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The Politics of Economic Cooperation: Country Ownership and Aid Negotiations of Developmental South Korea

Yumi Horikane

Abstract

The role of the state in development is accepted today as essential, and the models of the developmental state draw the attention of many. The models were already relatively well established in the previous decade, but they are mostly concerned with domestic politics, and do little to explain how these states managed foreign aid so that it was effectively used. This paper explores this issue by looking at the Japanese economic cooperation to South Korea.

The argument is, first, the negotiations were indeed political on both sides, taking into account various issues and considerations including domestic ones. Then, second, in such negotiations, Korean policy makers' strong sense of ownership over their proposed projects and programs was the key that enabled them to effectively manage the aid negotiations and obtain Japanese cooperation as necessary.

Keywords: Economic cooperation, Developmental state, Country ownership, South Korea, Official Development Assistance (ODA)

Introduction

Recent international discussions on development have seen a renewed interest in the developmental state. Once being controversial, when this concept came into being, the role of the state in development
has now come to be recognized as central and essential (World Bank 1997), and many scholars and practitioners these days are talking about how to make an effective state, or to make states developmental (for instance, Grindle 2004; Fritz and Menocal 2006).

There are already widely accepted models of the developmental state after the experience of some East Asian countries as compared with those in Latin America or in Africa. Such models usually emphasize the importance and centrality of the state in managing the economy, and try to elaborate the institutions and the politics or political economy where the state elite—most typically, the political leadership and the relevant bureaucratic elites—maintained their autonomy (Haggard 1990) or embedded autonomy (Evans 1992, 1995) from society, by which they could formulate and implement due policies without being disturbed by irrational domestic politics.

However, these concepts of autonomy, insulation and embedded autonomy do not solve the problem of external funding and technology. Almost by definition, developing countries lack capital and technology, which are in fact essential for the accelerated transformation of economy and society. These come from abroad, and yet the potential providers of these resources are usually too mighty for the elites in developing countries to influence, or even to effectively negotiate with. Even the domestically highly effective leadership of a developmental state should not be an exception.

Accordingly, how a developing country could manage this problem is the concern of this paper. More precisely, taking the case of Japan’s economic cooperation to one of the most successful developmental states in East Asia, the Republic of Korea (ROK, or South Korea), it explores how a small developmental state effectively negotiated with the powerful donors in obtaining necessary funding and technology. As will be shown below, Japan was one of the two most important external sources of funding and technology for the developmental Korea, the other being the United States, while the magnitude of the latter almost constantly declined with time during the Korean Miracle
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days.

After a brief overview of the trajectory of economic growth and aid in the country, the paper will examine the political economy of Japan’s economic cooperation to South Korea by looking at the position, concerns and interests of each country in the international political economy of the time as well as the domestic politics in respective countries. Then, the paper will take a glance at the institutional framework for the bilateral negotiations between the two countries, and, on the basis of all these, finally will explore how South Korea managed, or failed, the negotiations and won at least part of the cooperation it needed for its goal of development.

THE KOREAN MIRACLE AND ECONOMIC COOPERATION TO SOUTH KOREA

South Korea is one of the most celebrated cases of what-was-called the East Asian Miracle. The miracle has its origins in 1961, when Park Chung Hee came in power through a military coup. Only within a generation since then, the South Koreans transformed their impoverished resource-poor agrarian society into a fully-developed industrial democracy. Its per capita GNP was only 239 US dollars in 1962 (EPB 1982), when the country embarked on its First Five-Year Economic Development Plan under the new regime, but it steadily and yet rapidly increased to 10,590 dollars in 1996 (OECD 2000), when Korea was admitted into the OECD, the rich-nations club.

In this drastic transition, South Korea’s adverse international position as a divided nation and front line country in the Cold War in fact secured the country a huge amount of foreign aid from western powers, particularly from the United States. With the increasing tension in Indochina in the late 1960s, however, it was gradually replaced by the superpower’s emerging ally in Far East, Japan.

Official resource flows to Korea in the early 1960s were almost exclusively from the US. From the mid-1960s, when Japan normalized
its relations with South Korea, however, the share of Japan increased and Japan replaced the US as the major donor to the country in the first half of the 1970s, while the finance from multilateral institutions, most notably the World Bank, grew larger after the mid-1970s. When more concessional aid money is concerned, the Japanese Official Development Assistance (ODA) almost constantly accounted for more than 30 per cent of Korea's total ODA receipt throughout the 1970s, with an increasing tendency from the late 1970s into the 1980s. The US share, on the contrary, constantly decreased from over 60 per cent in 1970 to nearly 20 per cent in 1980, and only to one digit figures in the following years. When private flows are also included, the total financial flow of resources from Japan most often surpassed that from the US, accounting for nearly around 40 per cent of all (OECD 1966–1993).

This means that Japan was at least one of the most, and probably the single most, important sources of external finance for developmental Korea during its high growth period. Particularly in the 1970s, when Korea embarked on its controversial heavy and chemical industrialization program², Japan's cooperation both in terms of finance and technology played a critical role, at least as a catalyst. Bilateral relations between Japan and Korea, however, were not very good or stable—sometimes very antagonistic, and usually at least very sensitive, and thus volatile. For Japan, economic cooperation to South Korea was politically quite sensitive due to various reasons including the history and the relations with the North. Despite all the difficulties, however, sometimes thorough extremely tough negotiations, South Koreans won the help of Japanese assistance to many projects, by which they could strongly propel the upgrading of its industrial structure. Existing possibilities were sought for as much as possible so that the limited resources were effectively, if not efficiently as some argue, mobilized, and then utilized.

