
EVOLUTION OF KOREA'S ODA POLICY

Eun Mie Lim

Graduate School of International Studies
Ewha Womans University
120750, 52 Ewhayeodae-gil, Seodaemun-gu,
Seoul, South Korea

Since joining the DAC in 2010, Korea has made a great deal of effort to enhance its role in international development cooperation. This paper reviews the evolution of Korea's ODA policy by discussing how the Korea's development experience as a recipient and its accession to the DAC have inextricably shaped the ODA policy and strategies. It shows that the different interest and motivation of the Ministry of Strategies and Finance and Ministry of Foreign Affairs and Trade have been strongly reflected in Korea's ODA policy. The Korean government has committed to bridge developed and developing countries by proposing "the Korean ODA model". This paper argues that integration of DAC principles and norms into the Korean ODA model remains a challenge.

Key words: Korea, ODA policy, aid allocation, International Development Cooperation, DAC, Donor, Recipient.

Introduction

The USAID report on the Republic of Korea (hereafter Korea) in 1961 stated, "The country is a nightmare, an albatross, a rat hole, a bottomless pit. Aid did nothing for economic development, or even worse, doused its people with a welfare mentality". Fifty years later, the country became the 24th member of OECD DAC (Development Assistant Committee), the world's major donor club. Korea's unparalleled transformation from a basket case to an economic prosperity in such a short period of time has often been called a miracle of the Han River which is located in the capital of Korea. Moreover, the shift of Korea's status from one of the most impoverished countries to an important aid donor is now seen as an exemplary case of success for developing countries [26]. Having the knowledge and ideas drawn from its own development experience, Korea is regarded as a donor who has "an area of particular comparative advantage relative to other DAC members" [20. P. 11].

Since joining the DAC in January 2010, Korea has committed to significantly increase its ODA volume. In 2013 Korea's ODA marked USD 1.74 billion ranking 16th among the 28 DAC member countries. Korea's efforts to scale up the ODA volume are well shown by the fact that "its annual average increased 20.91% in the 2009—2013 period, which greatly exceeds the average 2.85% posted by other DAC members" [18]. Nevertheless, Korea has been criticized for its low ODA/GNI ratio. In response to the criticism the Korean government have pledged to increase the ratio to 0.25% by 2015. Korea's ODA accounted for 0.13% of GNI in 2013, far below the DAC average (0.3%), which placed Korea 23rd in the ranking. To achieve the target by 2015, it is estimated that Korea must increase its ODA volume from USD 1.74 billion to USD 3.2 billion in two years, which is a major challenge [20. P. 46].

Despite much heralded Korea's economic development and the government's strong commitment to play a leading role to bridge developed and developing countries, critics raise a question whether such commitment is simply a rhetoric or a reality. The develop-

ment literature has given a lot of attention to the purposes of foreign aid with two contrasting approaches, namely realism and idealism. The realism approach views ODA as a tool to serve donor's self-interests. ODA policies are, therefore, determined by donor's political, diplomatic, economic and/or commercial interests [1; 12; 16; 23]. On the other hand, the idealism approach perceives ODA as a moral and ethical value to promote humanitarianism [4; 19]. In that vein, ODA policy must reflect the developmental needs of recipients.

In Korea ODA policy is a relatively new field of study. Accordingly not much researches have been done on the subject. Most literature of Korea's ODA policy focus on the determinants of ODA allocation from the perspectives of realism versus idealism. They argue that Korea's ODA is generally aimed to increase economic interests of Korea rather than those of recipients [2; 5; 7; 8; 11; 15; 14; 24; 27]. Such criticisms were often supported with Korea's ODA practices such as a high proportion of concessional loans and tied aid compared to grants and untied aid, heavy emphasis on investment in economic infrastructure, over-reliance on project aid, bias towards Asian region, and so forth [20]. Meanwhile, studies also demonstrate that recently idealism such as developmental and humanitarian interests has increasingly become important factors for the allocation of Korea's grant aid whereas loan aid is determined predominantly by economic interests [7; 24].

