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FOREIGN POLICY OF DEVELOPMENTAL STATE:

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SOUTH KOREAN FOREIGN POLICY ROLE DURING THE FIRST OIL CRISIS

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## **Abstract**

### Foreign Policy of Developmental State:

#### South Korean Foreign Policy Role during the First Oil Crisis

The paper examines the South Korean foreign policy role to overcome the first oil crisis in 1973 and balance of payment to sustain the industrialization. The paper looks inside to the developmental state foreign policy supportive features to overcome international constraints.

Paper argues that foreign policy played an important role for the late-industrializing countries to develop industrialization because of the rapidly changing international environment during the Cold War. One of the most challenging international constraints was the first oil crisis. The crisis was more catastrophic because it combined with the United States hegemonic decline in world oil supply. During the Cold War, small states were hard to proceed “independent” foreign policy based on national interest when their security dependent on superpowers. Even though, South Korean government made a decision to support Arab state’s position concerning Israeli-Arab conflict. This foreign policy step was specific in “independent” and pragmatic behaviors in limited framework under the power. The paper shows that without making this foreign policy “shift” to settle the relationship between Middle Eastern countries and further foreign policy backup for national companies to penetrate to the new market, South Korean export-oriented industrialization strategy was difficult to sustain since she very dependent on foreign natural resource and market.

**Keywords:** South Korea, Middle East, international constraint, foreign policy of developmental state, export-oriented industrialization, oil crisis, energy dependency.

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### I. Introduction and Research Question

After the Korean War, South Korea implemented state-led strategy to develop economy in short period while western countries were recommending free market policy to restrict state role in economy. Therefore, this economic development theoretically called once again the state role with its successful intervention in economy. Nonetheless, this state intervention was not limited in the domestic economic level. South Korean government actively supported the outward looking development strategy by her foreign policy.

There were many studies enquiring the secret of South Korea's successful industrialization. Definitely, there were number of factors influenced to this economic development. Nevertheless, there is one factor not enough discussed when to study development of late-industrializing countries. Literatures on developmental state or late-industrializing countries overlooked the importance of external environment of the development process. Generally, the Cold War era was highlighted as peaceful and benefit to the newly industrialized economies. As Cold War Allies of the United States, they received special treatment in American allied markets and were able to pursue an export-led growth strategy because of the global free-trade environment under the power.<sup>1</sup>

On the contrary, this favorable condition is not lasted long due to many reasons but the most influential reasons were; first, undoubtedly the decline of hegemonic power of United States. Secondly, the East Asian developmental states have become susceptible to the pressures of economic globalization, unable to protect their home markets and thus have been unable to shelter their infant industries from international competition.<sup>2</sup> From the beginning of the 1970s, as the economies of developed countries were suffering from severe worldwide recession, new import restrictions were being imposed by erecting various nontariff trade barriers such as global and bilateral quotas, voluntary export restraints, government purchasing regulations, safety and industrial standards, health and sanitary regulations, and trigger pricing systems.<sup>3</sup>

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<sup>1</sup> Robert Gilpin. 2001. *Global Political Economy Understanding the International Economic Order*. Princeton University Press. 319-20

<sup>2</sup> Joseph Wong. 2004. *The Adaptive Developmental State in East Asia*. Journal of East Asian Studies. Vol., 4. 345-62, 353

<sup>3</sup> Eul Yong Park. 1985. *Foreign Economic Policies and Economic Development*. 104-36. Eds. Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 125

Apparently, literatures acknowledged the importance of international constraints to these developments. For instance, they stressed the level of international competition, the technology gap<sup>4</sup>, international shocks and pressures, the role of macroeconomic shocks<sup>5</sup>, and global changes.<sup>6</sup> Then again, loophole of the existing literatures are in not enough study made in how these countries policies taken to overcome these not favorable constraints, its consequence to domestic market and decision making of the country.

Therefore, this paper argues that secret of late-industrializing countries lays in the adjustment policies to external constraints.

South Korean outward looking industrialization had come through specific international environment changes as same as to any late-developers. For instance, as Korea moved into 1970s, there was emerged a number of sudden external changes those directly harmful to growth strategy of economy. In 1971, the Nixon administration carried out its plan to reduce the U.S. number of military troops stationed in Korea by one-third, thus compelling Korea to accelerate the development of her own defense industries. In the same year, following the breakdown of the Bretton Woods system, protectionism in advanced countries began to rise, forcing Korea to change the composition of her exports.<sup>7</sup> Finally, the quadrupling of oil prices in 1973-1974 was big shock to Korean government hence it dependent on foreign oil.

South Korean rapid economic growth since the 1960s caused a sharp increase in energy consumption. Country's dependency on foreign oil was increasing drastically in order to meet the requirement posed by industrialization. During the period 1962-1973, Korea's oil consumption grew at an annual average rate of 28 percent, while that of non-oil energy resources grew at only 2 percent. From 1955 to 1973 Korea's dependence on imported energy sources increased from 15 to 58 percent and reached as high as 74 percent in 1979.<sup>8</sup> Crude oil is used mainly by refineries to fuel the transportation, manufacturing, and power sectors. For instance, the following table presents that how deeply South Korean industrialization dependent on imported oil.

Table1. Energy Demand in Korea in 1970 and 1975, Projection of Energy Demand in: 1981, 1986 and 1991<sup>9</sup>

Sector	1970	1975	1981	1986	1991	GNP Elasticity			
						1971-75	1976-81	1982-86	1987-91
Industry	15,728	25,109	57,346	98,427	162,725	1.00	1.33	1.14	1.06

<sup>4</sup> Alice H. Amsden. 1989. *Asia's Next Giant*. New York: Oxford University Press. 148

<sup>5</sup> Stephan Haggard. 1990. *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. Cornell University Press. 9

<sup>6</sup> Peter Evans. 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton University Press. 14

<sup>7</sup> D.W. Nam. 1997. *Korea's Economic Growth in a Changing World*. Samsung Economic Research Institute. Seoul, ROK. 105

<sup>8</sup> Eul-Yong Park. 1985. *Foreign Economic Policies and Economic Development*. 104-36. Ed. Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 129

<sup>9</sup> Cheong Ryang. 1978. "Long Term Prospect for Economic and Social Development 1977-91" Korea Development Institute. 82

	(40.6)	(46.5)	(57.8)	(61.0)	(62.5)				
<b>Transportation</b>	3,894 (10.0)	5,672 (10.5)	11,487 (11.6)	21,789 (13.5)	40,125 (15.4)	0.80	1.13	1.37	1.30
<b>Residential</b>	16,198 (41.8)	19,045 (35.2)	23,479 (23.6)	30,248 (18.7)	40,445 (15.6)	0.34	0.32	0.52	0.60
<b>Others</b>	2,937 (7.6)	4,233 (7.8)	6,953 (7.0)	10,972 (6.8)	61,931 (6.5)	0.77	0.78	0.96	0.91
<b>Total Demand</b>	38,757 (100.0)	54,049 (100.0)	99,265 (100.0)	161,436 (100.0)	260,226 (100.0)	0.70	0.96	1.02	1.01

The table presents that from 40.6-46.5 percent of oil used for the purpose of industrialization concerning years of the paper. South Korea's half of imported oil used for industrialization process in that period. South Korea used almost half of her imported crude oil to run industrialization because there were no alternative resources to produce electricity.

While South Korea was becoming dependent on foreign oil, the world faced two big oil shocks that caused recession among the oil importing countries. For example, as a result of the 1973 oil embargo<sup>10</sup>, the world spent an extra \$5.1 billion on oil. American real GDP declined by 2.5 percent, which is about \$38 billion.<sup>11</sup> Seven of the eight postwar recessions in the United States have been preceded by a dramatic increase in the price of crude.<sup>12</sup>

Contrary, during heat of the crisis, Korea managed to increase its GNP by 13.2 percent in 1973 and by another 8.1 percent in 1974. The export also grew 38.3 percent in 1974.<sup>13</sup>

The shock in 1973 was one of the cases that faced to Korea when her interest conflicts to the interest of United States moreover the constraint cannot be solved with the under the established framework of the power. At that time South Korea was dependent on three American oil companies for the oil supply. The Gulf Corporation, Caltex Inc. and the Union Oil were charge of South Korean oil supply. The Gulf Corporation<sup>14</sup> on November 6, 1973 notified to South Korean government that the amount of crude oil shipped to Korea would decrease by 30% from the month of November onwards. This step was taken without any advance notice or negotiation. Caltex Inc. also informed to decrease by 10%, and Union Oil let it be known by 20%. All in all, 22% of the overall oil regularly supplied to Korea was

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<sup>10</sup> The first oil crisis resulted from the War broke out in the Middle East on 6<sup>th</sup> of October in 1973 that known as the Yom Kippur War or Ramadan War. The war began when the President of Egypt Anwar Sadat orchestrated a surprise attack on Israel. Representatives from six oil producing Arab States held an emergency meeting in Kuwait on October 16<sup>th</sup> and, announced their intention to raise oil prices by 17 percent that from 3.12 dollars to 3.65 dollars a barrel. Next day on 17<sup>th</sup> of October, the ten OPEC members held another meeting in Kuwait, decided to decrease oil production by 5 percent every month until Israel withdrew troops from the occupied Arab lands.

