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RESEARCH ARTICLE

State responses to oil crisis in oil-dependent developing countries: South Korea and Turkey after the 1973 oil crisis

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Abstract
Why do oil-dependent developing countries exhibit divergent responses to oil crises? This study employs a comparative case study approach and utilizes a 'most similar system design' to examine the varying state responses to the 1973 oil shock in Turkey and South Korea. While the former refrained from implementing radical short-term adjustment policies and reforms, the latter adopted proactive measures to mitigate the worsening impact of escalating oil prices. This research contends that the existing literature, which emphasizes distinctions in industrialization strategies and fiscal policies among developing nations, offers an incomplete explanation for the divergent reactions of states to external price shocks. Instead, the study proposes a sociological perspective, focusing on the influence of varying degrees of state autonomy and the characteristics of bureaucratic systems on the decision-making processes of states. The key finding suggests that while pre-crisis economic policies and industrialization strategies may limit the array of policy tools available to counteract the adverse effects of an oil crisis, the extent of state autonomy and the organization of the bureaucracy – whether adhering to Weberian or non-Weberian principles – impact the efficacy of these policy tools and the determination of decision-makers to act in the best interests of the long-term public good.

Keywords: developing countries; oil crisis; state autonomy; state response; Weberian bureaucracy

Introduction

Oil shocks represent significant exogenous events capable of disturbing the fiscal and financial equilibrium of affected nations, often resulting in severe political ramifications (Dagher and Hasanov 2023). Extensive research has delved into governments' policy responses to such price shocks, primarily concentrating on developed nations. However, the reactions of developing countries to oil shocks have garnered comparatively limited academic scrutiny, despite their distinctiveness from those of developed counterparts. This research endeavors to address this gap in the literature, probing the factors contributing to divergent policy responses among oil-dependent developing countries. By conducting a comparative analysis of two resource-poor developing nations, Turkey and South Korea, we aim to gain insight into why these governments adopted dissimilar approaches in response to the disruptive economic consequences of the 1973 oil shock.

On September 15, 1973, in response to Western support for Israel during the Yom Kippur War, the Organization of the Petroleum Exporting Countries (OPEC) members enacted a 5% reduction in oil production. They declared their intention to maintain this 5% production cut policy every month unless

Israel withdrew from the occupied territories. Additionally, OPEC increased the posted price of oil and imposed an oil embargo on Israel's allies. Consequently, global oil prices surged fourfold within a year (Öztürk and Saygın 2017, p. 3). This systematic reduction in oil supply, coupled with escalating prices, had adverse repercussions on worldwide economic growth. The average global gross domestic product (GDP) growth rate plummeted from around 6.5% to 2% in 1974 and further to 0.6% in 1975, as reported by The World Bank in 2020. This global recession resulted in negative growth rates in developed countries such as the United States, the United Kingdom, Germany, and France.

Regrettably, the repercussions of the economic shock extended beyond developed nations. Even developing countries in the early stages of their industrialization processes felt the adverse effects of the price hikes resulting from the oil crisis and subsequent economic downturn. The oil shock prompted shifts in global resource allocation, compelling governments to implement structural adjustment policies to rectify economic inefficiencies and imbalances caused by the unprecedented surge in oil prices (Conway 2014). Given that developing countries inevitably grappled with the impact of the oil shock, one would expect these nations' governments to adopt specific measures to mitigate the adverse chain effects of the crisis. However, the short-term responses of governments in these developing countries varied significantly. What explains this divergence?

Utilizing a comparative case study design, we delve into the contrasting state responses to the 1973 oil shock in both Turkey and South Korea. Employing the methodology of comparative case studies yields substantial advantages when exploring concepts that prove challenging to quantify due to their context-dependent nature. This approach enables scholars to delve into relevant concepts in-depth, analyzing their interactions with political, social, and economic factors within the historical context. Consequently, it allows researchers to trace significant political developments and evolving trends associated with the specific concept under examination (George and Bennett 2005). In this respect, case studies provide distinct benefits when scholars investigate processes and mechanisms within individual cases and across multiple cases, particularly when the contextual dependencies and complexities of specific concepts obstruct the compilation of comprehensive data from various observations through large-*N* quantitative studies.

For this study, we employ a "most similar system design" as our case selection strategy. As illustrated in Table 1, prior to the 1973 oil crisis, Turkey and South Korea shared strikingly similar demographic characteristics in terms of population and school enrollments. Moreover, they exhibited resemblances in various macroeconomic aspects, such as GDP per capita (in current US dollars), the proportion of external debts to GDP, the contribution of total investment to GDP, the share of industrial production in GDP, and the percentage of fuel imports in total imports (The World Bank 2020). Additionally, both South Korea and Turkey displayed comparable regime characteristics, as reported by Freedom House, which categorized both countries as semi-authoritarian polities in 2020 (Freedom House 2020).

Table 1. Demographic, political, and economic outlook in South Korea and Turkey in 1972

Indicator	Turkey	South Korea
Population	36.5 million	33.5 million
Freedom house ranking (for 1973)	Partly free	Partly free
GDP per capita (current US$)	558	324
Fuel imports (% total imports)	10.3	8.6
Manufacturing, value added (% of GDP)	17.3	18.7
GDP growth	7.4%	7.2%
Investments (% of GDP)	22	20.1

Sources: World Bank Development Indicators; Freedom House; Rodrik *et al.* (1995); Celâsun and Rodrik (1989).