This paper aims to review the evolution of Korea's ODA policy by discussing how the Korea's development experience as a recipient and its accession to the DAC have inextricably shaped the ODA policy and strategies. Korea's donorship is not just an economic or humanitarian issue, but it is also *the* pride and belief in the primacy of so-called "Korean model" of economic development, which is deeply rooted in Koreans' collective psyche. At the same time, as a newcomer of the DAC community, Korea has been pressured to follow the DAC principles and guidelines. This paper suggests that in order to better understand Korea's ODA policy we must look into how both the particularity of Korean development experience and the universality of DAC principles have affected the ODA policy in Korea.

A brief review of Korea: From a recipient to an emerging donor

Korea received USD 12.7 billion of foreign aid from its independence in 1945 to the end of the 1990s [21]. In the 1950s, Korea was a war-devastated, poverty-stricken, foreign aid dependent country. During that time, aid was provided mostly in the form of grant by the United States. Although the aid helped in facilitating the reconstruction of country after the Korean War, most of it was program or relief aid, which did little to promote long-term development [17; 25]. Aid to Korea peaked in 1957 and then began to decline sharply. Also, the grants were increasingly replaced with the loans (see table 1). In 1960 Korea's GNP per capita was a mere 79 dollars. The country was literally a vortex of rampant poverty and despair. After president Park Chung-Hee came into power in 1961, he announced the Five-Year Economic Development Plans which began in 1962 and ended in 1986.

However, as the aid fell significantly, the Korean government faced a serious depletion of foreign capital that it needed desperately for the newly launched export-oriented

development strategy. The Five-Year Economic Development Plans were long-term development goals with midterm strategies for the resources allocation for productive investment especially in the export sector. Therefore, the Korean government diversified its foreign capital sources including concessional loans from bilateral donors, particularly Japan, and multilateral donors including World Bank and Asian Development Bank. In addition, non-concessional commercial loans and foreign direct investments were strongly mobilized to finance the export-led industrialization of Korea. It is important to note that the Korean government prioritized the allocation of concessional loans to economic infrastructure building in order to promote the rapid industrialization. Korea's experiences with foreign aid invested in hardware economic infrastructure, especially the loan-based economic development strategies during the development era of 1960s and 1970s, became a core element of Korea's ODA policy and strategy as a donor. Korea graduated from the aid recipient status in 1995 when the World Bank excluded Korea from its lending list. And in 2000 Korea exited out of the OECD DAC list of aid recipient countries. "As such, Korea was finally able to make a transition from an aid-receiving country to an emerging aid-donor country" [28].

Table 1

History of Korea's ODA: Changing Nature of Assistance

Year	Purposes/Needs	Forms and Modalities	Sectors and Compositions	Reliance on Assistance	Major Donors
1945—1952 Korean War	-Short-run relief	— Grant (100%) — Relief goods	— Education — Land Reform — Consumer goods	— Only foreign savings	US
1953—1961 Seungman Rhee Administration	— Defense — Stability — Rehabilitation	— Grants (98.5%) — Commodities — Technical cooperation	— Agriculture — Non-project aid — Military aid — Consumer & intermediate goods	— Heavily dependent on aid	US UN
1962—1975 Chung-hee Park Administration	— Transition — Long-term growth	— Concessional loans (70%) — Technical cooperation — Volunteers	— SOC — Import substituting & export-oriented large industry — Project assistance — Intermediate & capital goods	— Diminution of the absolute & the relative importance of assistance	US Japan
1976—1996 Doo-wan Chun, Tae-woo Roh Administrations	— Balance b/w stability and growth	— Non-concessional financing	— Sector loans	— Removal from the IDA lending list	Japan Germany IFIs
1997—2000 Young-sam Kim, Dae-jung Kim Administrations	— Financial crisis	— Bailout packages from the IMF	— Structural readjustment programs	— Graduation from the ODA recipients	IMF IBRD

Source: [5].