<sup>11</sup> Geoffrey Kemp and Robert Harkavy. 1997. *Strategic Geography and the Changing Middle East: Concepts, Definitions, and Parameters*. Brooking Press 1997

<sup>12</sup> James D.Hamilton. 1983. Oil and the Macro-economy since World War II. *Journal of Political Economy*, Vol. 91, No. 2 (April). 228-248, 245

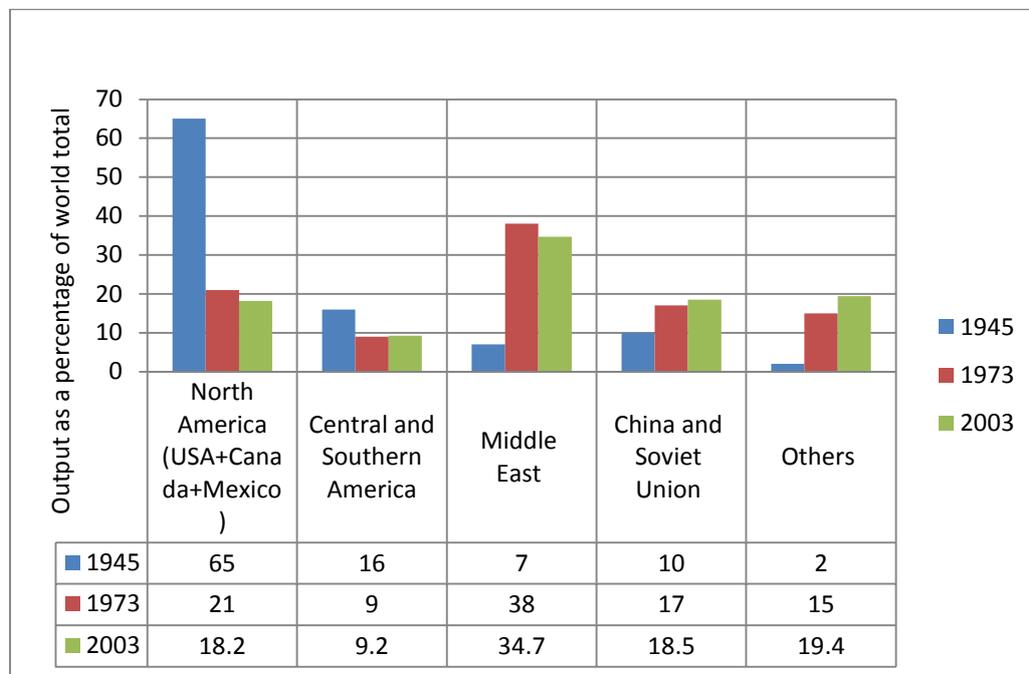
<sup>13</sup> O Won-chol. 2009. *The Korea History: President Park Jung-hee's Leadership and the Korean Industrial Revolution*. Wisdom Tree Publishing. 261

<sup>14</sup> Gulf Oil Corporation controlled some 50% of the oil refineries at that time, affiliation with the public entity known as the Korean National Oil Corporation.

being literally pulled of the table.<sup>15</sup> So thus, international oil companies as well as American power decline in the region consolidated crisis in South Korea.

The relatively stable postwar petroleum regime, managed by the large oil firms and protected by American diplomatic and military strength, collapsed.<sup>16</sup> This American decline in the region made South Korea has to compete with advanced countries Japan as well as America in the “new” oil market. American state power became much less effective: since the 1973-1974 OAPEC embargo and oil prices rises, the United States government has been unable to “break OPEC,” to reduce oil prices, or even to guarantee adequate supplies in emergencies. The position of the “seven sisters” has also been eroded. In 1973, the seven most important international oil firms produced almost all of OPEC’s oil and distributed 90 percent of it. In 1980, however, about 45 percent of internationally traded oil was being sold directly by producing countries, to governments, to independents, on the spot market, or through other arrangements,<sup>17</sup> as next figure shows.

Figure1. The Changing Balance of World Oil Production, 1945-2003<sup>18</sup>



There is another important fact to consider in regarding to character of the first oil crisis. The first oil crisis was motivated Arab states political interest rather than just economic interest. The embargo was taken by Arab states against western countries as well as United

<sup>15</sup> O Won-chol. 2009. *The Korea History: President Park Jung-hee’s Leadership and the Korean Industrial Revolution*. Wisdom Tree Publishing. 264

<sup>16</sup> Ibid 105

<sup>17</sup> Robert O. Keohane. 1982. State Power and Industry Influence: American Foreign Oil Policy in the 1940s. *International Organization*. Vol., 36 / Issue 01/ December, 166

<sup>18</sup> Simon Bromley. 2005. *The United States and the Control of World Oil*. Blackwell Publishing. Government and Opposition Ltd. 231

States. Arab States endeavor to influence United States foreign policy concerning Arab-Israel conflict. The Arab states threatened to cut off the oil supply to anti-Arab countries that ally to United States and dependent on Arab oil. As ally of the United States, South Korea was listed as an anti-Arab state and subsequently was threatened with a decrease in oil supply. Regardless of it, in fact the amount of oil supply to South Korea presents a different result. The following table shows that at the midst of the energy crisis, Korea's crude oil supply actually increased by 15 percent. Korea managed to secure more than enough crude oil during the crucial months of the oil crisis November and December 1973.

Table2. The amount of crude oil introduced by KNOK during 1972-1974 (unit thousand barrels)<sup>19</sup>

	1972	1973	1974
<b>January</b>	4,000	4,729	3,376
<b>February</b>	3,056	3,704	6,227
<b>March</b>	3,525	5,282	5,018
<b>April</b>	4,333	4,612	4,654
<b>May</b>	3,293	4,086	4,544
<b>June</b>	5,328	5,415	8,157
<b>July</b>	4,849	3,765	1,912
<b>August</b>	3,474	5,451	4,990
<b>September</b>	3,276	3,890	3,326
<b>October</b>	3,897	3,763	5,046
<b>November</b>	4,560	4,572	5,433
<b>December</b>	4,935	6,606	5,045
<b>Total</b>	48,531	55,879	57,733
<b>Rate of increase over the previous year</b>	-	+15%	+3.3%

Even after the oil crisis South Korea and Middle Eastern relation is flourished that helped South Korea to overcome balance of payment and opened the new big market. Following tables show the dramatic change of the economic relation before and after the oil crisis between Korean and Middle East. Next table shows one of the rapidly growing economic relations between two sides.

Table3. South Korea's Construction Contracts in Middle Eastern Countries, 1973-77, (unit in million US\$)<sup>20</sup>

	1973	1974	1975	1976	1977	Total
<b>Saudi Arabia</b>	24.1	76.9	504.9	2,134.9	2,406.2	5,147.0
<b>Iran</b>			60.4	5.2	326.5	392.1
<b>Kuwait</b>			0.5	205.0	257.5	463.0
<b>Bahrain</b>			160.0	13.2	97.3	270.5
<b>The UA Emirates</b>			15.8		141.6	157.4
<b>Qatar</b>				8.4	48.4	56.8

<sup>19</sup> Ibid 284

<sup>20</sup> Jae Kyu Park. 1985. *Korea and the Third World*. 217-61. Youngnok Koo and, Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 252

Jordan		11.9	8.3	37.8	1.9	59.9
Iraq					30.4	30.4

Based on two contradicting before mentioned facts that are South Korean economic growth during the recession and increased oil supply during the crisis moreover flourished relation between Middle Eastern countries have only one answer that is the result of South Korean foreign policy.

The paper argues South Korea’s successful overcoming of the oil crisis is related to her active, flexible and pragmatic foreign policy. South Korean foreign policy to support Arab states position concerning Israel at the beginning of the first oil crisis is specific in its “independent” and pragmatic behavior in limited framework under the power. This was one of the South Korean foreign policy achievements to support domestic economy by making political step “countering” the interest of United States.

States under security umbrella of superpower are hard to implement their national interest pursuing pragmatic foreign policy. South Korea seeks to advance her security, autonomy and economic prosperity through foreign policy like other countries. It is particularly sensitive aspect of Korea’s policy toward the United States that, while it has sought to maximize its security with the help of America and to have independent policy even in economic sense.<sup>21</sup>

For foreign policy makers, the question is not merely an appreciation of the multi-sectorial nature of energy as a policy area, but its placement within the sequence of national interests and its ability to mediate the overall foreign policy stance of the state or region. So thus here comes out the government role to serve as a mediator between domestic market and the international arena. Means, political and economic concerns about the supply and demand of energy resources are strongly connected since the crisis.