However, despite these similarities, the responses of these two countries to the 1973 oil crisis diverged significantly. In Turkey, there were no immediate radical adjustment policies or extensive reforms implemented. Instead, the government made minor adjustments, such as slight modifications to the fixed currency rate and price controls on domestic fuel to combat inflation. In contrast, the South Korean government took more assertive steps to mitigate the adverse effects of declining exports. They initiated a substantial currency devaluation to enhance the competitiveness of their exports. To offset the decrease in foreign currency reserves caused by declining export earnings, the government encouraged businesses to explore new sources of foreign exchange revenue. Additionally, the government sought external sources of borrowing to bolster its foreign exchange reserves, which would then be used to support businesses affected by the crisis (Krueger 1987, p. 33). In summary, Turkey's response to the oil shock was relatively cautious and short term, addressing internal developments within the capitalist sector and relations between capitalists and lower classes. Conversely, South Korean authorities pursued a more robust short-term approach, with a view to achieving mid- and long-term economic recovery.

In this study, our primary objective is to make a meaningful contribution to the literature concerning divergent state responses to oil crises. We aim to achieve this by introducing the concept of "statecraft" into the policymaking process. In the pertinent literature, most of the studies embrace a macroeconomic approach that highlights the significance of a government's prevailing industrialization strategy and fiscal policy in elucidating its distinct reactions to emerging external economic shocks (Balassa 1985; Celâsun and Rodrik 1989; Conway 2014). In this perspective, countries adopting an import substitution industrialization (ISI) strategy combined with a deflationary fiscal policy might exhibit dissimilar responses to external oil shocks compared to those pursuing export-oriented industrialization along with a more lenient fiscal policy. This approach posits that nations with export-oriented industrialization strategies are more inclined to enact substantial adjustments in their fiscal and monetary policies in response to a rapid surge in global prices, in contrast to countries relying on ISI strategies (Conway 2014).

Alternatively, this study introduces a sociological perspective into the analysis of this puzzle, highlighting the significance of state autonomy and bureaucratic characteristics in shaping government responses to external price shocks. In this context, state autonomy refers to a government's ability to resist the influence exerted by various private interest groups during the planning and decision-making processes (Skocpol 1985). Autonomous states are less susceptible to being constrained by the short-term interests of political agents when formulating and executing policies. Furthermore, autonomous states are more likely to cultivate what are known as "Weberian bureaucracies," which are shielded from political pressures stemming from domestic economic classes, such as the industrial bourgeoisie (Evans 1997, p. 66). Consequently, when confronted with external economic shocks, autonomous states possessing Weberian bureaucracies tend to be more predisposed toward implementing structural adjustment policies geared toward long-term economic development.

On the contrary, "non-Weberian bureaucracies" lack the capacity to independently engage in economic planning separate from the influence of the political elite and economic classes (Evans 1997, p. 66). In countries where state autonomy is lacking, and non-Weberian bureaucracies prevail, structural adjustment policies tend to prioritize the political and economic interests of a small subset of the population rather than pursuing common economic benefits. Our argument in this study revolves around the idea that the disparity in the degree of state autonomy and the contrasting characteristics of bureaucracies in South Korea and Turkey played a pivotal role in shaping the differentiation of adjustment policies and their effectiveness following the 1973 oil crisis (Evans and Rauch 1999). In this context, the autonomous state structure, shielded from the influence of social interest groups, and the bureaucracy shaped by Weberian norms prior to the oil crisis, contributed significantly to the efficient and effective policies implemented by South Korea in response to the crisis. Conversely, the weaker position of the state against interest groups and the polarized and politicized bureaucracy in Turkey impeded the development of rational and effective policies.

This article comprises four sections. The next section offers a concise overview of the existing literature concerning state responses to oil shocks and elucidates the theoretical framework underpinning this study. The two subsections in the third section delve into the economic policies implemented both before and after the 1973 oil crisis in South Korea and Turkey, respectively. The final section discusses the primary theoretical implications derived from the comparison of the divergent economic policies witnessed in South Korea and Turkey cases, and provides a conclusion.

Theoretical framework

While there exists an extensive body of literature on the macroeconomic impacts of oil shocks (Barsky and Kilian 2004; Bohi 1991; Bohi 2017; Dotsey and Reid 1992; Eastwood 1992; Hamilton 1983; Hamilton 2009; Hickman, Huntington, and Sweeney 1987; Hooker 1996; Kilian, Rebucci, and Spatafora, 2009), scholarly attention directed at understanding state responses to these external shocks remains relatively limited. Moreover, the shortcomings of this restricted literature can be distilled into two main issues. First, these studies predominantly concentrate on developed countries and largely overlook the responses of oil-dependent developing nations to oil crises (Katzenstein 1977). Second, these studies primarily attribute the variation in responses to the crisis solely to macroeconomic policies without delving into the socio-political underpinnings of such policies (Conway 2014; Ikenberry 1986; Tourk 1990). The latter aspect assumes particular significance when analyzing developing countries where market forces wield limited power, and the economy is primarily shaped by state patronage.

In his comprehensive study, for instance, Ikenberry (1986) delves into the variations in state responses to oil shocks among oil-dependent industrialized nations, employing a comparative case study approach. These variations in responses are evident in the energy-adjustment policies adopted by the United States, West Germany, France, and Japan in the aftermath of the oil shock. Ikenberry highlights three distinct strategies: "neo-mercantilist adjustment, competitive accelerated adjustment, and defensive market response (Ikenberry 1986, pp. 110–11)." In the neo-mercantilist strategy, governments engage in oil production through established state-owned oil companies. Second, countries opting for a competitive accelerated adjustment strategy modify their monetary policies to enhance the attractiveness of their exports and seek to expand exports to oil-exporting nations, which accumulate significant surpluses due to rising prices. Finally, within the defensive market response, the state ensures the market's stability and allows it to absorb the impact of rising prices. Ikenberry attributes the variation in state responses to distinct factors such as interest group formation within society, the composition of resources, and the structure of the state (Ikenberry 1986).