Korea, no longer a recipient country, has proactively participated in international development cooperation agenda and activities. In January 2010 Korea joined the OECD DAC as the 24th member country. In the same year Korea hosted the G20 Summit. As the only G20 country that has transformed from a recipient to a DAC member since World War II, Korea initiated the G20 development agenda resulting in the declara-

tion of the Seoul Development Consensus for Shared Growth. Also Korea strived to serve “as a bridge between DAC members and the BRICs countries (Brazil, Russia, India, China and South Africa). Korea’s interventions have consistently ensured support from the BRICs for the governance structure and global monitoring framework for the Global Partnership for Effective Development Cooperation” [20. P. 24]. In 2011 Korea hosted another important international conference, the Forth High Level Forum on Aid Effectiveness (HLF4) in Busan.

Korea’s history as an aid donor dates back to 1963 when it provided a US-funded training program for public officials from developing countries. In 1965 Korea offered a training program with its own fund for the first time and dispatched experts to developing countries in 1976. Until the mid-1970s, Korea’s ODA projects were mostly funded by donors, but as the Korean economy grew, the Korean government began to expand the ODA with its own fund. For example, in 1977 the government provided equipment (USD 1.1 million) to developing countries. Also in the same year, education program on Korea’s development experience was provided to government officials from developing countries [21].

A significant step for Korea as a donor was the establishment of the Economic Development Cooperation Fund (EDCF) in 1987. The government set aside the fund to provide bilateral and multilateral concessional loans under the supervision of the Ministry of Strategy and Finance (MOSF), and entrusted the Export-Import Bank of Korea (Korea Eximbank) as the implementing agency (Figure 1). The purpose of EDCF is “*promoting economic cooperation between Korea and developing countries. Drawing on Korea’s own development experience over the years, the EDCF assists partner countries by providing funding for their industrial development and economic stability*” [28].

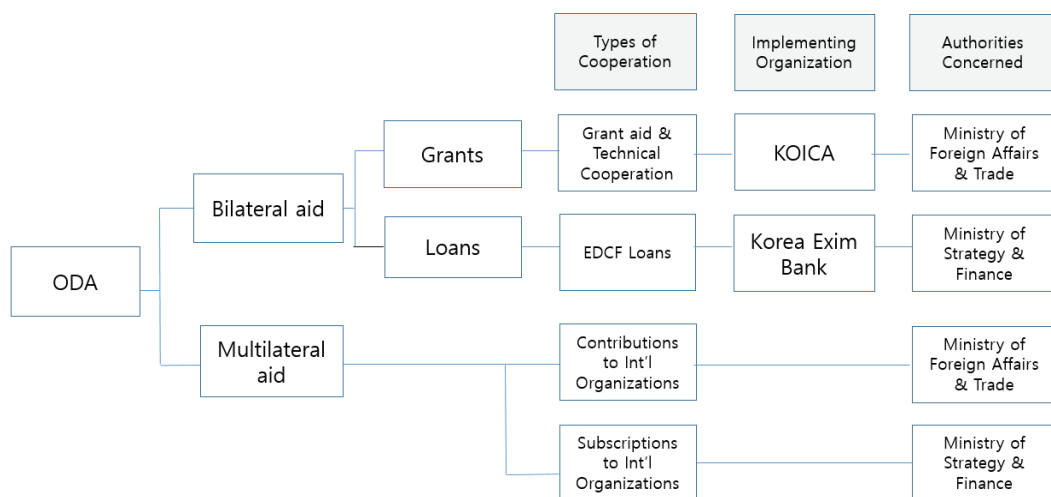


Figure 1. Korea’s ODA System
Source: <http://www.koica.go.kr>

To manage and implement the grant aid the Korean government established the Korea International Cooperation Agency (KOICA) in 1991. The KOICA operates the following programs under the supervision of the Ministry of Foreign Affairs and Trade (MOFAT): a) invitation of trainees; (b) dispatch of experts and volunteers; (c) research

for development studies; (d) emergency and distress relief activities; and (e) provision of commodities, capital, and facilities (<http://www.koica.go.kr>). The purposes of KOICA are “ramp up its efforts to upgrade its *ODA programs based on Korea's development experience* and technological capacity to tackle global challenges *and promote the better image of Korea*” (Italic added by the author; <http://www.koica.go.kr>).