There are studies concerned comparative advantage of South Korea’s successful overcoming of the oil crisis.<sup>22</sup> Previous studies highlighted the measures taken by Korean government to adjust alarming deterioration in Korea’s balance of payment. Nevertheless, the balance of payment was not the highest priority for the Korean government at the beginning of the crisis and after. Rather, it was necessary to find stable and reliable oil exporting partner. The reason was that the price of oil is exogenously determined for Korea, and the level of demand for oil is not very sensitive to a change in the short run. Therefore Korean government primary concern was how to secure stable supply of oil at the world price.<sup>23</sup> The oil embargo prompted the countries to respond through foreign political decisions concerning the conflict before taking economic policy measures to overcome the balance of payment.

The South Korean foreign policy during the oil crisis is insufficiently noted and I argue that this is the important case to be explored because of following reasons. The first oil crisis

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<sup>21</sup> See more on Sung-Joo Han. 1985. *Policy Towards the United States*. pp 139-166. Eds. Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press

<sup>22</sup> See more on Yoo Soo Hong. 2010. *Private-public Alliances for Export Development: The Korean Case*. Comercio Internacional. Division of International Trade and Integration. Santiago, United Nations Publications

<sup>23</sup> Eul Yong Park. 1985. *Foreign Economic Policies and Economic Development*. 104-36. Eds. Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 129

was the case that South Korea had to overcome by herself not relying on United States or any other country. Despite differences in resources and national energy industries, all nations were under pressure to develop adjustment policies. The shocks were exogenous, and all governments were pressed to respond to the crisis.<sup>24</sup> United States hegemonic decline was very much connected to world oil supply neither to Korea obviously. Second, the oil market in Middle East demanding active foreign policy back-up to newly comers to this field. In the Middle East the states were start to play by their own due to U.S. hegemonic decline in the region.

As ally of the United States, South Korea faced dilemma. The dilemma arose not only because of United States foreign policy of strong support to Israel, but also since Israel was one of South Korea's partners at international arena already from the time going back to the Korean War.<sup>25</sup>

After the embargo on 16<sup>th</sup> of October in 1973, South Korean government announced that supporting the position of the Arab countries in the current Middle Eastern situation on 15<sup>th</sup> of December in 1973.<sup>26</sup> After this statement, on 26<sup>th</sup> of December, Saudi Arabia and Kuwait had agreed to greatly ease restrictions on supply to South Korea, treating it as a friendly country. At that time, Saudi Arabia supplies 65 percent of South Korea's crude oil imports and Kuwait 25 percent through three American oil companies.<sup>27</sup> In total this statement brought and secured 90 percent of oil supply. The emphasis on oil diplomacy is a successful example of South Korea's flexible and pragmatic foreign policy.<sup>28</sup>

In a glance, it looks just an ordinary economic interest based foreign policy decision. On the other hand, during the Cold War heat, it was almost an impossible and rare to make "independent" foreign policy decision based on economic interest beyond ideological crusade.

This foreign policy "shift" had political consequence to South Korea such as cooling the relation with Israel and United States. United State reacted to this decision immediately even sending special study mission to Korea. Those envoys designed to make report about the relation between Arab states and South Korea to the House of Foreign Affairs Committee.<sup>29</sup>

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<sup>24</sup> G. John Ikenberry. 1986. The Irony of State Strength: Comparative Responses to the Oil Shocks in the 1970s. *International Organization*, pp. 105-137 Published online: 22 May 2009. 119

<sup>25</sup> Young Sam Ma. 2010. Israel's Role in the UN during the Korean War. *Israel Journal of Foreign Affairs* IV:3 Young Sam Ma has been the Korean Ambassador to Israel since 2008.

<sup>26</sup> Korea's new position was an overt recognition of the UN Resolution 242 epitomized in the following statements: 1) The Arab-Israel conflict must be resolved on peaceful and equitable terms. 2) Conflict settlement must involve the withdrawal of Israel from the Arab territories the Jewish state occupied during the June 1967 War. 3) The national rights of the Palestine people must be recognized in any Arab-Israeli settlement. 4) Korea supports the sovereignty, independence, existence, and territorial integrity of all the countries of the Middle East. Dong Ah Il Bo Dec. 12, 1973

<sup>27</sup> Seoul Reports: Easing of Arab's Curbs on Oil. *New York Times*. December 27, 1973

<sup>28</sup> Yong U. Glasure. 2002. Energy and National Income in Korea: Further Evidence on the Role of Omitted Variables. *Energy Economics* 24

<sup>29</sup> Report by Special Study Mission to Japan, Taiwan and Korea to the House of Foreign Affairs Committee April 10, 1974. Ed Se-Jin Kim. *Documents on Korean American Relations 1943-1976*. Research Center for Peace and Unification 1976. 456

Moreover in 1978, Israel shut down her embassy in South Korea because of flourishing relation between Korea and Arab states.<sup>30</sup> How come South Korea could implement such flexible and pragmatic foreign policy during the Cold War?

There are numbers of studies on South Korean economic development as well as late industrializing countries. In an overall view, these studies focused on state role in domestic economy and internal institutional role in development. Developmental state theorists focused into the “state” itself such as regime type, institutions and economic planning in domestic level. The limitation of this approach is they rarely discussed about how these late-industrialized countries overcome the international constraints and how this developmental state model reacts when face to external challenge. I argue that the success of late-comers’ development secret are also hidden in their adjustment policies to overcome the international constraints.

The paper aims to analyze that South Korea’s successful foreign policy role to overcome the oil crisis within the theory of developmental state but looking into how this model worked when it faces to international constraints. Through this paper I look after the answer from developmental state foreign policy decision making features to explain South Korea’s foreign policy pragmatism and its further role in development of industrialization.

The paper proceeds as follow. At the part two I made a brief literature review on South Korean development as well as late-industrializing countries. Next part look into the developmental state theory enquiring foreign policy features developmental state. The fourth part clarifies the picture of South Korea’s relation to Middle Eastern countries. The following chapter is devoted to the South Korea’s foreign policy role based on developmental state characteristics. The last part summarizes the findings and possible suggestions from the study.

## **II. Review: Literature on South Korean Development**

South Korean rapid economic development studied by from many perspectives. There are plenty of independent variables those explaining the success of Korean industrialization. Two

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From this report it looks they paid attention to South Korean ‘pro-Arab’ position from the beginning. However, the fact is they also agreed on need for the economic situation to the shift of foreign policy.

The report concluded that “It is our opinion that in the final analysis the situation may present some stresses and strains for United States-South Korean relations”.

“While added military expenditures may impede the economic growth rate it is already seriously clouded by the devastating effect of the energy crisis. Since Korea depends on oil for 85 percent of its energy requirements, and all of this oil is imported from the Mideast, the impact of petroleum price increases has been especially hard on the Korean economy.

While endorsing cooperative action among the oil-consuming nations to obtain price rollbacks, the Korean have been compelled to move cautiously away from identification with the United States toward a more “pro-Arab” position, a move aimed in part at least at offsetting the favorable position already enjoyed by North Korea within the Arab States.

One result of this unilateral effort by South Korea is a recent agreement whereby Korea will supply cement to Saudi Arabia in return for an assured supply of oil. In turn, their oil needs now appear to be adequately met.”

<sup>30</sup> Yaacov Cohen. 2006. The Improvement in Israel-South Korean Relations. *Jewish Political Studies Review*. 18:1-2 (Spring)

main streams of the literatures are neoliberal and state centric approach. The theory of the developmental state emphasizes that the state should play the central role in economic development. Therefore, state centric approach highlights the point that non-economic- especially political institutions are vital to the modern market economy. The significant role of states in creating economic development is recognized in studies of Newly Industrializing Countries (henceforth NIEs) and in Third-World development.

Linda Weiss and John M. Hobson raised core concern of modern comparative political economy; the role of political institutions in economic performance. What difference have modern states made to the development of the market economy? Under what conditions and for what purposes have states assisted the process of industrial advancement? Why do modern states differ so considerably in their capacity for governing the market? And how has the nature of state strength and its importance for a prosperous economy changed over time?

<sup>31</sup> These are conventional research questions for the state centric literatures on NIEs of East and Southeast Asia.

From my point of view these approaches fail to answer these questions properly due to their approaches to answer those limits their scope of the study.

The limitation of state centric approach can be defined because of their main subject of research question which is “state”. When they consider state’s role in economic development usually focus on state role in domestic economic policy such as “strong states” <sup>32</sup> non-economic – especially political – institutions are vital to the constitution, maintenance, and transformation of the market economy.<sup>33</sup> Regarding to previous questions, state centric approach not much considered about the external condition and its implication to domestic economy.

As Amsden said Korea is the evidence of industrialized country that driven by strong interventionist state. The reason was late-comers required state intervention to develop industrialization because their curses of backwardness were greater than previously industrialized advanced countries.<sup>34</sup> But this backwardness is not only talking about the high technology, they were left behind to have a position or share in international market. Consequently, late-comers needed state intervention to penetrate into already settled and high competitive international market.