However, Ikenberry's explanation for the divergence in states' responses to oil shocks may not be readily applicable to understanding variations in the responses of developing countries to the oil crisis. Oil-dependent developing nations are less likely to have state-owned oil companies, similar to France, and may have limited options for diversifying away from oil reliance, such as nuclear or renewable energy sources. Moreover, given that developing countries are in the early stages of industrialization, they often rely heavily on foreign capital flows and can be more susceptible to reductions in foreign exchange reserves. Consequently, in contrast to developed nations, the responses of developing countries can vary significantly. These responses might include seeking external borrowing, implementing substantial currency depreciation, imposing strict price controls, and undertaking structural reforms to alter their industrialization strategies.

Studies examining the responses of oil-dependent developing countries to oil supply shocks often center their analysis on the divergent economic development strategies adopted by these nations. They argue that the prevailing differences in industrialization strategies and fiscal policy objectives may account for the divergence in state responses to oil shocks (Balassa 1985; Celâsun and Rodrik 1989; Conway 2014). According to this framework, countries that opt for import substitution as their industrialization strategy along with a deflationary fiscal policy in their domestic economy may react differently to external shocks compared to countries pursuing export-oriented industrialization with a more

flexible fiscal policy in domestic economic management. Oil shocks can result in price increases for both exports and imports. In countries that rely on export-oriented growth, the rising prices of exports can be mitigated by devaluing their domestic currencies to enhance the competitiveness of their exports in the face of escalating global prices. Therefore, these countries are more inclined to reform their monetary and fiscal policies in alignment with their existing industrialization programs. Conversely, in the case of countries employing an ISI strategy, devaluing domestic currencies may not be an optimal strategy. This is because these nations may prioritize safeguarding the purchasing power of domestic industrialists who depend on the availability of inexpensive imports and would face challenges in the event of currency devaluation (Conway 2014).

While prevailing approaches that focus on developing models to elucidate divergent state responses to oil supply shocks offer valuable insights by highlighting constraints on the state's economic policies, this theoretical approach tends to overlook the impact of the state's autonomous agency. We contend that the agency of the state holds paramount importance for two significant reasons. First, the effectiveness of these models relies on their implementation, and the state bureaucracy plays a pivotal role in executing policies derived from the selected economic development model. In essence, while these models provide roadmaps for efficient industrial development, their successful implementation hinges on the actions of the bureaucratic apparatus. In this context, we scrutinize the bureaucratic agent from a Weberian perspective, arguing that specific characteristics of the bureaucracy significantly influence the extent to which these models are put into practice to achieve the intended economic development objectives. Second, this very Weberian approach presupposes that a rational state apparatus, encompassing both the government and the bureaucracy, possesses the capacity to adjust the model when it proves ineffective in generating essential responses during a crisis. In other words, states are not passive recipients of policymaking but actively engage with bureaucracies capable of monitoring the model's effectiveness and making necessary adjustments when the implemented model falls short.

In consideration of the aforementioned points, our approach aligns not only with studies emphasizing the significance of an autonomous state and the characteristics of bureaucracy in explaining various economic and political developments such as economic growth, poverty reduction, and corruption prevention (Amsden 1992; Dahlström, Lapuente, and Teorell, 2012; Evans 1985; Evans and Rauch 1999; Henderson *et al.* 2007; Olsen 2006), but also contributes to this body of literature by investigating a relatively underexplored topic: the relationship between the degree of state autonomy and crisis management following exogenous shocks. In this sense, our framework seeks to reintegrate the missing link – the state – into the literature on oil crises and underscores the role of state autonomy and bureaucratic characteristics in shaping a state's responses to emerging external economic shocks. When referring to the autonomy of the state, we mean that states are capable of defining and pursuing long-term political and economic objectives independently of dominant classes and private interest groups (Skocpol 1985, p. 9). Following the Weberian tradition, Skocpol provides a framework for comprehending both the state's structure as an active participant in these relationships and state autonomy as "coherent collectivities" within the state apparatus (Skocpol 1985, p. 9). In this context, directing our attention to the structure of the state bureaucracy and its officials (e.g., central planning organizations) as an insulated component of the state yields critical insights into understanding the level of state autonomy.

The state plays a pivotal role in reshaping business activities, and within this transformative process, bureaucracies often assume active roles in economic planning. However, the extent and nature of bureaucracies' involvement in economic planning hinge on their distinctive characteristics. In this context, our framework distinguishes between "Weberian bureaucracies" and "non-Weberian bureaucracies," as outlined by Evans (1997).

Weberian bureaucracies embody five key characteristics. First and foremost, they prioritize the general interest over the private interests of specific societal groups. Second, they operate within a clearly defined administrative hierarchy and possess fixed authoritative jurisdiction, established through legal sources or official regulations. Third, Weberian bureaucracies engage in rational, long-term planning rather than short-sighted calculations that could harm the broader public interest. Fourth, officials

within these bureaucracies act in accordance with their official roles, setting aside personal preferences. This impersonality means that properties are considered office properties, orders are viewed as official orders, and duties are performed as official duties. Finally, competitive meritocracy serves as the basis for employment within Weberian bureaucracies (Scott and Davis 2015; Skocpol 1985; Trondal and Veggeland 2014; Weber 1946). Weberian bureaucracies constrain the behavior of political incumbents, directing them toward pursuing common goals (Biddle and Milor 1997; Evans 1997).

The relationship between the state and business under Weberian bureaucracies can be channeled toward the public good, enabling the implementation of joint public–private business ventures. Evans describes the state's role in these relationships as "embedded autonomy" (Evans 1997, p. 66). Conversely, non-Weberian bureaucracies primarily function as utilities for individual interests (Evans 1997, p. 66). In countries with these types of bureaucracies, state–business relations often lean toward clientelism, with long-term objectives disregarded in favor of short-term individualistic interests (Biddle and Milor 1997).