How this became possible is in order.
BACKGROUND: THE INTERNATIONAL ENVIRONMENT

The United States was the single most important ally for both Japan and South Korea. For most of the postwar period in the twentieth century, however, the alliance relationship among these three countries was quite deformed at least in two ways. First, while it could be called as the US-Japan-ROK alliance, the Japan-ROK part of this triangular relationship, in fact, was almost missing. Even with the other two clearly existing relationships, secondly, these relationships were not those between equal partners but almost unilateral particularly in terms of security. Both of Japan and South Korea were significantly dependent on the US forces in terms of defense, while they could offer very little to the US in return. In addition, at least at the initial stages of the postwar development, both countries were heavily dependent on the US economic assistance as well, and then, later, their export-oriented economies relied much on the US market for their products. Washington was quite generous to these two East Asian allies in the Cold War international political economy.

In time, however, the 1960s has witnessed the so-called Japanese Miracle on one hand, and the increasing US difficulties in Vietnam and the accompanying severe fiscal burden on the federal treasury. As a result, the United States under Richard Nixon started partially to retreat from Asia at the turn of the new decade, demanding some burden sharing to the countries in the region.

Considering the importance of the US role in the region in the 1950s and 1960s, it is natural to assume such a new foreign policy of the US, later to be called the Guam Doctrine, or the Nixon Doctrine, would pose a great security threat to the whole region. It was indeed understood to be a great threat in South Korea, raising serious concerns and uncertainties. To Japan, however, it was, probably, rather an opportunity to pursue its independent foreign policy than to continue its dependence on the US, while still remaining under the US nuclear umbrella.
Therefore, burden sharing in terms of economic cooperation was understood to be inevitable and even rather welcomed, and in fact, as argued by some scholars such as Calder (1988), the US demands and pressures were sometimes used by policy makers in Tokyo to mitigate political opposition. Only concerns for the Japanese leaders and the business community regarding economic cooperation to Asia were the possibilities of future competition with those countries which Japan would be assisting. The negotiations on Japan’s cooperation with Korea’s heavy and chemical industry were a case in point. The Japanese side in fact declined to extend cooperation to some of the Korean priority sectors such as ship-building due to the consideration over competitiveness in the world market (EPB 1971).

Another big change in East Asian international politics since the end of the 1960s into the 1970s also posed a threat to Korea yet another opportunity to Japan. The People’s Republic of China, which was already a heavy-weight in the international community since the mid-1950s as one of the leaders of the non-alliance nations, was admitted to the United Nations in 1969, replacing the Republic of China (Taiwan), and sat as a permanent member of the Security Council. The impact of the ascendance of China in the world was further amplified by the power politics in the 1970s. The US amazed the world by announcing in 1971 that it started normalization negotiations with China, and the President Nixon would visit Beijing next year. China at that time had frictions with the Soviet Union. Certain ties between Beijing and Washington were understood by both of the countries as gaining some leverage over Moscow. This really shocked the world at first, but it shortly came to be welcomed by Japan, and also by many other Western countries. Japan’s policy to China in the 1960s had been realistic; it had kept substantial commercial relations without diplomatic ties. With the deepening US involvement in Vietnam, which adversely affected Japan’s relations with China, however, Japan needed to be cautious about furthering the relations with China. Japan, aiming for the return of Okinawa, the islands territory which had been occupied by the U.S.
since the end of World War II, on some favorable conditions, needed to keep good relations with the US. In order to settle and finally terminate its postwar arrangements, the Sato government was determined to realize the return of the islands with full recovery of Japan's sovereignty over all the territory. The main issue at stake was the status of the U.S bases, which was critical in the US strategy in Asia and the Pacific. Easy compromise was not possible for either side. Therefore, this unexpected change of U.S. policy to China was understood to be a sign long awaited for by Japan. Japan followed suit, establishing diplomatic relations with China only within seven months after Nixon's visit to China.

The situation was not that simple for Korea. This change increased uncertainties for Korea to an unprecedented level. In the Korean War two decades earlier, the US supported the South while China stood for the North. South Korean leaders were devastated, and felt that they could no more depend on the US, or any other big powers who would easily sacrifice the interests of their small allies. The Okinawa issue, which was principally only bilateral issue between Japan and the US, also raised a serious concern in Seoul because full recovery of the Japanese sovereignty over the islands would lay restraint on the US usage of the bases there. The US forces in Okinawa were considered to be critical for security on the peninsula.

Thus the international politics of détente alienated South Korea so that they became determined to pursue the path for self-reliance, while it encouraged Japan, the second largest economy in the western bloc, to take more independent foreign policy.