The MOFS and MOFAT account for about 90% of Korea's total ODA through the implementing agencies (Eximbank and KOICA). About 10% of ODA are implemented by the rest Ministries and agencies. Although the organizations are split by loans and grants, the main purposes are same: (1) ODA must be based on Korea's development experience; (2) ODA is to promote good relations between Korea and developing countries. But the approaches to the purposes are different. The Ministry of Strategy and Finance, with a strong belief and confidence in Korea's loan-based industrialization, promotes economic cooperation. On the other hand, the Ministry of Foreign Affairs and Trade emphasizes “a better image of Korea” in the global community by following the DAC norms and principles.

ODA Volume and Allocation

The increase of Korea's ODA over the past two decades is impressive. In 1991 Korea provided a total of USD 150 million and the amount increased more than ten times (USD 1.74 billion) in 2013 (Figure 2). As mentioned elsewhere in this paper, in terms of ODA volume, Korea is the 16th largest donor among the 28 DAC member countries. The ODA volume does not include the aid to North Korea. South Korea has provided a significant amount of aid to North Korea, mostly for the purpose of humanitarian assistance, although the aid amount is greatly affected by the political ideology of ruling government (i.e., conservative or liberal). The aid to North Korea is not verified as ODA by DAC definition, because from the point of South Korea, the aid to North Korea is regarded as an intra-nation (i.e., within one country) flow of fund not an inter-national or government to government transfer of fund. The ODA/GNI ratio has steadily increased as well, but it is still very low compared to the other DAC countries. To achieve the 0.25% target, “Korea will need to increase its aid by an average annual rate of 25% for the years 2012, 2013, 2014 and 2015 ... a steeper trajectory for these years than the Korean government envisaged in 2009” [20. P. 46]. In terms of bilateral/multilateral ratio, Korea's target to match with DAC average (70 : 30) is yet to be achieved (Table 2). The DAC average of grants allocation was 97.2% (loans: 2.7%) in 2012. For Korea, the grants accounted for 65% and loans 35%, which received much criticism from the DAC [21]. Figure 2 compares the allocation of EDCF and KOICA by sector. The concessional loans are heavily allocated in hardware economic infrastructure by EDCF and grants are in software social sector by KOICA.

While Korea's bilateral ODA is provided to more than 50 countries, it is concentrated on a small number of recipient countries. For example, “in 2009/10 Korea's top 10 recipients accounted for 49% of its bilateral aid and its top 20 recipients received 68%, compared to the DAC averages of 39% and 52% respectively” (OECD DAC 2014, p. 49). According to the Korea's Midterm ODA Policy announced in 2010, the Korean government plans to allocate 70% of bilateral aid to 26 priority partner countries (11 Asia; 1 Oceania; 8 Africa; 4 South America, 2 Middle East and CIS). By income level, the Ko-

rean government has increased its ODA to low income countries and high-indebted countries in the past five years. In 2012, Korea provided 40.6% of Korea’s bilateral ODA to lower-income countries, 35.2% to least-developed countries, and 8.4% to upper-middle income countries [21].

Table 2

Korea’s ODA: 2006-2013
(Net disbursement; USD million)

	Year							
	2006	2007	2008	2009	2010	2011	2012	2013
ODA(A+B)	455.25	696.11	802.34	816.04	1173.79	1328.49	1,597.5	1,744
Bilateral aid (A)	376.06 (83%)	490.52 (70%)	539.22 (67%)	581.1 (71%)	900.63 (77%)	993.47 (75%)	1,183.2 (74%)	1,299 (74%)
– Grants	258.95 (69%)	359.33 (73%)	368.67 (68%)	366.97 (63%)	573.89 (64%)	578.93 (58%)	714.9 (60%)	800 (62%)
– Loans	117.11 (31%)	132.19 (27%)	170.56 (32%)	214.13 (37%)	326.74 (36%)	414.55 (42%)	468.3 (40%)	499 (38%)
Multilateral aid (B)	79.19 (17%)	205.59 (30%)	263.12 (33%)	234.94 (29%)	273.15 (23%)	335.02 (25%)	414.3 (26%)	445 (26%)
ODA/GNI (%)	0.05	0.07	0.09	0.1	0.12	0.12	0.14	0.13