Our argument posits that disparities in state autonomy and the characteristics of bureaucracies can account for the divergent responses of states to the oil crisis. In states with limited autonomy and non-Weberian bureaucracies, the sway of narrow political and class interests tends to outweigh economic planning geared toward long-term sustainable development (Biddle and Milor 1997; Evans 1997; Öniş 2010; Skocpol 1985). Consequently, governments in such countries may be less inclined to implement adjustment policies capable of addressing the economic imbalances precipitated by the oil crisis, as they may hesitate to confront established interest groups that would bear the costs of such economic reforms. Instead, the state's response is more likely to align with the short-term political and economic interests of specific societal segments.

Conversely, in states characterized by higher autonomy and Weberian-style bureaucracies, governments possess greater capacity to devise and implement economic policies with a view to achieving long-term developmental objectives, as they face fewer constraints imposed by short-sighted demands emanating from various societal segments (Evans 1997). Therefore, in these states, governments are better positioned to intervene effectively in the economy, facilitating the implementation of structural adjustments aimed at alleviating the adverse effects of soaring oil prices.

In summary, our approach enhances existing theories that elucidate state responses to oil supply shocks based on differences in prevailing development strategies in two key aspects. First, it underscores not only the constraints under which pivotal economic policies are formulated but also the implementation or misimplementation of these policies. Second, by highlighting the significance of agency in political processes, this study acknowledges the capacity of policymakers to adapt or modify existing policies. It underscores the need for meticulous analysis of the reasons behind policymakers' failure to adjust inefficient policies.

The tale of two countries: South Korea and Turkey

A glance at the economic histories of Turkey and South Korea reveals disparities in their dominant industrialization strategies and the extent of state autonomy. In the 1960s and 1970s, these countries pursued divergent industrialization strategies and predominant fiscal policies. Turkey adhered to an ISI policy, a stance it maintained until the 1980s. In contrast, South Korea adopted a different approach in the early 1960s, focusing on export-oriented growth with minimal trade restrictions (Krueger 1987, p. 3). Specifically, Turkey's industrialization strategy prioritized economic growth for the domestic market, sought to curb inflationary pressures, and placed less emphasis on exports. Conversely, South Korea's industrialization strategy targeted global markets, aimed to maximize exports, and considered inflationary pressures as of secondary importance.

However, even though the differing responses of these two countries to the oil crises can be explained by the mechanisms inherent in their respective development strategies, drawing conclusive inferences from these models would be problematic without first determining the specific antecedent conditions. We contend that variations in state autonomy and the characteristics of bureaucracies

should be taken into account before making any judgments based solely on the impact of divergent growth models on a state's response to exogenous economic shocks. In other words, the effectiveness of a policy response should be contextualized within the processes occurring at the state level rather than solely analyzing the foundations of the model itself.

South Korea

The origins of substantial state autonomy and the development of a Weberian bureaucracy in South Korea can be traced back to the political developments of the 1960s. In 1961, when the military seized political power in South Korea through a coup d'état, the junta regime found itself in a favorable position to shape economic policies unilaterally. At that time, South Korea had a relatively weak capitalist and landed class establishment. Consequently, the regime did not have to rely on the political support of any domestic social classes (Cotton 1992, p. 520; Fields 1995). Additionally, the country had limited connections to foreign capital, which meant that the regime faced minimal pressure from foreign entrepreneurs when designing the economic system (Mardon 1990).

In 1961, junta leader Park Chung Hee took significant steps to create a robust and meritocratic bureaucracy with the primary objective of introducing an incentive mechanism to support exporting firms (Shafer 1997, p. 101). Initially, the regime nationalized banks and granted the Ministry of Finance authority to oversee the country's banking system (Fields 1995). The government also established a stable exchange-rate system that aligned with an open trade policy. It prioritized policies aimed at increasing export volumes, offering various tax exemptions to exporters, providing guidance to companies, setting annual national export targets, and granting incentives to firms that successfully met their export targets by year-end (Kuznets 1985).

Second, the government implemented regulations governing import restrictions and quotas, ensuring that manufacturers had access to the necessary raw materials. Additionally, it offered affordable import credits to support exporters. Most significantly, the government sought to enhance the competitiveness of exporters and considered exporting as a profitable endeavor. This was achieved by providing various forms of support, including "low-cost investment funds, ensuring the availability of working capital, financing imports required to fulfill export orders, offering exporters discounts on electricity and railway freight rates, providing management and technical consulting services, promoting research and development, and investing in logistics and infrastructure (Shafer 1997, p. 102)."

Third, the government introduced specific regulations aimed at safeguarding domestic industries from the influence of foreign capital. Of particular concern was the flow of foreign direct investment, as the government harbored fears that "financially robust and technologically advanced foreign firms could undermine the growth of domestic enterprises and the state's ability to steer critical economic and political decisions (Mardon 1990, p. 116)." Consequently, the government established bureaucracies responsible for overseeing foreign capital and permitted foreign investment in domestic industries only when such investment would not pose a threat of domestic competition to national producers (Mardon 1990). Furthermore, foreign direct investment was permitted under the condition that foreign entrepreneurs entered into joint ventures with Korean partners and committed to technology transfer. Over time, the government actively encouraged domestic partners to acquire the equity held by their foreign counterparts, ultimately securing full national control over these enterprises (Mardon 1990).

Fourth, in order to shield domestic companies from foreign competition within the domestic market, the government chose to secure foreign loans rather than actively encouraging foreign entrepreneurs to invest in the country (Mardon 1990). Consequently, the government implemented regulations aimed at facilitating the influx of foreign loans to Korean producers. In certain cases, it even offered treasury guarantees to foreign lenders to ensure the continuous availability of low-interest credit (Park 1985).