THE POSTWAR JAPANESE POLITICS AND DIPLOMACY

The postwar Japan's diplomacy started in April 1952, when the San Francisco Peace Treaty came into effect. In the first issue of its Blue Book of Diplomacy published in September 1957, the Ministry of Foreign Affairs (MOFA) declared the three principles of Japan's foreign policy,
which are: 1) the UN-centrism, 2) coordination and harmony with the liberal countries in the western bloc, and 3) the identity as an Asian nation (MOFA 1957). However, it is usually understood that these principles were only *diplomatic*, or even cosmetic (Iokibe 1999), and the real policy was known as the Yoshida Doctrine, which is also summarized into three main points, namely, 1) the supremacy of Japan-US relations, 2) coordination and harmony with other western nations only within the framework of the 1) above, and 3) importance of economic matters (with less consideration on security, which was assured by the US under the Japan-US Security Treaty).

This policy was basically successful, at least in the first few decades. In the Cold War international political economy, as mentioned above, Japan's special alliance with the US gave the country the favorable environment where it could, first, save substantial money otherwise to be spent for defense, and second, obtain the opportunity to concentrate on economic recovery and development with the almost secured market first in the US, then in Southeast Asia.

Japan enjoyed its miraculous high growth from the early 1960s to the mid-1970s, and became the second largest economy only next to the US as early as in 1967. Its economic cooperation program started in 1954, when Japan participated in the Colombo Plan and initiated technical cooperation to Southeast Asian countries. However, it was very small, almost minimal in scale, and more substantial part of its initial ODA program took in fact in the form of postwar reparation payment.

Reparation payment was a heavy burden for Japan, though the amount had already been substantially reduced in the Cold War international political economy. Nevertheless, Japanese leaders soon accommodated themselves to the situation and tried to utilize the payment somehow in a way beneficial to Japan by establishing friendly ties with the recipient countries. The Ministry of International Trade and Industry (MITI) explicitly tried to connect this to export promotion and securing natural resources (MITI 1961). Starting in 1955 to Burma, Japan paid postwar reparations and semi-reparations to twelve
countries in Asia and the Pacific including South Korea. The total payments over 22 years amounted to more than 525 billion yen (1.5 billion US dollars), completing in 1976 (MOFA 1977). In fact, as was envisaged by the MITI, it would be proper to say that the reparation payments and related economic cooperation made substantial contribution not only to the recipients but also to Japan by facilitating its economic relations with Asian countries without raising local political concerns, which might otherwise be rather difficult. Reparation payments were categorized as ODA, and accounted for more than a half of the total ODA in 1960 and 1961, and more than 40 per cent in the following two years (MITI 1975).

On the other hand, as was expressed in the Yoshida Doctrine, Japan was reluctant to play a political role in the international community. Particularly in the field of security, due to its historical past, what-is-called peace constitution and the Japan-US Security Treaty, Japan was heavily dependent on the US even for its own national defense. While it gradually built up substantial military capability of its own, its possible contribution to the regional/world security was narrowly limited only to the provision of the bases to the US military forces until quite recently.

Toward the end of the 1960s, however, with the increasing economic power and influence of Japan in the world, the US started to demand some burden sharing to Japan in the region. The situation in Vietnam was turning against the US. Domestically, the fiscal burden of waging war bore heavily on the federal budget, and the anti-war popular movement was raising voice. The US could no longer bear all the responsibilities for security in East Asia and the Pacific. Some of them needed to be transferred to the newly emerging power in the region. There seemed to be ample rationale both geopolitically, economically as well as historically for Japan to take this role on the neighboring peninsula.

On the domestic front in Tokyo, policy toward Korea often involved sensitive issues because there were both pro-North and pro-
South wings in the mainstreams of Japanese politics. This could make economic relations with Korea very political in Japan. Because of the colonial history, some influential leaders in the ruling Liberal Democratic Party (LDP) and the business community maintained personal ties with South Korean elites. They formed associations such as Japan-Korea Economic Association that played important roles in Japan-Korea economic cooperation after the normalization of relations. On the other hand, there were pro-North leaders as well not only in Japan Socialist Party (JSP), the strongest opposition in the so-called 1955-system, but also in the LDP due to the existence of large Korean communities in their constituencies. With the backing of these politicians, General Association of Korean Residents in Japan could work as an effective pressure group as necessary in the Japanese politics. In addition, not only the North-related political activities, but sometimes anti-government political activists against the authoritarian leadership in the South also chose Japan or the United States as their arena of activities due to the strong repression within their own country against them. They tried to use public opinion of these democracies as the pressure against their own government.

It is often agreed that foreign policy does not have vocal domestic constituency in Japan. Issues of economic cooperation, in particular, are usually understood to fall in the administrative domain. The Diet rarely took up these issues, and thus they were almost exclusively dealt with within the bureaucracy. Literature on Japanese economic assistance usually argues decision-making power rests within the bureaucracy, particularly among four relevant ministerial agencies: the Ministry of Finance (MOF), MOFA, MITI, and the Economic Planning Agency. However, Korea was exception. The above-mentioned situation often made Japanese foreign policy toward the Korean peninsula politically sensitive and controversial.
THE POLITIC OF DEVELOPMENTAL SOUTH KOREA

South Korea under Park was one of the most typical developmental regimes in East Asia which tried to establish their legitimacy though attaining developmental goals. The young military generals who led the coup in 1961 had a firm commitment of rescuing their people from absolute poverty and making the county developed. After two-and-a-half years as head of the interim government, Park, who had already retired from the military service, was elected as president in late 1963 and stayed in office until October 1979, when he was assassinated by the head of intelligence. During his rule, which became more and more authoritarian particularly in the 1970s, the country achieved the Korean Miracle, the sustained high economic growth.  