Among the state centric scholars Stephan Haggard study shows why similarly situating states pursuing the different policies in response to external pressures connecting to their domestic political factors. This paper continues his argument by how these similarly situated states overcome the external change and how the domestic institutions assisted to overcome it. Haggard considered South Korea did “take off” as the result of policies that allow it to exploit comparative advantage more fully.<sup>35</sup> This comparative advantage variable is applicable to South Korean overcome of the oil crisis due to her construction work and workers. This paper

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<sup>31</sup> Linda Weiss and John M. Hobson. 1995. *States and Economic Development*. Polity Press. 1-2

<sup>32</sup> Whang In-Joung. 1997. *Economic Transformation of Korea, 1945-95: Issues and Responses*. The Sejong Institute. 47, 66

<sup>33</sup> Linda Weiss and John M. Hobson. 1995. *States and Economic Development: A Comparative Historical Analysis*. Polity Press

<sup>34</sup> Amsden, Alice H. *Asia’s Next Giant*. 1989. New York: Oxford University Press. 55

<sup>35</sup> Stephan Haggard. 1990. *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. Cornell University Press

differs in looking for specifically that how those domestic institutions supported and collaborated with foreign policy response to international constraints. I agree with definition of Haggard that the state is not only an actor but a set of institutions that exhibit continuity over time. Based on this definition the paper argues that how South Korean domestic institutions supported the foreign policy intervention with the connection of the developmental state model.

There is little number of studies on how South Korea reacted to the external conditions. Byung-Sun Choi's study show that what aspects of Korea's political and institutional of the economic policy-making in Korea has permitted a strategic and highly flexible response to the changing domestic and external political economic conditions.<sup>36</sup> Byung-Sun Choi focused on the role of EPB role in economic decision making. My paper continues Byung-Sun Choi's study in more detailed analyze in foreign policy and economic planning correlation. The paper is not aimed to continue about the role of the developmental state in domestic economy but it further looks into how this state "works" when it faces external change.

Another main stream neoliberal approach argues that the success of late industrializing countries has been come true their reliance on the market and the minimal role of the state in the economy.

Neoliberal view of high performing Asian economies (HPAEs)<sup>37</sup>, emphasized the crucial things in economic development beside the interventionist policy of the state such as: securing basic rights, population growth decline, better educated labor force, effective system of public administration, stable macro-economic performance, price distortion, openness to foreign ideas and technology.

Limitation of the neoliberal approach not enough discussed how these NIEs overcome international constraints through their economic policies. My argument is the first oil crisis was test for the neoliberal and state centric approach. Certainly, oil crisis has shown different implications for the country by country according to their natural resource. There is no doubt that oil price increase influence to oil exporting countries Indonesia and Malaysia contrary highly dependent foreign oil countries Korea and Taiwan. Concerning to the oil crisis, it is impossible to generalize and ignore oil importing and oil exporting countries economic development in both approaches. In addition, Stephan Haggard criticized the weakness of dependency writing on NICs, as similarly situated states frequently pursue different policies in response to external pressures.<sup>38</sup>

Neoliberal economist Bela Balasa made a study about how newly industrializing developing countries policy responses after the oil shock.<sup>39</sup> Bela Balasa considered the external shock in terms of trade and export effects. This study is accounted the balance of payments effect and policy responses such as additional net external financing, increase in

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<sup>36</sup> Byung-Sun Choi. 1987. *The Structure of the Economic Policy- Making Institutions in Korea and the Strategic Role of the Economic Planning Board. Institutionalizing a Liberal Economic Order in Korea: The Strategic Management of Economic Change*. Unpublished Ph. D Dissertation, Harvard University. 2

<sup>37</sup> HPAEs are Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, China, Indonesia, Malaysia and Thailand.

<sup>38</sup> Stephan Haggard. 1990. *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. Cornell University Press. 9

<sup>39</sup> Bela Balasa. 1981. *The Newly-Industrializing Developing Countries after the Oil Crisis*. Berichte. 142-94.

export market share, import substitution and import effects of lower GNP growth. Korea suffered the largest terms of trade loss in 1974, equivalent to one half of the average value of its exports and imports. The study shows that the quadrupling of petroleum prices accounted for the two-thirds of this loss. In Korea, the terms of trade improved in subsequent years when the rise of petroleum prices decelerated. In 1974, the combined balance-of-payments effects of external shocks equaled 9 percent of the GNP in Korea. South Korea's reliance on foreign borrowing, investment incentives and reducing government deficit in order to overcome the adverse effects of external shocks in 1974. This study is worthy in respect of that how newly industrializing countries overcoming of adverse effects of the oil crisis but it lacks to explain these countries policy responses at the beginning of the shock.

### **III. Features of Foreign Policy Decision Making**

#### **In Developmental State**

What are the characteristics of Developmental state foreign policy? South Korean foreign policy is analyzed as dependent state foreign policy that only looks for how to gain bargaining power thorough foreign policy or look for independent foreign policy<sup>40</sup> or further or recent directions of the relation with United States, Japan and North Korea.<sup>41</sup> As a close ally of the U.S., South Korean foreign policy had to follow in the footsteps of the U.S. and generalized constantly adopt a rigid, hawkish anti-Communist and anti-North Korea policy during the period.<sup>42</sup> Therefore, as Kang Sung-Hack defined the South Korean foreign policy characteristic as “bandwagoning” concerning the security relationship with United States.<sup>43</sup> So thus, Korean foreign policy considered as dependent state foreign policy.

Bruce E. Moon defined the foreign policy of dependent state as foreign policy orientation of weak nations comes to reflect the preferences of more powerful nations. The ability of a powerful nation to alter the foreign policy behavior of a weaker nation has long been recognized.<sup>44</sup> As he clarified in that ...while there have been numerous descriptions of individual instances of both successful and unsuccessful influence attempts, little effort has been made to generalize about the sources of such influence, the process through which it is manifested, or the conditions under which it can be expected to operate. It defines the why foreign policy of certain weak state analysis is limited by just how to influence to the powerful country or how to have independent foreign policy.

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<sup>40</sup> Ko Sung-Bin. 2006. South Korea's Search for an Independent Foreign Policy. *Journal of Contemporary Asia*; 36,2. 258-73

<sup>41</sup> Chai-Jin Lee. 1978. The Directions of South Korea's Foreign Policy. *Korean Studies*, Vol. 2. 95-137

<sup>42</sup> Lim Seong-Ho. 2000. *Interest Group Politics on Korean Foreign Policy Issues: Changes and Continuity*. New Asia, Vol. 7, No. 4 (Winter). 83

<sup>43</sup> Kang Sung-Hack. 1997. *The Korean Style of Foreign Policy: From bandwagoning to Quo Vadis?* “Korea in the Age of Globalization and Information: Direction of Korea's Diplomacy and Broadcasting toward 21<sup>st</sup> Century” International Conference. Seoul 1997.03.21

<sup>44</sup> Bruce E. Moon. 1983. The Foreign Policy of the Dependent State. *International Studies Quarterly*, Vol. 27, No. 3 (Sep). 315-40. 315

On the contrary, Peter J. Katzenstein<sup>45</sup> made an important conclusion about states divergent strategies<sup>46</sup> of foreign economic policy when they face common crisis like oil crisis. His study covered United States, West Germany, France, Italy and Japan and their foreign economic policy reaction to oil crisis. His conclusion was:

“... America no longer holds the position of overwhelming power which it enjoyed in the immediate postwar era. To a greater extent than in the 1950s and 1960s the strategies of foreign economic policy of advanced industrial state now reflect their domestic structure. ... The divergence in foreign economic policies in the 1970s is due to principally to differences in domestic structures.”

Based on this conclusion I raise the argument that South Korean pragmatic and flexible foreign policy is should have reflected the developmental state characters during the oil crisis since the state defined as developmental state model. This idea is also come in Ikenberry study which is very much connected to this paper. By his words,

“The state is an organization staffed by executive officials positioned to make, when historical moments allow, strategic choices. At this level of analysis the preferences and choices of government officials, particularly political and administrative officials of the executive branch, may be considered an analytic surrogate for state behavior. The state is also a structure that fixes in place channels of access to the society and economy as well as the instruments and institutions of government. The state as actor and the state as structure are related: at moments of crisis and change, as during the oil shocks, the distinctive structure of the state itself shapes and constraint the substance of strategic policy. The policy instruments and institutional resources available to government elites form the most important determinants of adjustment policy when crisis presents new challenges to governments.”<sup>47</sup>

Connecting to my argument Peter Gourevitch explained the domestic structure as a variable in explaining foreign policy.<sup>48</sup> He argues that South Korean foreign policy decision is much more reflected the domestic political institutions. But he did not connect the domestic institution and character of the state to the foreign policy.