Fifth, the government exhibited a readiness to intervene when circumstances threatened the established trade framework. For instance, in the early 1970s, when export-oriented growth began to slow, the government deliberately devalued the currency to stimulate exports and provided assistance to

companies adversely affected by this devaluation (Collins and Park 1988). Additionally, during the 1970s, in response to dwindling domestic savings and foreign currency constraints, the government adopted regulations governing the inflow of foreign capital to create a more conducive environment for foreign lenders (Collins and Park 1988).

Throughout the 1960s and 1970s, the state wielded significant influence in state–business relations and effectively safeguarded its autonomy against the business elite. The government actively promoted the rise of prominent family conglomerates known as "Chaebols" and cultivated a mutually beneficial relationship between the state and these conglomerates (Fields 1995, p. 123). It granted various preferential incentives and subsidies to selected Chaebols. However, the government also employed specific strategies to curtail the political influence of these large conglomerates. It encouraged diversification across multiple sectors among the Chaebols, preventing the industrial class from uniting against the government (Fields 1995). Furthermore, the state urged Chaebols to appoint bureaucrats to key management positions, thereby gaining the ability to monitor the conglomerates' activities from within (Chang 1988). Additionally, the government cleverly employed an incentive system to make enterprises reliant on its financial policies. It primarily offered subsidies and low-interest loans to designated industries and required enterprises to adhere to the government's directives in order to qualify for these financial benefits (Amsden 1992; Chang 1988; Ho, 1981; Mardon 1990). Moreover, the government routinely oversaw the performance of subsidized enterprises to ensure they met specific benchmarks (Biddle and Milor 1997).

1973 oil crisis and South Korea

In the wake of the 1973 oil crisis, South Korea confronted dual challenges that significantly impacted its economy. These challenges consisted of the swift global escalation in oil prices and the adoption of protectionist measures by developed nations targeting manufactured imports from developing countries (Ho 1981). The initial consequences of surging oil prices in South Korea were felt primarily in the form of increased costs for manufacturing inputs, including energy sources, raw materials, and capital goods, all of which needed to be imported to sustain the export of manufactured products. Consequently, the immediate fallout from these rising prices, within 2 years following the oil crisis, manifested as mounting inflationary pressures and current account deficits, stemming from trade disruptions amounting to roughly $1 billion (Ho 1981).

Confronted with these economic challenges, South Korea implemented a combination of both short- and long-term strategies to mitigate the initial impact of surging prices on its economy and facilitate long-term structural changes aimed at enhancing the efficiency and profitability of exports. In the short term, South Korea opted to address immediate concerns such as boosting exports and rectifying imbalances in the current account deficit while temporarily tolerating rising inflation. To enhance export competitiveness, the government executed a 21% devaluation of the domestic currency (Ho 1981). Additionally, it encouraged businesses to explore new sources of foreign exchange income, including ventures in construction in Middle Eastern countries (Krueger 1987; Tourk 1990).

Furthermore, following the 1973 oil shocks, economic planners pursued a strategy of securing external loans to support export-oriented enterprises and prevent a decline in the growth rate, even at the expense of accumulating foreign debt (Park 1985, p. 292). While this policy resulted in a doubling of South Korea's debt stocks, it successfully sustained exports, albeit alongside rising inflation and an increase in foreign debts (Park 1985). The short-term adjustments in trade and monetary policies yielded positive outcomes for South Korea. Exports surged by 33% between 1973 and 1975, and during the period from 1973 to 1978, South Korea achieved a recovery in growth rates while also managing to reduce its foreign debt burden (Collins and Park 1988).

Over the long term, South Korea sets its sights on accelerating a significant shift in its industrial and trade structure. The goal was to transition from primarily exporting "semi-skilled and labor-intensive" light industrial goods to becoming a major exporter of "heavy chemicals, basic metals, and machinery," which were more skill-intensive and capital-intensive (Ho 1981, p. 1179). Remarkably, South Korea had initiated this transformation project even before the 1973 oil crisis,

prompted by shifts in regional geopolitics and the international political economy. The waning of US hegemony in the global economy, marked by the collapse of the Bretton Woods regime, and the announcement of the gradual withdrawal of US military forces from the Korean Peninsula were key factors driving this decision. Consequently, the Korean government invested in developing heavy and chemical industries, which were not only crucial for enhancing national defense capabilities but also for reshaping the export structure to focus on more profitable sectors (Kwon 2004, p. 79).

To execute this ambitious economic adjustment toward heavy industry, the government took measures to align the efforts of bureaucracy and major industries, quelling dissenting voices within these spheres. This concerted approach ensured that both state structures and business groups acted cohesively in implementing the plan (Jeon 1994). The financing for this transformation largely came from foreign loans and the central bank, with the government extending treasury guarantees to the business enterprises involved in the industrial shift (Park 1985). As a result, South Korea sustained this project without significant interruptions until 1979.

In summary, South Korea's rapid economic growth can be attributed to its export-oriented development strategy, supported by an autonomous state and a meritocratic bureaucracy that took shape in the early 1960s. During and after the 1973 oil crisis, South Korea's state and bureaucracy effectively resisted external pressures and swiftly adapted to changing economic conditions. The state maintained its strength relative to other domestic interest groups, allowing for resolute long-term economic planning. The government, under Park's leadership, faced minimal interruptions when implementing post-crisis adjustments, as it retained relative autonomy in its relations with businesses. Notably, measures like suppressing dissenting voices within various bureaucratic units (Jeon 1994) and disciplining large conglomerates through various management and financial tools facilitated the state's smoother implementation of economic adjustment policies compared to similar countries (Amsden 1992, pp. 146–47; Chang 1988, p. 54).