In order to keep the commitment and make the nation wealthier, the state institutions and the political economy there were overhauled and adjusted to be effective for development as argued elsewhere in the literature (for instance, Amsden 1989; Haggard 1990; Evans 1995; Woo-Cumings 1999; Kohli 2004). The state and politics mattered. Besides, however, the necessity for capital was unquestioned. Extensive poverty meant very little domestic savings. It had no natural resource or agricultural product to earn foreign exchange. In a Cold War front line country with the experience of real war which was only suspended without a peace treaty ten years earlier, nobody outside the country was willing to invest. As a result, South Korea had been supported by huge US economic assistance since the end of the Korean War, but the US aid was decreasing in the mid-1960s, and grant was expected to be terminated in some years. Korea desperately needed other sources of capital—foreign capital, in particular. West Germany, also a divided nation under the Cold War system, offered some assistance, yet it was not enough to realize the commitment to promote development and alleviate poverty.  

It was such a situation that drove Park and his government for the
early settlement of the controversial normalization with Japan.

The Korean peninsula was ruled by the Japanese for 35 years until the end of World War II, when Japan abandoned all the newly acquired territories in the previous decades after the Meiji Restoration. Urged by the US, normalization talks started as early as in 1951 when Japan was still under the US occupation. However, the negotiations did not proceed smoothly due to the deep discrepancy of the recognitions both sides held over the past. The Korean side demanded enormous compensation for the colonial rule they suffered from, while the Japanese responded with too little, sometimes even claiming that Korean people had to thank Japan since colonization somewhat promoted modernization of the peninsula. Such a claim naturally antagonized the Korean national feeling against Japan and further complicated the negotiations. Reaching compromise seemed to be extremely difficult. It was clear to the new Korean leaders, however, that normalization would surely bring them a substantial amount of foreign exchange as economic cooperation\(^6\). Park decided to go for it, and sought for an early conclusion, namely, through considerable compromise in terms of the amount they claimed. The opposition party and the people were furious, calling this deal as the national shame. The government needed finally to suppress the angry demonstrations by force, which was politically costly, yet in the end it secured three hundred million dollars in grant, two hundred million dollars in yen loan, and another more-than-two-hundred million as private loans to be provided by installments over ten years, which indeed was enormous for Korea at that time. Normalization also opened the way to the possibilities for further economic cooperation and technical assistance, both of which were critical for further industrialization and development.

With the concerted effort by the government and the people for development, the targets of the First Five-Year Economic Development Plan (1962–66) were successfully attained\(^7\) and some basic infrastructures such as power and transportation were established as well as some basic industries, and export was promoted to earn foreign
exchange (EPB 1982). On the basis of these achievements, the major goals for the Second Plan period (1967-1971) included laying the foundation for upgrading the industrial structure. Establishment of an integrated steel mill was designated as a priority along with petrochemical and machinery plants (Republic of Korea 1966). Foreign capital and advanced technology were indispensable for these projects, yet these were not available domestically. The government needed to obtain these from abroad. Yet again, obtaining these from abroad was not easy, either. Almost all the countries and institutions Koreans asked for cooperation rejected such project unilaterally claiming that they were simply not feasible, too early and ambitious for Korea.

When Koreans were trying hard to upgrade their industrial structure and attain these new targets in the latter half of the 1960s, the external environment started to deteriorate, raising uncertainties and concerns for them. The US was trapped in its deepening involvement in Indochina, while in Korea, infiltration incidents by North Korean commandos were often reported. Allegedly, the Labor Party Conference of the North had decided to advance a policy of unification by force. Park and his government started to feel that security of the county was now gravely threatened. They had been totally dependent on the US for their fragile security after the Korean War. However, the US security commitment to Korea was seemingly becoming dubious. President Nixon released the Nixon Doctrine in 1969, declaring that the US ground forces would not be involved anymore in any regional conflicts. In 1971, the US unilaterally withdrew one-third of its troops from South Korea, and Nixon visited Beijing in the following year to mark the beginning of the US-China normalization talks. The sense of emergency was paramount. Establishing self-defense emerged as an urgent priority for the Koreans, but it was not easy, either.

South Korea then did not have any military industry. Even a single rifle could not be produced domestically. Establishing self-defense absolutely needed a military industry, which in turn required a strong heavy industrial base. Accordingly, heavy and chemical industry came
to be necessary not only for realizing more sophisticated industrial structure, or even merely for prestige, but for the very vulnerable national security. It was understood to be the issue of national survival, while the 1970s is usually regarded as the era of détente in international politics.

Under such emergency atmosphere, the political regime developed to be more authoritarian and repressive with a notorious new constitution in 1972. This authoritarian developmental regime strongly propelled heavy and chemical industrialization both for growth, export, and security, eventually achieving hyper economic growth and the transfer of industrial/export structure to the one based upon rather sophisticated heavy and chemical industry almost only in one decade. For this, one of the critical factors was obtaining capital and technology from abroad, and the largest source for both was Japan.

After the assassination of Park in 1979, the succeeding regime led by another retired general Chun Doo Hwan took the similar way. Under the renewed Cold-War tensions in the 1980s, both Japan and the US strongly supported this regime, and thus Chun could firmly establish the basis for the successor, Roh Tae Woo, also a retired general, to make the nation as a modern, industrial democracy.