So, my argument is foreign policy of developmental state is not suitable to be studied in the framework of foreign policy dependency as mentioned before looking for independent steps or bargaining power. It is crucial to see how developmental state overcomes the

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<sup>45</sup> Peter J. Katzenstein. 1997. Conclusion: Domestic Structures and strategies of Foreign Economic Policy. *International Organization*, Vol. 31, No. 4, (Autumn) Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States. 879-920, 880-81

<sup>46</sup> Relative abundance of indigenous sources of energy and constrained by the strategic position of its Israeli ally, the United States adopted a hard line towards OPEC producer states. Britain increased its effort to become self-sufficient in energy before the end of the decade by intensifying the development of its North Sea oil reserves. West Germany and France countered with a commercial offensive. Italy relied on direct foreign assistance. And Japan accelerated its investment program in countries exporting raw materials.

<sup>47</sup> G. John Ikenberry. 1986. The Irony of State Strength: Comparative Responses to the Oil Shocks in the 1970s. *International Organization*, 40. 105-37 . 106

<sup>48</sup> Peter Gourevitch. 1978. The Second Image revised: the International Sources of Domestic Politics. *International Organization*, Vol. 32, Issue 4, September, 881-912. 882

international constraints and how it reflects the character of developmental state. In addition, foreign policy of developmental state reaction is different from foreign policy of dependent state when it faces the externality that challenges its development. In a sum, the paper shows how foreign policy decision making of the developmental state has reflected the character of itself.

Accordingly, the paper enquires the character of developmental state and its inference in foreign policy. Developmental states main characteristics as defined by existing literatures are: first, a strong ambition to develop giving priority to economic growth<sup>49</sup>, second, “embedded autonomy”<sup>50</sup> is a crucial element for effectiveness of state intervention, third, no interest group pressure due to her authoritarian regime, and fourth “pilot agency”<sup>51</sup> with professional institution to carry out state intervention plan. Based on these characters of development state, the paper shows the connection between foreign policy.

### **1. No Interest Group Pressure and Political Advantage**

Working “free” from pressure by different social interests and policy consistency is one of political character and could have been seen as of developmental state political advantage to make decision.

There was little room for interest groups to exert any influence over security policy making due to Cold War.<sup>52</sup> An authoritarian regime can reduce policy fluctuations by insulating itself for pressures of various interest groups and avoid critical influence of an electoral cycle.<sup>53</sup> So thus, the foreign policy decision making is protected from the interest groups of the domestic policy. Contrary, in societies with weak states policy formation corresponds to a model of pluralistic government: social forces are well organized and robust. Public institutions are fragmented; power is formally distributed among a larger number of interdependent but autonomous agencies. These pieces of the state are captured by different private interests.<sup>54</sup>

The common use of internal security legislation and agencies, secret police and party organizations has been standard practice in bolstering the state and controlling civil society in all developmental states. Everyway mass media and labor organizations have been strictly

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<sup>49</sup> Ziya Onis. 1991. *The Logic of the Developmental State*. Comparative Politics, Vol. 24, No.1 (Oct). 109-26. 111

<sup>50</sup> Peter Evans. 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton University Press

<sup>51</sup> Johnson Chalmers. 1982. *MITI and the Japanese Miracle: The Growth of Industrial Policy: 1925-1975*. Stanford University Press.

<sup>52</sup> Lim Seong-Ho. 2000. Interest Group Politics on Korean Foreign Policy Issues: Changes and Continuity. *New Asia*, Vol. 7, No. 4 (Winter) 79-83

<sup>53</sup> Ann Sasa List-Jensen. 2008. *Economic Development and Authoritarianism: A Case Study on the Korean Developmental State*. Development, Innovation and International Political Economy Research Series. Working Paper No.5 Aalborg University. 5

<sup>54</sup> Peter Gourevitch. 1978. The Second Image revised: the International Sources of Domestic Politics. *International Organization*, Vol. 32, Issue 4, September. 881-912, 902

controlled.<sup>55</sup> ‘Speed and flexibility’<sup>56</sup> of policy response to problems of authoritarian regime also played a crucial role in economic decision making which is very much connected to this free from interest group pressure.

Another political “advantage” of developmental is state’s strong ambition to develop – developmental ideology<sup>57</sup> an authoritarian regime can forge or impose a national ideology hard work and sacrifice for economic development.

These political advantages of developmental state influenced to South Korean foreign policy decision during the oil crisis such as being pragmatic to achieve development, and urgent measure could have been justification for any measure taken by the government.

## **2. Centrality in Decision Making**

Connecting to the state model, the concentration of policy decision bureaucracy is under the control of ruling body. In autocratic regimes, the orientation of policy will depend upon the desires and motivations of the leadership.<sup>58</sup>

This centrality of decision making of the development state have advantage when the government urged or pressed to make decision in short time to react unexpected external challenge. During the oil crisis, there was criticism about United States decision making. America could not react to oil crisis immediately because of weak state structure. The influence of powerful societal interests often prevents the formulation and execution of strong and consistent state policies. For instance, in 1975, thirty-three congressional committees, with sixty-five subcommittees, claimed jurisdiction over the United States Energy Research and Development Administration.<sup>59</sup>

## **3. Economic Planning and Foreign Policy**

The strong commitment by the political leadership to economic development motivated the government officials concerned to formulate realistic plans and to put greater effort into the successful implementation of planned targets.<sup>60</sup> To promote development, political elites need not only achieve a measure of autonomy from local elites but also bolster the quality of

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<sup>55</sup> Adrian Leftwich. 1995. Bringing Politics Back in: Towards a Model of the Development State. *The Journal of Development Studies*, Vol. 31, No. 3. 400-27, Feb. 415

<sup>56</sup> Whang In-Joung. 1997. *Economic Transformation of Korea, 1945-95: Issues and Responses*. The Sejong Institute. 47, 66

<sup>57</sup> Ann Sasa List-Jensen. 2008. *Economic Development and Authoritarianism: A Case Study on the Korean Developmental State*. Development, Innovation and International Political Economy Research Series. Working Paper No.5 Aalborg University. 5

<sup>58</sup> Michael J.Hiscox. 2005. *The Domestic Sources of Foreign Economic Policies*. <http://www.people.fas.harvard.edu/~hiscox/HiscoxGPE.pdf> (accessed on 2013.09.24)

<sup>59</sup> Robert O. Keohane. 1982. State Power and Industry Influence: American Foreign Oil Policy in the 1940s. *International Organization*, /Vol., 36/ Issue 01/ December, 167

<sup>60</sup> Whang In-Joung. 1997. *Economic Transformation of Korea, 1945-95: Issues and Responses*. The Sejong Institute. 47, 66

state institutions.<sup>61</sup> Economic coordination and development has been managed by specific institutions, whose task has been to organize the critical interactions between state and economy.<sup>62</sup>

The advantage of developmental state is as Peter Evans defined “embeddedness”. Embeddedness is as important as autonomy. Embeddedness implies a concrete set of connection that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation.<sup>63</sup> The success of developmental state connects to the bureaucratic corporate coherence which is created by selective meritocratic recruitment and long term career rewards. In developmental state this bureaucratic corporate coherence embedded in a concrete in a concrete set of social ties. This binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies.<sup>64</sup> This embeddedness is also reflected to foreign policy. Foreign policy and foreign policy makers are embedded to state institutions deeply and plays a decisive role to accomplish economic planning especially when country have outward oriented development strategy.

#### **4. Foreign Policy Backup at International Level**

The strong state has been and continues to be one of the major mechanisms for determining the comparative industrial position of countries within the international economy.<sup>65</sup> Developmental state one of foreign policy character is even at international level it has to back up national companies.

State has to serve as mediator between domestic companies to compete international market. Since the backwardness is greater and international constraints are aggressive. Another measure to overcome oil crisis was to deal with Middle Eastern countries was state owned companies. In Japan and South Korea, national oil companies were created after the oil shocks of the 1970s. Asian national oil companies (ANOCs) have been rapidly acquiring stakes in exploration and production projects abroad. ANOC investment was challenging the conventional private international oil company business model. ANOCs’ advantages were their willingness to engage in downstream projects, probable lower costs of capital and risk, and the strong diplomatic and economic support they receive from their government. The US and European importing counties, while having similar objectives, do not have state oil companies or policies specially designed to encourage private-sector companies to invest in foreign equity supply for domestic use.<sup>66</sup>

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<sup>61</sup> Vivek Chibber. 2002. Bureaucratic Rationality and the Developmental State. *American Journal of Sociology*, Vol. 107, No. 4(January). 951-89, 951

<sup>62</sup> Adrian Leftwich. 1995. Bringing Politics Back in: Towards a Model of the Development State. *The Journal of Development Studies*, Vol. 31, No. 3. 400-27, Feb. 411

<sup>63</sup> Peter Evans. 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton University Press 59

<sup>64</sup> Ibid 12

<sup>65</sup> Linda Weiss and John M. Hobson. 1995. *States and Economic Development*. A Comparative Historical Analysis. Polity Press. 3

<sup>66</sup> John Mitchel and Glada Lahn. 2007. Chatham House. *Oil for Asia*. Energy, Environment and Development Programme EEDP 07/01. March.