Turkey

The early 1960s marked a pivotal period for Turkey's economic development, mirroring some aspects of South Korea's trajectory. In 1960, a military regime assumed power in Turkey, forming a bureaucratic coalition to revamp the country's economic development model. However, in contrast to South Korea's emphasis on export-driven growth and an expanded role for the private sector, Turkey took a more cautious approach toward private economic activity, leaning on state-backed industrialization with a protective trade framework (Krueger 1987, p. 25).

In the 1960s, Turkey adopted the ISI model, aimed at nurturing fledgling national industries through targeted incentives, protectionist trade policies, and strict controls on foreign capital inflow. To implement these new industrialization strategies rooted in ISI principles, Turkey established the State Planning Organization (SPO) in 1960. The SPO acted as a central planning agency overseen by a meritocratic bureaucracy, tasked with identifying specific business sectors and industries for investment redirection based on economic efficiency principles (Milor 1990).

The Turkish ISI model in the 1960s rested on two primary pillars: restricting foreign competition in the domestic market and encouraging new industrial investments through various tax policies (Pamukoglu 1990, p. 89). To achieve these goals, the state introduced an import program that reinforced industrial protection through the creation of two distinct lists. The first was the liberalized list, which outlined the goods permitted for importation. This list predominantly comprised intermediate goods essential for industrial growth. In contrast, the quota list included goods for which importation was restricted due to their limited demand in domestic production. It's worth noting that domestic consumption considerations played a minimal role in determining the import list (Krueger 1974; Pamukoglu 1990).

During the 1960s, as outlined in Turkey's initial 5-year development plan, state economic establishments (SEEs) played a pivotal role in the ISI model (Pamukoglu 1990, p. 89). These establishments were primarily intended to supply intermediate goods to private industries and produce

technology-intensive products. Despite receiving various fiscal incentives, the SEEs fell short of their profitability targets. Several factors contributed to this inefficiency, including political considerations such as "overstuffing for political purposes, encouraging the development of backward regions, income redistribution related concerns, and various consumption and production subsidies (Pamukoglu 1990, p. 90)." Moreover, political authorities intervened in the pricing policies of SEEs to serve their political agendas, further hindering the SEEs' ability to achieve profitability targets.

The implementation of the ISI policy model in Turkey faced significant challenges and did not yield the same level of success as the Korean model in subsequent years (Krueger 1987). To understand the crucial role of state autonomy in the execution of the economic development model, several key points must be highlighted. First, the SPO deviated from its initial objectives, as its interventions often maintained certain enterprises' profits at levels higher than global standards without substantially enhancing "productive efficiency and competitiveness of manufacturing capital" (Milor 1990, p. 2). The SPO lost its autonomy as a technocratic institution and instead became a mechanism for distributing favors to the political elite (Bugra 1994). The ISI model created an economic environment that favored the enrichment of fragile industries, dependent on government patronage and operating with inefficient economies of scale (Biddle and Milor 1997).

Trade barriers protected the national bourgeoisie from global competition in the production of consumer goods. Moreover, tax exemptions and cheap credit facilitated the reduction of production costs for the industrial bourgeoisie below global price levels. State-owned companies did not function as competitors to the industrial bourgeoisie but provided inexpensive intermediate goods, raw materials, and infrastructure investments that were embraced and utilized within the production cycle (Pamuk 1981, p. 28). The government also adjusted its monetary policy to benefit the industrial bourgeoisie, maintaining the national currency's overvaluation to ensure cheaper imports of capital goods.

In summary, the implementation of the ISI model in Turkey created conditions conducive to rent-seeking by industrialists, hindered the development of a competitive business culture, and established a state–business relationship in which industrialists sought economic privileges through political influence channels (Biddle and Milor 1997). However, a critical issue was the lack of state autonomy, and the bureaucracy was not structured in the Weberian sense to withstand pressures from political actors and economic classes. The SPO failed to function as an autonomous state entity regulating central economic planning; instead, it succumbed to the narrow interests of political actors and industrialists (Bugra 1994).

Second, Turkey lacked effective contingency plans when confronted with emerging economic crises that posed a threat to the viability of the ISI strategy. For instance, starting in the mid-1960s, Turkey experienced a stagnation in its export earnings. To address this issue, the government intervened by offering export subsidies in an attempt to boost export earnings, but these efforts yielded limited success. Concurrently, the demand for imports was on the rise due to ongoing industrialization initiatives, leading to a gradual increase in the demand for foreign exchange. The deficit in foreign exchange reserves became a hindrance to industrialization and adversely affected growth rates in the late 1960s (Krueger 1987, p. 28). To avert a looming debt crisis, Turkey sought assistance from the International Monetary Fund (IMF) and engaged in a stabilization program. This program aimed to devalue the Turkish Lira (TL) and implement further fiscal policy adjustments (Celasun 1994).

Third, Turkish governments displayed reluctance in implementing structural reforms, even in the aftermath of economic crises. This hesitancy can be attributed in part to the inflexibilities inherent in the ISI model. However, the primary reason behind this inability to undertake structural reforms lies in bureaucratic inefficiencies, which will be discussed in detail. For instance, in 1970, under the auspices of an IMF program, Turkey initiated a devaluation of the TL to address macroeconomic imbalances that had emerged during the 1960s. The devaluation led to a gradual increase in Turkey's exports, coupled with remittances flowing in from Europe, resulting in an augmentation of Turkey's foreign exchange reserves. By 1972, Turkey had managed to eliminate its current account deficit and even achieved a surplus (Dervis and Robinson 1982, p. 265). Additionally, Turkey enjoyed a relatively favorable debt position, with the ratio of external debts to GDP standing at less than 10%

(Dervis and Robinson 1982). Buoyed by these improved macroeconomic indicators, Turkey continued to pursue an "inward-oriented" industrialization strategy, particularly in capital-intensive sectors, without implementing the necessary structural changes in its economic policy (Celasun 1994, p. 46).