THE NEGOTIATIONS FOR FUNDING AND TECHNOLOGY

Park Chung Hee and his government needed to manage the above-explained complex environment and attain their goals of development and self-reliance by securing foreign funding and technology. For Koreans, like for others in the developing world, however, potential donors of these were much more powerful than themselves in every respect. Negotiating for external assistance as they wish was not easy at all, and yet attracting private foreign direct investment was also difficult for a Cold-War front line country.

Under such circumstances, as explained above, normalization with Japan assured the availability of substantial external funding.
million dollars in grant and 200 million in loan in addition to over 200 million of private credit were agreed to be provided over ten years in yearly installments starting from the end of 1965. In order to implement this smoothly based upon the Japan-ROK Economic Cooperation Agreement signed in 1965, Korea prepared necessary legislation regarding the usage and management of the fund. The basic principle was that the grant was mainly used in order to increase rural income, while the loan component was for raising the national standard of living through promoting balanced growth of industries (EPB 1982). Under this principle, the Korean side was to prepare a draft annual plan of the usage to be discussed at a joint committee meeting between Japan and Korea, which would finally have to be approved by the respective government (MITI 1969).

In addition to this earmarked money for ten years, additional economic cooperation was sought for from Japan both to supplement the decreasing US aid and to further propel the country's development programs and projects particularly for agricultural and industrial development under the Five-Year Economic Development Plans. Negotiations for these economic cooperation matters were deployed at the annual ministerial conference instituted by the agreement between Prime Ministers Sato of Japan and Cho of Korea in 1967 'as the basis for Japan-Korea cooperation' (Ko 1974). This meeting, made up of ministers—politicians—starting in August 1967, played an important role in deciding the overall picture of cooperation with substantial details. Though lengthy detailed negotiations and elaborate technical preparations by bureaucrats/technocrats on both sides preceded this annual ministerial meeting, through which the negotiations actually continued almost throughout the year, final decisions were made by the ministers at the conference of a few days a year. The nature of sometimes very intensive discussions and negotiations were indeed very political, often involving various other issues in consideration and bargaining.

Besides this official conference, there were also significant channels of mutual understanding and cooperation in the private sector, which in
fact had strong ties with the politico-bureaucratic world. The Korea-Japan Private Sector Joint Committee was established in 1968 to promote joint venture business, followed by the creation of the Korea-Japan Cooperation Committee in the next year. The latter had sub-committees for politics, economy, and culture respectively, and two former prime ministers assumed the positions of the first presidents on both sides. It dealt with wide-ranging issues over years, and worked as an important juncture between the nations by connecting public and private elites in both societies (Ko 1974; Lee 1985). It was an international version of government-private sector cooperation and coordination, which is usually supposed to be a feature of the East Asian developmental state.

Notwithstanding these deepening ties and institutionalization between the elites since the late 1960s, when Korea had already got onto the track of its high economic growth, various political uncertainties and disturbances emerged one after another so that the bilateral relations did not develop smoothly. For instance, the Okinawa issue raised concerns and suspicion among Koreans against Japan, while détente for Japan was understood to be an opportunity, in general, to pursue its independent foreign policy, and Japan tried to balance its policy toward the South and the North. Japan also approached China immediately following the US, completely changing the power configuration in the region. All of these Japanese behaviors looked hostile to South Korea. The situation was further aggravated by the Korean authoritarian domestic politics and the South-North problem: most notably the Kim Dae Jung incident in 1973 and the attempted assassination of the president in 1974. The bilateral relationship became so tense to the extent that many observers anticipated rupture of diplomatic relations in late 1974. The above-mentioned annual ministerial conference was delayed in 1973, and even cancelled in 1974. It was under such a tightening situation that Korea embarked on its heavy and chemical industrialization for which it required huge amount of foreign capital and technology. Even with the sensitive relations, Japan was practically the largest
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possibility. The negotiations for finance and technology had to be pursued to the swing of the pendulum between cooperation and confrontation.

The first prime example reflecting the nature of such negotiations was POSCO (Pohang Iron and Steel Co. Ltd.), an integrated steel mill project. Establishing an integrated steel mill was designated as one of the two priorities under the Second Five-Year Plan. After more than two years of preparation by an international consortium established for the Korean steel mill, however, all the agencies the Korean government initially contacted for assistance rejected the request in 1969 on the ground that such a project was simply too ambitious and economically not feasible in Korea (Park 1988; Kim 1990). The only remaining possibility was with Japan, which had already earmarked huge amount of economic cooperation fund for Korea under the Normalization Treaty.

A preliminary approach to Japan for cooperation was made at the second ministerial conference in 1968, to which Japan's Minister for International Trade and Industry responded negatively, saying that the proposed project was irrational since such a small-scale steel mill could not gain competitiveness in the world market. This meant that in order to persuade Japan, the scale problem needed to be cleared so that the proposed plant would come to be expected to attain the minimum efficiency level in scale. The Korean side responded accordingly, redesigning the overall plan so that it could realize scale economy, and submitted the formal request for cooperation with the renewed plan to Japan two weeks before the third ministerial conference in 1969. In addition to making a formal request to the MOFA, the Korean side offered detailed explanations of the projects at the working level of the relevant ministries in Japan, and also submitted a request of technical assistance to the Japan Iron and Steel Federation. The President of POSCO also visited Japan and made a request for cooperation to the Cabinet Vice-Minister.