Source: Constructed based on data from KOICA, EDCF and Prime Minister’s Office

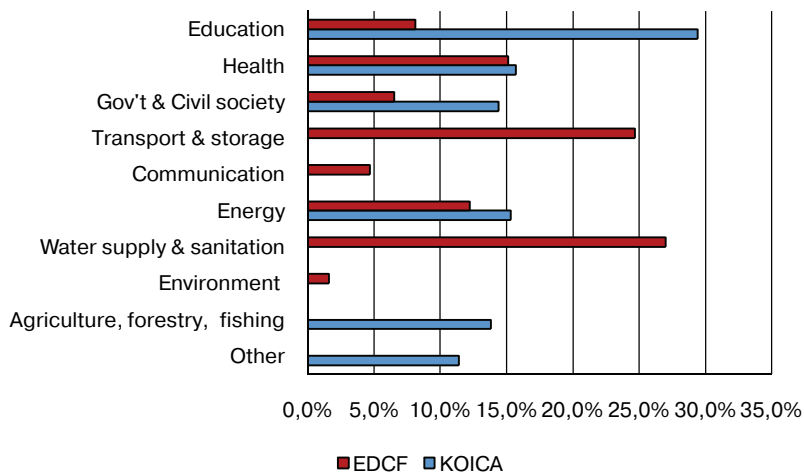


Figure 2. Korea’s ODA by Sector (2013)

Source: Constructed based on 2013 KOICA Aid Statics; 2013 EDCF Aid Statics

Korea’s ODA Framework Act for International Development Assistance

A critical threshold of Korea’s ODA policy is the Framework Act for International Development (Framework Act) adopted in 2010. The Presidential Decree on International Development Cooperation was also promulgated to put the Framework Act into effect. The Framework provides the legal basis and defines basic principles of Korea’s international development cooperation.

The Framework Act provides guidance on Korea's ODA policy and strategies by mandating three things: Strategic Plan, Midterm ODA policy, and Integrated ODA system. Figure 3 shows the Korea's development cooperation framework.

(1) *Strategic Plan*: In 2010, the CIDC (Commission on International Development Cooperation), which is the highest decision-making body for ODA policy, agreed on the Strategic Plan as the basic framework for Korea's ODA policy. It says, Korea "takes responsibility as a member of the DAC, fulfils its commitment to scaling up ODA volume and strengthen integrated ODA system". This is what Korea is advised to do by the DAC.

(2) *Midterm ODA Policy*: This is an action plan for upcoming five years that specifies Korea's ODA policy directions including targets of ODA volume, bilateral/multilateral disbursement, aid allocation by region, income level, grant/loan ratio, tied/untied aid, and so forth.

(3) *Integrated ODA system*: One of the key reforms by the Framework Act is the strengthened role of the CIDC (Commission on International Development Cooperation). The CIDC is a coordinating and decision-making body on major ODA policies with the Prime Minister as the chairman. The CIDC was established in 2006, but had been relatively inactive until 2010 when the Framework Act was enacted.