## IV. South Korean Foreign Policy Transformation

### 4.1. Foreign Policy Preceding Adjustment Process to the First Oil Crisis

An understanding of Korea's foreign policy requires a careful analysis of the critical issues that have influenced Korea's foreign economic policy developments since the 1950s.<sup>67</sup> At the same time it is essential to grasp the economic meaning of the policies but also international environment implications to the foreign policy.

South Korean foreign policy can be divided into two periods according to its characteristics due to the research period regarding to the economic development strategy change with her foreign policy step. First period is 1948-1960, foreign policy of "bandwagoning". In the 1960s, most international economic problems were treated routinely as secondary matters, not requiring high-level government attention.<sup>68</sup> Second, after 1965 is transforming period to pragmatic foreign policy regarding to South Korea's EOI strategy. Third period is developmental foreign policy period is after 1965. I chose the diplomatic normalization with Japan in 1965 is turning point of the beginning of pragmatic foreign policy regarding to South Korea's EOI strategy. In point of fact, EOI started from the early 1960s and there were certain foreign policy steps but not influential as the normalization.

#### Foreign Policy Period of Bandwagoning

Due to the existence of two rival regimes South Korea was inevitably drawn into Cold war and her foreign policy became influenced by the nature of the bipolar ideological struggles. South Korean bandwagoning was the successful adaptation of its foreign policy since it was born in 1948. Bandwagoning in foreign policy has not been unique to Korean foreign policy behavior, but it has, certainly, been the Korean style of foreign policy goes back to the Choson dynasty.<sup>69</sup>

From the beginning of South Korean independence, till the fourth republic of President Park Chung-hee period foreign policy tendencies exhibits small state foreign policy behaviors such as rely on superpowers for protection, partnerships, and resources, choose neutral positions, aim to cooperate and to avoid conflict with others, and spend disproportionate amount of foreign policy resources on ensuring physical and political security and survival.<sup>70</sup>

This foreign policy tendency is undoubtedly consolidated by its economic and political situation. It was crucial to prevent from the renewal of Communist aggression in Korea keeping America's concern for Korea's security more than economic interest. Since this period was the economically reconstruction and import substitution industrialization period. The Rhee regime foreign policy of ROK characterized by absolute anticommunism, dependent relationship to the United States, to a limited number of other nations in the

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<sup>67</sup> Eul Yong Park. 1985. *Foreign Economic Policies and Economic Development*. 104-36. Eds. Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 107-8

<sup>68</sup> Ibid 106-7

<sup>69</sup> Sung-Hack Kang. 1997. *The Korean Style of Foreign Policy: From Bandwagoning to Quo Vadis?*. 3-34 Yong Soo Yim and Ki-Jung Kim ed. *Korea in the Age of Globalization and Information*. Directions of Korea's Diplomacy and Broadcasting toward the 21<sup>st</sup> Century. The Korean Association of International Studies. 19

<sup>70</sup> Jeanne A.K. Hey. 2003. Ed. *Small States in World Politics: Explaining Foreign Policy Behavior*. Lynne Rienner Publishers. 5

western bloc, and to the United Nations. Basic to this policy was breaking all forms of diplomatic relations with any nation that recognized North Korea.<sup>71</sup>

#### Transformation Period 1960-1965

After the Rhee, the second republic proclaimed some certain changes to foreign policy. On April 19, 1960, Ho Chong<sup>72</sup> called for a gradual readjustment of Korean foreign policy. Comprehensive foreign policy statement was made by foreign Minister Chong Ir-hyong. The seven-point foreign policy goals outlined which are; in pursuance of the United Nations resolutions concerning the unification of Korea, concerted effort should be made to gain admission to the United Nations, strengthening of Korean-American relationship, normalization of Korean-Japanese relations, promotion of the unity of free nations, expansion of diplomatic activities toward nonaligned nations, encouragement of people's diplomacy.<sup>73</sup> The second republic's foreign policy was broader and expressed some of own priorities for political as well as economic interests than Rhee government. Even though, Chang's government could not implement these policies because of short time period but it still was opened the new priority to Korean foreign policy.

When President Park got into power, priority of the foreign policy was to set up diplomatic relations as many as possible to acknowledge new revolutionary government and to increase diplomatic prestige in the world. This was a period that South and North Korea were at the "competition" to set up diplomatic relation for the same reason. The Park government set up diplomatic relations 24 countries during the first year of government whereas previous regimes maintained ties with only 13 nations.<sup>74</sup>

Third republic foreign policy became broader and economic interest based than previous two republics. Foreign Minister Duk Shin Choi announced nine-point foreign policy program in 1962 to promote diplomacy with neutralist nations. Ministry intends to: 1. Solidify basic ties with friendly nations; 2. Promote diplomacy with neutralist nations; 3. Enhance national prestige through the United Nations and other international organizations; 4. Strengthen national security; 5. Promote international trade and economic cooperation; 6. Invigorate international information activities; 7. Expand cultural exchange programs; 8. Promote protection of Korean overseas and emigration; 9. Help diplomatic activities on the non-governmental level.<sup>75</sup>

Notable changes took place during this period subsequently adopting outward looking strategy. The strategy compelled the new government to pay high level attention to foreign policy coordinating with the economic plan and development strategy. For instance, premier Yo Chang Song called for positive diplomacy to support the five-year economic development

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<sup>71</sup> Youngnok Koo and Sung-Joo Han. 1985. *Historical Legacy*. 3-13. Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 6

<sup>72</sup> Ho Chong was headed the South Korean Government as acting President in 1960.

<sup>73</sup> Youngnok Koo and Sung-Joo Han. 1985. *Historical Legacy*. 3-13, Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 11

<sup>74</sup> Diplomatic Meet Opens: More Free World Ties Urged on ROK by Choi. The Korean Republic 1962.05.03 N236

<sup>75</sup> 9-Point policy: Government Extends Ties with Neutralists. The Korean Republic 1962.01.16 N132

program.<sup>76</sup> The Revolutionary government of Park was intending to make any representatives abroad more centralized and controlled by under the diplomatic missions.<sup>77</sup> Moreover, Park urged to strengthen economic diplomacy and gave a right to supervise other agencies and their personals.<sup>78</sup>

President Park's years was concern with the following four major foreign policy issue areas; further strengthening of the tie with its ally, the United State; exploring avenues for peaceful coexistence and unification between North and South Korea; making efforts for the establishment of communication channels with the Soviet Union and Communist China; and promoting relations to Third World countries.

From 1960s, South Korean government started to implement some economic interest oriented through foreign policy. This change was very much consolidated by the EOI. The diplomatic normalization with Japan in 1965 was brought the pragmatism and realism to foreign policy rather than political interest.<sup>79</sup>

U.S. security interests in Asia having changed in the late sixties and seventies from "containment" to "regional stability", international conditions in this region have shown some characteristics. In the significant foreign policy shift, South Korea also decided to seek to improve its relations with other communist countries that were hostile to the Republic of Korea.<sup>80</sup>

#### Foreign Policy of Developmental State Period

Paper argues that June Declaration was critical decision to shift developmental state foreign policy period. On June 23 in 1973, the late president Park Chung Hee declared a willingness to treat with any communist countries that were not hostile to the Republic of Korea. Important thing to attention is that the declaration came out before the oil crisis. It shows that South Korean EOI is already pushing the government to look for the new market and natural resources regarding external constraints merged by United States hegemonic decline.

Notable case of the period is South Korean successful overcoming of the oil crisis and penetration to the Middle Eastern market especially the case of Saudi Arabia.

#### **4.2. From "Even-handed policy" to "Pro-Arabia"**

The third republic of President Park introduced a new diplomatic era by June 23 Declaration. It put an end to the lopsided pro-Western diplomacy of the previous governments; instead, it attempted to establish diplomatic ties with the countries of its choice, free from the cold war constraints and ideological barriers.<sup>81</sup> The diplomatic focus of South

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<sup>76</sup> Premier visited the foreign Ministry. The Korean Republic. 1962.01.07 N125

<sup>77</sup> Flaws in Diplomacy. The Korean Republic. 1962.04.20

<sup>78</sup> Park Briefed on Diplomatic Expansion. The Korean Republic. 1962.01.10 N127

<sup>79</sup> Sung-Joo Han. 1985. *Policy Towards the United States*. 139-66. Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 150

<sup>80</sup> Young Hoon Kang. 1985. *Security Policy*. 51-68. Eds. Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 65

<sup>81</sup> Jae Kyu Park. 1985. *Korea and the Third World*. 217-61. Eds. Youngnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press. 220-23

Korea and Middle Eastern countries relation was part of this policy and it was specific that free from the ideological crusade of cold war and more pragmatic.