It was only one month after Nixon announced his Guam Doctrine. The Japan-US negotiations for the return of Okinawa, to be formally
concluded in November of the year at the summit meeting, were at the final working stage, and the Korean government had repeatedly expressed grave concerns and requested due consideration to Japan over the influence of the matter on the security in Asia, particularly in Korea. Therefore, the issue at stake was very complex for Japan. Economic and technical feasibility/rationality, potential future competition with the Japanese industry, security in Asia, the necessity of full recovery of sovereignty over Okinawa, and the bilateral relations with the neighboring country—all of these had to be taken into account.

At the third ministerial conference, the Korean side requested the steel mill project as the priority, and the Japanese side basically accepted it, agreeing to proceed to detailed planning and implementation. The basic cooperation agreement between the countries was signed in December 1969, followed by the private-sector technical consulting contract in the next year. Construction started in October 1970, and completed in June 1973, starting operations in the following month. 30.8 million US dollars of grant and 46.43 million dollars in loans were allocated from the semi-reparation economic cooperation fund, while additional 52.50 million dollars of Exim Bank loans and 38.33 million of commercial loans were provided (MOFA 1975).

The negotiations as well as the final decision were nothing but political. As reflected in the previous denial of other donors, project feasibility was indeed dubious even with the renewed plan. Most of the bureaucrats' judgments were negative. However, it was generally understood in Japan that the government agreed to the economically irrational economic cooperation project due to its political interests of realizing the return of Okinawa on the favorable conditions to Japan. People said 'the government sold steel and bought nawa (Okinawa).’ Nawa literally means rope. The Koreans were well aware of such conditions.

Another obvious manifestation of the political nature and Korea’s skillfulness in the negotiations can be seen with the case of other Korean priority projects at the next year’s ministerial conference, the
heavy industry projects, or the Four Core Projects.

According to Kim Chung-Yum (1990, 1997), Park's longest-serving presidential chief secretary, these projects (special steel, iron casting, heavy machinery, and ship-building) were originally planned as the basis of defense industry. With the increasing uncertainties and threats in terms of security, as argued above, South Korea at the turn of the decade was desperately in need of national defense industry, for which they needed heavy industrial base. The Four Core Projects were supposed to be at the core of it. For this, however, Korea faced the problem of external finance and technology again, and the government decided to go for Japan this time as well. Considering the military-phobia of the pacifist nation in general, and the country's Three Principles of Arms Exports, in particular, which impose an embargo on the sales of arms to the countries at, or potentially at, war, the projects were defined as heavy industry projects. Further, in order to attract more attention of the Japanese, these were to be called as the POSCO-related heavy industry projects. Since the Japanese side was skeptical about the economic feasibility of POSCO, projects that would generate large demands for POSCO were supposed to be welcomed by Japan.

The external environment was more and more tightening. Just several days before the Korean government submitted their formal request to Japan in July 1970, the US unilaterally notified Korea that it would withdraw its twenty thousand troops from the peninsula within a year. There was no time to waste. Koreans were determined to realize these priority projects by obtaining Japanese cooperation. On the other hand, according to the media account, the US was allegedly pressing Japan to extend economic cooperation to Korea to supplement US military retreat. The public opinion in Japan was concerned about the potential military aid to Korea.

The Korean side tried to mitigate the concerns and obtain funding, claiming that they had no intention at all to talk with the Japanese about security or defense, and the only issues were on agricultural and industrial development in line with the country's Five-Year Develop-
ment Plan. Japanese response to this, however, was very cautious and just diplomatic. At the fourth ministerial conference later in the same month, the Japanese side expressed understanding, while making no substantial commitment for cooperation, saying they were prepared to conduct relevant preparatory studies, and will extend finance on the basis of those studies if necessary. After the conference, the Japanese ministers repeatedly explained to their own nation that Japan would never extend military assistance to the country.

Working-level negotiations followed, and a Japanese survey mission headed by a director general of MITI was dispatched to Korea in October, reporting various difficulties with the proposed projects. Then, the Korean side quickly responded to this and adjusted the proposals so that they could satisfy the Japanese. Thus the renewed proposals were again to be submitted onto the table of the fifth ministerial conference in 1971, asking for commercial loans through the Exim Bank of Japan. Yet again, the Japanese side did not make any definite commitment. Negotiations and redesigning continued involving private companies on both sides, yet these were no more on the agenda of the sixth conference in 1972. A few years later in the mid-1970s, under the totally renewed Heavy and Chemical Industrialization Program, these projects were finally realized one by one as private joint venture projects with Japanese firms.

These negotiations for the Four Core Projects were not as successful as those for POSCO. In retrospect, however, the history of negotiations shows an amazing degree of consistency, determination and flexibility on the Korean side\textsuperscript{23}, which finally led to the realization of each project over years. At the same time, while having failed to secure cooperation with the priority projects at the conference, Koreans won some minor ones as they wished. For instance, at the fourth conference, a grant aid project for the coming three years was agreed upon for establishing a technical high school, which was to bear an important role in the coming heavy and industrialization program. At the end of this three-year project, the seventh ministerial conference agreed on
another human resource project of the Institute of Technology at Seoul National University also as a grant aid project (MITI 1975).

