced economies tend to choose the combination of free capital mobility and autonomous monetary policy. By contrast, some of the emerging economies, such as Korea before its OECD entry in 1993, tend to favour autonomous monetary and exchange rates as trades are extremely important for catch-up stages of economic development. This combination of a twin autonomy of interest rates and exchange rates is implemented well in many emerging economies at their catching-up growth stage, including China. By contrast, premature financial liberalisation for free capital mobility has often resulted in a financial crisis, as shown by the Asian financial crisis in the late 1990s. Consequently, even the IMF has become cautious about suggesting full-scale financial liberalisation and acknowledged the necessity of active management of the capital account (capital control) under certain conditions (Ostry *et al.* 2010).

The IMF, the World Bank, or the Washington Consensus (Williamson 1990) used to propose financial liberalisation for emerging economies, implying that it would bring in more financial resources for an economy lacking domestic funds. However, more often than not, financial liberalisation is followed by financial crisis rather than steady economic growth, as observed in the 1997 Asian crisis involving Korea, Thailand, and Indonesia. While these economies had to ask for the emergency loans from the IMF, only Malaysia avoided this situation by imposing capital controls. Korea embraced the first wave of radical liberalisation of capital accounts as a requirement to join the OECD – which is considered a club of rich countries – in the mid-1990s. The outbound financial liberalisation had enabled *chaebols* (Korean big businesses) to borrow funds nominated in USD at much lower rates in the international market than in the domestic banks. The 1997 Asian financial crisis can be attributed to this “premature” or careless integration “into international financial markets, excessive short-term borrowing abroad with a maturity mismatch, and weak domestic financial sectors” (Nayyar 2019, p. 83).

The post-crisis reform package implemented in Korea is one of the most comprehensive and decisive set of reforms undertaken by any country following a major crisis (Lee 2016, p. 112). Numerous Korean institutions were forced to change or evolve, similarly to those in the US (Lee *et al.* 2002). For instance, the financial market was liberalised and most restrictions on foreigners’ domestic investments were lifted. Consequently, foreigners’ share of stocks in Korean firms increased rapidly from less than 3% in the mid-1990s to more than 40% in the 2000s, which strengthened shareholder capitalism. Jang-Sup Shin and Ha-Joon Chang (2003) argue that the IMF programme demanded Korea pay an extremely expensive price to follow a neoliberal or Anglo-Saxon model, which is not suitable for a country with newly achieved compressed development.

However, this comprehensive reform and another round of financial liberalisation have not been effective in protecting Korea from the risk of another financial crisis in the aftermath of the 2008-09 GFC. During the onset of the GFC, hot money suddenly flew out of Korea to go back to the Wall Street because of a liquidity crisis at the heart of capitalism, and thus the Korean Won again suffered a huge and sudden depreciation (Lee *et al.* 2020). This situation stopped only after Korea agreed a bilateral currency swap with the US which enabled the supply

of dollars to the foreign exchange market in Korea and was ineffective for 15 months. Korea learned a hard lesson from the negative spillover of the crisis in Wall Street in 2008-09. The Korean experience may provide some hint in seeking a blueprint for a crisis-resilient macro-financial system, which would also make sense in this post-pandemic era.

Following Williamson (1999) and Ferrari-Filho and Paula (2008), Lee (2016) proposes a kind of macro-policy framework that can be described as “an intermediate system” with managed capital mobility and an explicit option of Tobin taxes, a version of the managed or flexible BBC (basket, band, crawl) exchange rate system, and with relative independence in monetary policymaking with a new balance between interest-rate and exchange-rate targeting. With regard to specific macro-level measures, fees on short-term financial flow (or Tobin tax) and reserve requirements are suggested, discouraging the buying and selling of foreign exchange for extremely short-term purposes (Lee 2016; Lee et al 2020).³ At the micro-level, the key task against external shocks is to manage foreign assets and liabilities in corporate and bank dimensions. In particular, the level of and trend in short-term foreign liability need to be managed and monitored, covering not only domestic banks but also domestic branches of foreign banks, and the optimal hedge ratio needs to be used as a sophisticated investment strategy. For example, a minimum requirement in the ratio of foreign liquid assets over total foreign assets is suggested. A core funding ratio, such as foreign loan to foreign deposit, is also recommended. It helps not only reduce currency mismatch but also increases the core funding base, which is relatively stable even in times of financial turmoil.