While this foreign policy transformation process, the first oil shock was big constraint to foreign policy and was turning point to shift pursue pragmatic foreign policy. Middle East is crucial to the supply of energy resources to the energy consuming countries, including Korea, to ensure their sustainable economic growth. Korea depends on the Middle East for more than 90 percent of its oil requirement. A sudden and chaotic disruption of the price of petroleum will severely damage the economy of Korea. For instance following table presents Korean oil imports by country.

Table5. Korean Oil Imports by Country<sup>82</sup>

Country	1972	1975	1977	1978
Saudi Arabia	38,867* (42.0)**	51,861(44.0)	83,895 (57.6)	95,841(57.6)
Kuwait	46,628 (50.4)	53,637(45.5)	49,658(32.1)	50,789(30.5)
Iran	2,824 (3.1)	882(0.7)	16,361(10.9)	12,912(7.8)
Neutral Zone	5,542 (6.0)	10,194(8.6)	912(0.5)	3,854(2.3)
Other countries***	720 (0.8)	1,221(1.2)	4,222(2.3)	3,136(1.8)

\*in thousand barrels \*\*in percentage \*\*\*Indonesia and other source

A sudden and chaotic disruption of the price of petroleum will severely damage the economy of Korea. Thus, the priority of policy option goes naturally to how to strengthen the interdependence and consolidate the cooperative relation between the East Asia and the Middle East. Thus, the priority of policy option goes naturally to how to strengthen the interdependence and consolidate the cooperative relation between the East Asia and the Middle East.<sup>83</sup>

Beside the Middle Eastern countries rich natural recourses, regarding these countries low degree of industrialization, Middle East is new markets for South Korean export goods which is crucial to industrialization. Until the first oil crisis, South Korea's trade with the Middle East countries was confined to small amounts of manufactured goods exports and oil imports. Before the 1973, Saudi and Korean relation was not attracted by two sides because of lack of political and economic interest.<sup>84</sup> The 1973 oil crisis and the ensuing development boom in Saudi Arabia reshaped the entire Saudi-Korean relationship.<sup>85</sup>

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<sup>82</sup> Korean Oil Development Corporation, Petroleum Related Research Materials (Seoul: KODC,1979)  
Chung In Moon. 1984. *Political Economy of Third Word Bilateralism: The Saudi Arabian-Korean Connection 1973-1983*. Ph.D. Dissertation. University of Maryland

<sup>83</sup> *Statement of His Excellency Ambassador Tae Ik Chung, Consul-General of the ROK in Egypt*. 6-10. Ed. Mohammad El-Sayed Selim. 1995. *The Arabs and the Koreans: Comparative Perspectives on New Issues*. Center for Asian Studies, Cairo University. 6

<sup>84</sup> In August 1961, the South Korean official delegation led by Ambassador Chichang Yoon stationed in Turkey paid its first visit to the Kingdom of Saudi Arabia and succeeded in obtaining the Saudi ruler's agreement to normalize diplomatic ties with South Korea. In 1962 a cultural delegation was dispatched to the Kingdom. Until

To reach to Third World countries and open their market was not easy task for South Korean government. There are following barriers were existing.

First is ideological crusade. The most difficult barrier was South Korea's Middle East diplomacy has suffered a great because of the Arab-Israeli conflict. During the formative years of its Middle East diplomacy, South Korea was friend of Israel since their establishment.<sup>86</sup> This put North Korea in an advantageous position to approach Arab countries.

Undoubtedly, South Korean ally to United States was still too closely identified with the United States. Saudis were somewhat reluctant to promote bilateral ties between the two countries because of the South Korean attitude on the Arab-Israeli conflict.<sup>87</sup> The ROK's dispatch of troops to Vietnam was particularly damaging. For Third World the Republic of Korea has been one of the most faithful anticommunist countries of the world. This ideological stand is something the Republic of Korea cannot possibly discard at that time. This has put the Republic of Korea in a decisively disadvantageous position in approaching the Third World, which has been hostile to the cold war system.<sup>88</sup>

The Third World also emphasizes ideological elements in the conduct of foreign policies although its emphasis is fundamentally different from the communist one. This ideological emphasis has had a great bearing on their individual foreign policies and has also been the basis on which they have taken a united stand on many international issues.

Second barrier was less economic and political interest. The East Asian region in general and Korea in particular were simply not of any political and economic importance to Saudi Arabia at that time. The Saudi pursuit of political relationship other Third World Countries beyond the Arab region was chiefly focused on the Muslim states in Africa, West Asia and South East Asia.<sup>89</sup> The Saudi lack of interest in Korea well revealed in the fact that throughout the 1960s the Saudi government sent only one delegation to Korea led by the Saudi Ambassador stationed in Tokyo in December 1965, who was in charge of Taiwan and Korea simultaneously.<sup>90</sup>

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the formal opening of a residential embassy in Jeddah in 1973, however, only seven official delegations visited Saudi Arabia. Except one case in which foreign minister led official delegation (Nov. 1966), other delegations were low weighted.

Chung In Moon. 1984. *Political Economy of Third World Bilateralism: The Saudi Arabian-Korean Connection 1973-1983*. Ph.D. Dissertation. University of Maryland. 124.

<sup>85</sup> Chung In Moon. 1986. Korean Contractors in Saudi Arabia: Their Rise and Fall. *Middle East Journal*, Vol. 40, No. 4 (Autumn), 614-633. 615

<sup>86</sup> Young Sam Ma. 2010. Israel's Role in the UN during the Korean War. *Israel Journal of Foreign Affairs* IV:3

<sup>87</sup> Chung In Moon. 1984. *Political Economy of Third World Bilateralism: The Saudi Arabian-Korean Connection 1973-1983*. Ph.D. Dissertation. University of Maryland. 125

<sup>88</sup> Jae Kyu Park. 1985. *Korea and the Third World*. 217-61. Eds. Youngnok Koo and Sung-ju Han. *The Foreign Policy of the ROK*. Columbia University Press. 221

<sup>89</sup> Ibid 125

<sup>90</sup> Ibid 126

To overcome these barriers, South Korean government needed to have more flexible and free from ideological crusade foreign policy effort. Beginning in the latter part of the 1960s, South Korea was trying to modify its pro-Israeli policies and attempted to improve its relations with Arab countries. The watershed of this policy change was when South Korea supported the November 1967 resolutions of the Security Council on the Middle East that called for protection of the sovereignty, political independence, territorial integrity, and peace of the region. This change did not visibly improve Middle East countries tendency to South Korea.

Not regarding step, before the crisis South Korean foreign policy not active and even handed regarding the Arab-Israel conflict. South Korean government has not pushed to make chose between Arab and Israel. The first oil embargo triggered the South Korea to make political decision about the conflict. After the embargo on 16<sup>th</sup> of October in 1973, South Korean government announced that supporting the position of the Arab countries in the current Middle Eastern situation on 15<sup>th</sup> of December in 1973.<sup>91</sup> After this statement, on 26<sup>th</sup> of December, Saudi Arabia and Kuwait had agreed to greatly ease restrictions on supply to South Korea, treating it as a friendly country. At that time, Saudi Arabia supplies 65 percent of South Korea's crude oil imports and Kuwait 25 percent through three American oil companies.<sup>92</sup> In total this statement brought and secured 90 percent of oil supply more importantly settled the political barrier with Arab states.

This decision was first urgent step taken by the government to damp the fire and further it was requiring active foreign policy role to develop this very new relation with Middle East. Following part discusses about South Korean developmental foreign policy role concerning the oil crisis and penetrating to new market.

## **V. Foreign Policy Role during the First Oil Crisis**

### **5.1. Political Advantage as Developmental State during the Crisis**

Free from pressure by different social interests and policy consistency is one of political character and could have been seen as of developmental state. Interest groups have traditionally been regarded as insignificant actors in Korea. There was little room for interest groups to exert any influence over security policy making due to Cold War.<sup>93</sup>

Especially, foreign policy decision making is protected from the interest groups of the domestic policy. During the authoritarian era, security matters and decision-making were regarded to be the prerogative of the President, and the government often used security threats from the North as an excuse to justify its dictatorial rule. Active interest group politics was virtually inconceivable: only anti-Communist campaigns by pro-government pseudo-

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<sup>91</sup>Korea's new position was an overt recognition of the UN Resolution 242 epitomized in the following statements: 1) The Arab-Israel conflict must be resolved on peaceful and equitable terms. 2) Conflict settlement must involve the withdrawal of Israel from the Arab territories the Jewish state occupied during the June 1967 War. 3) The national rights of the Palestine people must be recognized in any Arab-Israeli settlement. 4) Korea supports the sovereignty, independence, existence, and territorial integrity of all the countries of the Middle East. Dong Ah Il Bo Dec. 12, 1973

<sup>92</sup> Seoul Reports: Easing of Arab's Curbs on Oil. *New York Times*. December 27, 1973

<sup>93</sup> Lim Seong-Ho. 2000. Interest Group Politics on Korean Foreign Policy Issues: Changes and Continuity. *New Asia*, Vol. 7, No. 4 (Winter). 79-83

voluntary organizations were occasionally staged, and other interest groups did not dare to conduct organized activities to press the government for certain goals with regards to North Korea.<sup>94</sup> There are critics that why United States could not react to the oil crisis quickly. There was as much disarray in the United States. A consistent policy was made impossible by the multitude of interests at work: oil independents and majors; coal operators and miners; nuclear power interests; transport; consumers; environmentalists; military and political lobbies; and so on.<sup>95</sup> Quite simply, the handful of votes from expatriate oilmen in Dhahran or Teheran was infinitesimal compared with those at the command of the Zionist lobby in the United States.<sup>96</sup>

Contrary in South Korea relating to oil crisis there was less interest conflict and lobby influence to struggle with government decision to support Arab states.