Just before the opening of the delayed seventh annual ministerial conference in December 1973, Japan's Minister for International Trade and Industry Nakasone announced his ministry's basic attitude to economic cooperation with Korea to the effect that the annual ministerial conference from the following year would only discuss about the overall economic relations and detailed cooperation programs and projects will be delegated to bureaucrats. Following this new policy, which was approved at the conference, the working-level conference was instituted in order to discuss and make decisions about detailed economic cooperation projects and programs, and the first meeting was held in April 1975 in Seoul. It was a major revision of the role of the ministerial conference and the meaning of economic cooperation in the bilateral relations: economic cooperation was basically depoliticized. The ten-year period during which the ear-marked economic cooperation as semi-reparation was extended was also ending. At the same time, toward the mid-decade, as explained above, the bilateral relations between these countries were deteriorating.

Private economic ties were not necessarily directly affected by these fluctuations in inter-govermentental relations, yet ascending China and its antagonistic stance to South Korea²⁴ substantially affected the motivations of the private sector to opt for going to the country in the first half of the decade.

However, the relationship dramatically improved again in 1975 after the fall of Saigon. The emergence of a united communist Vietnam revived the Cold War tensions in Asia again, leading to the New Cold War in the 1980s after the Soviet aggression against Afghanistan. The eighth Korea-Japan ministerial conference in 1975 took up various economic cooperation projects onto the agenda and agreed on them. Under the new strong conservative leadership in all the three countries, Ronald Reagan in the US, Nakasone Yasuhiro in Japan and Chun Doo Hwan in South Korea, these countries renewed their alliance in the 1980s, and
another large batch of Japanese loans was provided after lengthy negotiations at the ministerial level, with the final decision made by the Prime Minister Nakasone, who had depoliticized the aid process in 1975.

In a few years after that, South Korea was democratized in 1987, and successfully sponsored the Olympic Games in 1988, soon becoming one of the free advanced industrial democracies needing no more ODA.

CONCLUSIONS

What can we learn from the history of the Republic of Korea as an aid recipient? The environment was special in many ways. Most importantly, it was a divided nation under the international Cold War system, which made the small country strategically critical for the United States, the superpower, and to a lesser degree for Japan, its neighbor and former colonial master. Its geopolitical location surrounded by big powers of both of the blocs further tightened the situation, and thus made the room for maneuvering for that small country extremely narrow in the midst of big power politics. Equally important is that the country is known to be the most typical example of the East Asian developmental state, which realized miraculous economic growth under successive authoritarian regimes committed to growth and development. Moreover, because of the situation explained above, the country was almost entitled to substantial amount of foreign assistance, yet the sources of the assistance and cooperation both in terms of finance and technology were extremely limited: only to the United States and Japan, and West Germany with much less leverage. Of these two donors, the US was retreating in the late 1960s onwards, demanding more burden sharing and responsibilities to rising Japan. As a result, South Korean industrialization and development at its crucial stage had to depend on Japan's cooperation to a significant degree. This made Korea's bilateral relations with Japan of critical importance, while its dependence on the US for security continued. In this regard, Korea was exceptionally lucky because it had the relatively large amount of
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earmarked fund assured for years from the mid-1960s as semi-reparation. Without this, funding for POSCO, for instance, might not have become available. In order for Korea to get funding as they wished, they needed to win the tough negotiations with Japan over the usage, but not necessarily for finance itself. This might make a large difference. Yet again, there were ample reasons for Japan to decline the Korean proposals. Potential future competitions with its own industry were one of its concerns, while cooperation for defense industry was almost taboo in the Japanese national feeling. Accordingly, this study tried to explore how Koreans could manage these sensitive but extremely important relations to achieve their goal of economic development.

Although the paper did not elaborate much into details, the following could be pointed out as important that made Korea more effective in negotiating necessary assistance than otherwise possible.

First, the process was indeed political. Decisions of economic cooperation between Korea and Japan quite often were made on the basis of politics rather than economic rationality, which international financial institutions such as the World Bank always insisted upon in assessing the feasibility of the proposed project. Since the final negotiations and decision-making were in the hands of ministers, it took various factors and influence into consideration which were sometimes rather irrelevant to the proposed project itself. In other words, politics could sometimes make economically irrational project acceptable and feasible. The Koreans knew this. Japan's cooperation to POSCO was a case in point, which, however, in the end turned to be a huge economic success.

Then, second, the above-mentioned feature gave Koreans substantial room for maneuvering if they were well-prepared, thoughtful and skillful enough. By connecting some issues of concerns for the counterpart, Japan, to those important for themselves, Koreans tried to mitigate the problem and draw compromise. Being a recipient requesting economic and technical cooperation, Korea was not in a strong position. Nevertheless, the policy-makers and negotiators were very pragmatic,
and thus flexible and always rational in trying to turn the negotiations in favor of themselves so that they could finally approach what they wanted. They could sometimes use the pressures from the third country, the US, effectively on their behalf.