Some of these measures were adopted by the Korean government in 2011 in the name of ‘three macro-prudential’ measures, including regulations on banks’ positions in forward exchange markets (150% of equity capital), taxes on non-deposit foreign exchange debt, and the LCR (liquidity coverage ratio) which is the regulation of minimum high-liquidity foreign exchange-based assets (*e.g.*, US treasury bonds) to be held against net cash outflow expected for a month (*e.g.*, withdrawal of deposits), in addition to a tax on foreigners’ interests income from

³ Some reserve requirement policies require foreign investors to place some of the funds in a bank for a period. As the fund can be used for investment after a specified period, the long run capitals are not hindered to flow.

holding Korean bonds (Lee 2016, p. 143). Since then, the Korean economy has maintained stability in the macroeconomic sense. However, managing the possibility of sudden inbound or outbound flows of short-term capital remains a challenge. In this post-pandemic recession, all the emerging economies tend to lower their interest rates but this measure may increase the possibility of capital flight whenever an exogenous shock is observed. Following Korea's policy initiatives associated with the 'three macro-prudential' measures, each country is advised to conceive and install its own schemes for macro stability.

These three measures worked again during the economic shock from Covid-19. In March 2020, global financial markets were suffering from the shock of the outbreak of the pandemic. As a precautionary measure, on 19 March, the US federal reserve board extended Dollar swap lines to nine economies – Korea, Brazil, Mexico, Singapore, Sweden, Norway, Denmark, New Zealand and Australia – in addition to the existing swap agreement with the five core advanced economies. This sudden intervention helped to stabilise the foreign exchange market facing the sharp explosion of demand for dollars. In the Korean market, the exchange rates dropped or decreased from about 1,300 Won per dollar to 1,200 Won by the end of June.

Besides this currency swap, the three macro-prudential measures had an additional stabilising role by reducing the possibility of capital flight. First, the Bank of Korea decided that the commercial banks' position in forward exchange markets was now enlarged from the prevailing 200% to 250% of equity capital for Korean branches of foreign banks, and from 40% to 50% for domestic banks.⁴ Second, no taxes will be charged on the increased amount of non-deposit foreign exchange debt incurred to commercial banks during the three months from April to June 2020. Third, the Ministry of Finance of the Korean government announced that the LCR (liquidity coverage ratio) was now reduced from the prevailing ratio of 80% to 70% until May 2020.⁵ These cases suggest that these measures can be useful in adjusting the inflow and outflow of hot money during the times of macro-financial uncertainty, particularly for emerging economies without reserve

⁴ <http://www.bok.or.kr/portal/bbs/P0000559/view.do?nttId=10057049&menuNo=200690&searchWrd=선물환&searchCnd=1&sdate=&edate=&pageIndex=1>

⁵ http://www.moef.go.kr/nw/nes/detailNesDtaView.do?menuNo=4010100&searchBbsId1=MOSFBBS_000000000028&searchNttId1=MOSF_000000000032871

currency.

V. Summary and Concluding Remarks

As reflected in the expression “East Asian miracle” (World Bank 1993), East Asian economies saw remarkable performance of high growth and low inequality, thereby forming a separate East Asian capitalism group within the VoC typologies. There are strong signs that these economies have recently been converging to the LME group, featuring low growth and high inequality, since the 2000s. Financialisation is arguably one cause for these outcomes of low growth and high inequality. This paper re-evaluates East Asian capitalism in the context of the Covid-19 pandemic, which has suddenly halted globalisation and further questioned the superiority of shareholder capitalism associated with financialisation and globalisation. It proposes rebalancing between shareholder and stakeholder capitalism. By doing so, East Asian economies can be reborn as a hybrid capitalism, with East Asian capitalism at its original core, to restore their growth momentum in an inclusive way. The paper also argues that the post-pandemic retreat of globalisation is 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.

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