1973 oil crisis and Turkey

The 1973 oil crisis had a significant impact on Turkey's trade and macroeconomic indicators. During the period from 1973 to 1974, Turkey experienced a 20% decrease in its exports (The World Bank 2020). However, Turkey's response to the oil crisis remained relatively modest, with no major structural adjustment policies being implemented. This was partly because Turkey had bolstered its foreign exchange reserves through the currency devaluation of the 1970s and the influx of remittances from workers abroad. As a result, Turkey anticipated only minor disruptions to its industrialization plans in the face of rising oil prices (Krueger 1987, p. 32).

Consequently, in the short term, Turkey opted for cautious measures, making only slight adjustments to its fixed currency rate and implementing controls on domestic fuel prices to mitigate inflationary pressures. Fiscal policies, including the tax regime and public expenditure, remained largely unchanged. However, it's essential to note that these positive developments were primarily palliative solutions or short-term monetary policies. Consequently, Turkey found itself grappling with a persistent current account deficit and challenges related to inadequate foreign exchange reserves after 1974.

The overvalued TL posed a significant challenge for Turkish policymakers as they grappled with the adverse effects of the 1973 oil crisis. This overvaluation of the TL had detrimental impacts on Turkey's economic stability, manifesting in three crucial ways. First, it impeded foreign exchange earnings by diminishing exports, exacerbating the balance of payments crisis stemming from the current account deficit.[1] Over a span of 3 years following the oil shock, Turkey's current account deficit experienced a substantial increase. In 1973, Turkey had managed a current account surplus of $60 million, but due to imbalances in the trade regime, this shifted to a deficit of $2,029 million by 1976 (Krueger 1987). The oil shock led to rising prices for both Turkey's exports and imports. The decline in exports, coupled with the gradual increase in import prices, strained Turkey's foreign exchange reserves. However, the government's response to this imbalance remained relatively minimal. Most notably, Turkish authorities refrained from devaluing the overvalued exchange rates. This decision was driven by concerns that currency devaluation would lead to higher import prices, negatively impacting the production of consumer durables primarily manufactured by the industrial bourgeoisie, which had thrived under the ISI policy (Pamuk 1981, p. 29). Consequently, the imbalance in the flow of foreign exchange compelled Turkey to increasingly turn to external borrowing with short-term maturities during the latter half of the 1970s to sustain its industrial growth (Celâsun and Rodrik 1989).

The overvaluation of the TL presented two additional challenges to the Turkish economy, affecting tourism revenues and remittances from immigrant workers in Europe, both of which had become vital sources of foreign exchange since the late 1960s. Turkey's tourism sector has enjoyed a competitive edge in the global market thanks to its relatively affordable offerings, attributed in part to the lower exchange rates. However, the appreciating value of the TL since 1973 disrupted this advantage, rendering Turkey a more expensive destination for tourists (Pamukoglu 1990, p. 165). Furthermore, remittances sent by Turkish workers abroad had served as a crucial financial lifeline, alleviating Turkey's persistent foreign exchange reserve challenges. Nevertheless, the overvaluation of the TL

[1]Following the 1973 oil shock, Turkish businesses gained access to petrodollars in the form of affordable credits procured from Euromarkets. These funds were used by Turkish enterprises to finance their domestic investments. This surge in demand for imports in Turkey coincided with sluggish export growth due to mounting protectionist measures and reduced global market demand. The overvalued TL aggravated the export decline, further contributing to the growing current account deficit. While Turkey's external debt burden escalated due to sustained demand for energy and capital goods imports, the government actively promoted external borrowing through a range of policies. These policies included providing treasury guarantees and granting large banks the authority to facilitate borrowing. The accumulation of debt persisted until 1977 and eventually led to Turkey's financial insolvency, culminating in the devaluation of the TL in 1979 as part of the IMF's adjustment program (Pamukoglu 1990).

discouraged the inflow of funds from this source, as the higher exchange rate diminished the value of remittances, impacting the Turkish economy's ability to rely on this form of income.

To finance the private sector, the Turkish government employed an unconventional borrowing approach known as the "Convertible Turkish Lira Deposit Scheme." This strategy aimed to shield domestic borrowers from the impacts of exchange rate fluctuations (Celâsun and Rodrik 1989, p. 632). Under this scheme, the government sought to facilitate foreign borrowing by the private sector. These credits were acquired through national banks, with the Turkish Treasury providing guarantees for the borrowed sums. Over time, this method evolved into a short-term debt instrument, placing significant financial burdens on the Treasury when borrowers were unable to meet their obligations in subsequent years. Moreover, the credits obtained through this scheme were often channeled more toward covering the day-to-day expenses and consumption of enterprises rather than into investments that could enhance production efficiency (Aydın and Taşkın 2016).

Four key aspects underscore Turkey's lack of state autonomy in addressing the deepening economic challenges following the 1973 oil crisis. First, the state found itself unable to assert authority over a divided private sector, which held differing views on the primary direction of the ISI and the necessary adjustments. This schism within the private sector hindered the attainment of a consensus between the state and private enterprises regarding essential regulatory changes needed to address the major shortcomings of the ISI. Without such a consensus, the Turkish state was unable to act as an independent force and struggled to enforce its proposed reforms essential for economic recovery (Barkey 1989, p. 309). The government's reform proposals faced significant resistance from the private sector, ultimately being abandoned due to political considerations among incumbents (Krueger 1974, p. 312).