In other words, it could be rephrased that the Koreans had very strong *ownership* over the economic cooperation programs even in the asymmetric power relations between the donor and the recipient. Strong ownership was there because they already had the firmly-committed national objectives of development, which were represented as the Five-Year Economic Development Plans and other specific plans and projects needing external finance and technology. Under the highly developmental and goal-oriented regime in the country, actual implementation status of these plans was always closely monitored, annually assessed and adjusted accordingly. The targets and priority projects of the plans needed to be achieved by all means, and the necessary external resources were sought for, in many cases, from Japan. These plans were those of the conventional mid-term planning of the time as elsewhere, yet over which the Koreans had exceptionally strong ownership and commitment. They were not just waiting for donors to come to finance the plans, but tried extremely hard to realize them by obtaining finance and cooperation even by making the donors' priority change.

In sum, the small developmental regime in East Asia successfully managed the complex and acrimonious international environment of big power politics by the strong ownership, commitment and pragmatism, which were the basic attributes of the *developmental state*. And once the external cooperation is secured, as the conventional wisdom tells us, the same set of these attributes assured the successful implementation and sustainability.

**Notes**

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2 Heavy industrialization in the 1970s constituted an important phase in Korea's miracle, though this program was very controversial domestically as well as internationally since it also created huge costs to the people and the economy.

3 For example, the Three Non-Nuclear Principles of Japan will not allow any party to bring nuclear weapons into its territories.

4 Many observers argue that the fundamental tenet of Japan's foreign policy has not changed much since then, at least until quite recently (Green 2003).

5 The Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific is a regional inter-governmental organization established in 1951 to enhance economic and social development of the countries of the region (http://www.colombo-plan.org/).

6 With the increasing Cold War tensions in East Asia since the latter half of the 1940s, the US had to revise its policy toward Japan so that Japan would become resilient again to block the communist expansion. Too heavy paying burdens were thought to threaten this. All the Allied Powers were persuaded to agree, while the former occupied territories in the developing world did not accept it (Yoshida 1957).


8 Formal postwar reparation was paid only to four countries, Burma, the Philippines, Indonesia and South Vietnam, while the other eight received the de facto compensation under economic cooperation agreements. South Korea was included in the latter group.

9 Japan-Korea Economic Association was established in 1960, five years before the normalization of diplomatic relations between the countries, in order to promote economic relations in the private sector. (http://www.jke.or.jp/jkegaiyo.html)

10 This association is usually regarded as the quasi agent of Pyongyang government in Japan mobilizing fund and organizing anti-South political activities there.

11 The most notable example is Kim Dae-Jung. KCIA, the South Korean state intelligence agency tried to counter him by abducting him in Japan to be taken home, which raised a serious diplomatic problem between the two

12 Under the 1955-system, where the LDP always kept single majority, discussions in the Diet did not usually change the result. In the televised sessions of questions to the government and discussions, MPs were more conscious about the local reactions in their constituencies.

13 Such a situation gradually changed in the 1980s when the budget constraints became more serious on one hand, and the already hugely expanded Japanese ODA started to draw attentions of critiques. The fall of the Marcos regime in the Philippines in 1986 shed light on the issue of ODA and corruption in recipient countries, and many Diet members tried to investigate it.

14 Although this regime ended in 1979, the basic framework of the country's political economy remained intact in the following two decades until the extensive overhaul after the Asian Financial Crisis of 1997.

15 Armistice was agreed in 1953 among the US, China, and North Korea, while South Korea disagreed.

16 The Japanese strongly resisted calling this compensation or reparation, while the Korean side claimed that they were entitled to claim substantial money for the damages they received during colonisation.

17 For instance, the targeted average growth rate was 7.1 per cent per year, yet it actually recorded 8.5 per cent during the period, while the population growth was sustained at 2.73 per cent as opposed to the projected 2.81 per cent (EPB 1982).

18 In fact, South Korea those days much preferred loans to foreign direct investment, which could not easily fall under its own control. Due to its colonial history, probably amplified by the influence of the dependency theory in the 1960s and the 1970s, Korean leaders were very cautious about foreign domination.

19 In March 1969, the USAID, the US aid agency, announced that it would terminate its grant aid program to Korea in 1971 (Asia Almanac 1970).

20 Faced with a heavy debt burden, Korea changed its policy in 1968 to welcome foreign direct investment. Further, in order to promote some priority industries under the heavy and chemical industrialization program, a new foreign investment act was enacted and joint ventures were strongly encouraged in the 1970s (MITI 1975).

21 See footnote 11 above.

22 A South Korean national with the Japanese permanent residence attempted to assassinate President Park in August 1974. Later investigation allegedly found the involvement of the General Association of Korean Residents in Japan, the pro-North de facto political organization. The South Korean government demanded apology and stricter control of the
organization by the Japanese authorities, which Japan declined.

23 See Horikane (2005) for more details of these projects.

24 Chinese Premier Zhou Enlai declared in 1970 that China would not go into business with companies that were assisting South Korean Park's aggression against the North.

25 Four billion US dollars in seven years, of which 1.85 billion was given as ODA (yen loans).

26 The concept of (country) ownership became popular in the discussion of the effectiveness of aid in the international aid community in the 1990s. It refers to the awareness on the side of recipient countries that the aid projects/programs were of their own so that they should be responsible for them. Lack of country ownership was considered one of the prime reasons why aid had not worked effectively in the past.

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