And the development ideology was very high since it related to the legitimacy of Park regime. For instance, in 1972, President Park emphasized "The only way for our survival is exporting" and pushing officials and private companies to increase export.

This political advantage of developmental state influenced to South Korean foreign policy decision during the oil crisis such as being pragmatic to achieve development, and urgent measure could have been taken because of speed and flexibility.

Another reason to have more pragmatic decision was consolidated by the South Korean energy dependency. Relative abundance of indigenous sources of energy and constrained by the strategic position of its Israeli ally. The United States adopted a hard line towards OPEC producer states.<sup>97</sup> Politically, South Korean developmental state did not have to precede political hard line as United State did. South Korea first had to consider its energy dependency on Middle East and development strategy to accomplish economic plan. In addition, it was definitely influenced by American oil companies' hegemonic decline at the region that pushed South Korea since she was depending on American oil companies for the supply. Thus, these conditions consolidated to have pragmatic foreign policy during the oil crisis even it was countering to interest of United States.

## **5.2. Centralized Decision Making during the Oil Crisis**

South Korean government was strong and was able to make decision in short time. After the May 1961 military coup d'état, almost all the foreign policy decision was concentrated and made by the president Park Chung Hee. Foreign policy decision making principal actors were almost inactive. Such as Ministry of Foreign Affairs originated the routine of foreign

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<sup>94</sup> Ibid 92

<sup>95</sup> Charles Issawi. 1979. The 1973 Oil Crisis and After. *Journal of Post Keynesian Economics*, Vol. 1, No.2 (Winter, 1978-1979), 14

<sup>96</sup> Louis Turner. 1976. The Oil Majors in World Politics. *International Affairs*. Royal Institute of International Affairs 1944-, Vol. 52, No.3. 375

<sup>97</sup> Peter J. Katzenstein. 1997. Conclusion: Domestic Structures and strategies of Foreign Economic Policy. *International Organization*, Vol. 31, No. 4, Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States, 879-920, Autumn, 879

policy but decision was made by National Security Council, and president acted as chairman of council and president decided all important policies as a presidential government.<sup>98</sup>

Responding to the withdrawal of one US Army stationed in Korea according to Nixon Doctrine and oil crisis in 1973, President Park, firstly, urged to promote heavy industry as a base for self-defense, so in 1973, the president created the Heavy Industry Promotion Committee. In addition, the president commanded the establishment of the Committee for Long-term Measures for Resources, which had provided advisory sources for long-term resource policy, resource utilization, and resource exploitation. During the Park regime, the president himself chaired various meetings. For example, the president chaired most of the monthly meetings of the trade promotion Committee. The main agenda for the meeting was the trade promotion strategies, trade goal, and trade trend analysis as well as the trade barriers. The president's strong drive for export-oriented policy and trade expansion encouraged collaborations among ministries and between public and private sectors.<sup>99</sup>

### **5.3. Foreign Policy Embeddedness in Economic Planning**

The Economic Planning Board (EPB) has played a central role in preparing and implementing Korea's various economic plans and policies ever since 1961. The minister of the EPB was given the concurrent title of Deputy Prime Minister and authorized to control, coordinate, and adjudicate among other ministries on economic matters. The DPM presides over the fortnightly Economic Ministers' Meeting attended by eleven economic ministries and the Minister of Foreign Affairs. The EPB clearly has had strong support from the President, encouraged participation of important decision makers in the preparation and implementation of economic plans, and was able to control and coordinate the decisions of various economic ministries through its control of the national budget.<sup>100</sup>

Park Jung Hee regime employed the most qualified technocrats in the EPB, who are equipped with expertise and authority in the field. They were charge of planning and executing economic development as well as coordinating and controlling the overall economic policy. They were completely protected from external pressure from politics and various interest groups by the government. The EPB's authority rights with regards to economic policy made possible the efficient work that precede the economic development policy.<sup>101</sup>

### **5.4. Foreign Policy Back-up at International Level**

Another measure to overcome oil crisis was to deal with Middle Eastern countries was state owned companies. In Japan and South Korea, national oil companies were created after the oil shocks of the 1970s. In South Korea, the Korea National Oil Corporation is a simple model of a state company devoted entirely to managing the country's strategic petroleum

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<sup>98</sup> See more on Younnok Koo. 1985. *Foreign Policy Decision Making*. 15-47, Eds. Younnok Koo and Sung-ju Han. *The Foreign policy of the ROK*. Columbia University Press.

<sup>99</sup> Yoo Soo Hong. 2010. *Private-public Alliances for Export Development: the Korean Case*. *Comercio Internacional*. Division of International Trade and Integration. Santiago. United Nations Publications. 25

<sup>100</sup> Yoo Soo Hong. 2010. *Private-public Alliances for Export Development: the Korean Case*. *Comercio Internacional*. Division of International Trade and Integration. Santiago. United Nations Publications. 37-40

<sup>101</sup> Ibid 24

reserve, without competition from other South Korean companies in either the oil or financial markets.<sup>102</sup> To penetrate to the Middle Eastern market South Korean government paid high attention to all the companies not only the KNOC.

There could be found numbers of measures such bank guarantee, tax grant, and Fund for the Promotion of Overseas Collaboration to support national companies to compete in Saudi Arabia market. Saudi Arabia's high public sector concentration posed an immediate barrier to the Korean firms. They lacked not only entrepreneurial connections, but also macro-political and strategic back-up.<sup>103</sup> For instance, in January 1976, Korean government established a separate financial fund exclusively to support overseas construction with a government contribution of 20 billion won and the Korean Export-Import Bank's contribution of 100 million won (total US\$ 400 million).<sup>104</sup>

## VI. Conclusion

No nation's foreign policy is ever fully stable in the changing international environment. It is not surprising to do foreign policy shift one to another. Nevertheless, this paper emphasizes the South Korean foreign policy decision to support Arabian states position with following reasons; first, it was wholly suppressed situation under bipolar system, second, this policy can be considered as successful foreign policy role to support late-industrialization, and third, this could be also good suggestion to late-industrializing countries those are implementing export-oriented industrialization as development strategy. In overall, South Korean export oriented industrialization is supported by the foreign policy of the country that consolidated with the character of the state model.

Certainly the economic interdependence is growing among countries in the world. The role of government is increasing in managing economies especially since the first oil shock state foreign policy increasingly dominated by economic policy issues.

Thus, if external factors are crucial to late industrializers there is a need to acknowledge that the foreign policy role in domestic market while dealing with international constraint. It will not give the full picture of economic development focusing on only domestic economic policy especially like county South Korea when she deeply dependent on externality. From the South Korean case, following suggestions are possible to reconsider especially for the late-comers.

First, the declining leadership role of the United States in the world economy when there is no new leader emerging – suggest that the politicization of international economic issues. Foreign policy will be the main vehicle by which states to ensure their interest to the international constraints. The case shows that focused, pragmatic, and flexible diplomacy can produce remarkable results, especially when vital economic or security interests are involved.

Second, centralized decision making with economic planning board should have consolidated with foreign policy. To secure the collaboration between ministries using the

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<sup>102</sup> John Mitchel and Glada Lahn. 2007. Chatham House. *Oil for Asia*. Energy, Environment and Development Programme EEDP 07/01. March.

<sup>103</sup> Chung In Moon. 1986. Korean Contractors in Saudi Arabia: Their Rise and Fall. *Middle East Journal*, Vol. 40, No. 4 (Autumn), 614-633. 617

<sup>104</sup> Chung In Moon. 1984. *Political Economy of Third World Bilateralism: The Saudi Arabian-Korean Connection 1973-1983*. Ph.D. Dissertation. University of Maryland. 276

deputy prime minister position with full right to manage development policy works more effectively since international environment is changing rapidly that insist national governments to respond it as fast as possible to compete with other states.

Third, continues foreign policy support is required to any national companies to compete at international market since it became more politicized and requires stable government policy.

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