Second, the ISI strategy in Turkey had already deviated from its original goals. Instead of nurturing and fostering domestic industries, it had rapidly transformed into a system where state and industrialists engaged in rent-seeking behavior (Bugra 1994, p. 159). This competition for economic rents intensified conflicts of interest within the private sector and placed multiple pressures on governments. Moreover, sector-specific rivalries persisted over these economic rents, dividing those who benefited from protectionism and those who did not. Turkey's largest industrial conglomerates were determined to safeguard the privileges they enjoyed within the domestic market, shielded by state protection, and they vehemently opposed costly reforms that could expose them to foreign competition (Barkey 1989, pp. 305–10).

Third, the post-1973 crisis era in Turkey coincided with a period of political instability. During this time, the Turkish government was characterized by incompatible coalitions and short-lived, temporary administrations. Especially in the context of coalition governments, the distribution of ministerial positions among different political parties led to a lack of coherence in economic policies. As political parties sought to leverage their ministerial roles for the benefit of their constituents, bureaucratic bodies failed to work in synergy to address the pressing need for structural reforms exacerbated by the 1973 oil shock.

Fourth, the Turkish bureaucracy failed to evolve into a Weberian model and instead became a tool for governments to pursue their narrow political interests (Bugra 1994, p. 159; Milor 1990). The erosion of autonomy within the Turkish bureaucracy is evident in the history of the SPO during the 1960s and 1970s. The frequent changes in high-level leadership within the organization disrupted the possibility of consistent and long-term planning. As noted by Bugra (1994), there were eleven different presidents and thirteen directors of the Economic Planning Section appointed during this period. In addition, the SPO found itself unable to develop independent development plans or implement them autonomously within a framework of principles established by the organization itself.

To sum up, the lack of autonomy hindered the state's ability to formulate comprehensive and long-term policies to address the economic challenges arising from the 1973 oil crisis. From 1973 to 1980, Turkey saw the formation of five fragile coalition governments, none of which were able to provide effective solutions to the persistently high inflation and mounting debt issues (Öniş 2010, p. 55). The government's guarantee of debts had led to a significant increase in the overall debt burden. During this period, the import substitution system had deteriorated and had become a tool for

maximizing profits for industrialists (Pamuk 2012, p. 244). By 1977, the debt accumulation had reached an unsustainable level, and external sources were reluctant to provide new loans to service this debt. Consequently, Turkey faced a severe debt crisis, which could only be alleviated through an IMF assistance package (Cecen, Doğruel, and Doğruel 1994).

Conclusion

This article seeks to address the question of why oil-dependent developing nations can exhibit divergent responses to the negative impacts of oil crises. To explore this issue, the authors employed a "most similar system design" approach, drawing a comparison between how South Korea and Turkey reacted to the significant challenges posed by the 1973 oil crisis, which had a profound impact on both countries' economies. The puzzle at the heart of this study lies in the contrast between South Korea's adoption of various short- and long-term adjustment measures and Turkey's comparatively weak and inefficient response to the escalating global oil prices, which failed to effectively mitigate the economic hardships experienced in the years following the crisis.

The prevailing explanation for the puzzle in the existing literature highlights how a state's dominant industrialization policies can create path dependencies, shaping the government's responses during economic crises. According to this perspective, these industrialization policies can limit the available tools for governments to address such crises, occasionally forcing them to adopt inefficient measures in order to avoid disrupting ongoing industrialization programs. However, we contend that this macroeconomic viewpoint alone is insufficient for fully comprehending the varying performances of oil-dependent states when confronted with exogenous shocks like the oil crisis. Instead, we propose a sociological perspective on this matter, suggesting that the degree of state autonomy and the characteristics of the bureaucracy play crucial roles in explaining divergent government responses to economic turmoil. Accordingly, states with higher autonomy and bureaucracies organized around meritocratic principles are more inclined to respond to crises with consideration for long-term economic objectives. Conversely, states with lower autonomy and non-meritocratic bureaucratic structures are more likely to formulate efficient policies in response to oil shocks, as they tend to succumb to short-term, narrow political and social interests.

The study draws several key conclusions. First and foremost, while the overall development strategies did impose certain constraints on decision-makers in both Turkey and South Korea following the 1973 oil crisis, it is evident that the divergent responses of these states should be attributed to varying levels of state autonomy and differences in bureaucratic characteristics. States and their bureaucracies play multifaceted roles, encompassing not just the planning and implementation of economic development policies, but also the critical task of monitoring and making necessary adjustments in the face of inefficiencies. In the case of South Korea, the government exhibited a remarkable ability to plan and execute systematic structural adjustments aimed at rectifying economic imbalances. Moreover, it successfully persuaded or compelled the business sector to embrace these new regulations, benefiting from its higher degree of autonomy when compared to various business groups. This combination of state autonomy and a bureaucracy organized along Weberian principles laid the groundwork for formulating policies that prioritized long-term public interests.

Conversely, Turkey's response to the 1973 oil crisis proved inadequate in preventing severe and long-lasting economic repercussions. While the implemented ISI system did impose limitations on the available policy choices for decision-makers in light of the crisis, attributing Turkey's struggle with economic challenges solely to the ISI system would be an oversimplification. Instead, the root causes of Turkey's policy inertia can be better understood by considering alternative causal factors related to state–business relations (Pamuk 2012). In Turkey, the state failed to establish a position of autonomy concerning various interest groups within society, and it was unable to cultivate a bureaucratic structure aligned with Weberian principles. This lack of state autonomy left the Turkish bureaucracy highly susceptible to the narrow interests of political actors and industrial elites. Even though the ISI system displayed overall inefficiency, the state struggled to reform the economic model in the

interest of the public good. Paradoxically, the ISI model contributed to significant wealth accumulation among certain industrial groups, providing them with fertile ground to exert influence over economic policies through clientelistic political connections. Consequently, the feeble and non-autonomous bureaucracy had limited capacity to withstand pressures originating from societal forces, making it incapable of implementing independent economic reform policies capable of mitigating the adverse impacts of the 1973 oil shock on the Turkish economy.

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