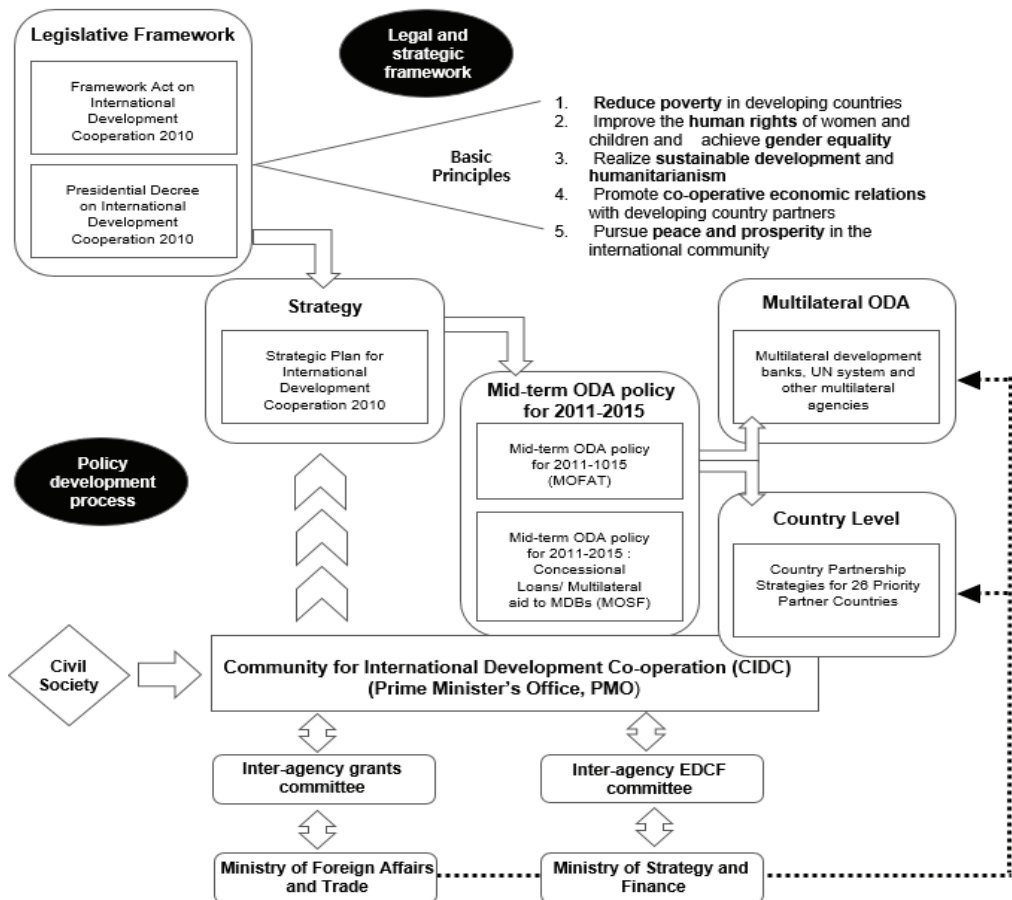


Figure 3. Korea's development co-operation framework

Source: OECD. 2012. DAC Peer Review of Korea 2012.

Conclusion

This paper reviews Korea's transformation from an aid recipient to a donor. By doing so, it shows that the core purpose of Korea's ODA is to promote Korean ODA model based on Korea's development experience. However, different interest and motivation of the Ministries (i.e, MOSF and MOFAT) allow a continued fragmentation of ODA practice as to grants and loans despite other noticeable strides in ODA policy. Furthermore, a fundamental question is "what the Korean ODA model is", or more precisely "what the Korean development experience-based ODA model means". Does it mean that Korea's particular development context must be the basis of ODA policy? Then, how will the DAC principles and norms be integrated into the Korean ODA model? These questions have hardly been discussed in Korea's ODA policy. To play a leading role in the international development cooperation, Korea must have a better and clear definition of Korean ODA model. I leave the topic for future research.

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ЭВОЛЮЦИЯ КОРЕЙСКОЙ ПОЛИТИКИ ОФИЦАЛЬНОЙ ПОМОЩИ В ЦЕЛЯХ РАЗВИТИЯ

Юн Ми Лим

Высшая школа международных исследований
Женский университет Ихва
Содэmun-гу, Сеул, Республика Корея, 120750

С момента вступления в Комитет содействия развитию (КСР) ОЭСР в 2010 г. Республика Корея предприняла немало усилий, чтобы повысить свою роль в области международного сотрудничества в целях развития. В статье анализируется эволюция корейской политики официальной помощи в целях развития (ОПР), рассматривается, каким образом опыт Кореи в области содействия развитию в качестве реципиента помощи и ее присоединение к КСР формировали политику и стратегии ОПР. Различные интересы и мотивации Министерства стратегии и финансов и Министерства иностранных дел и торговли сильно влияют на корейскую политику ОПР. Корейское правительство взяло на себя обязательство «наводить мосты» между развитыми и развивающимися странами, предложив «корейскую модель ОПР». Тем не менее интеграция принципов и норм КСР в корейскую модель ОПР остается вызовом.

Ключевые слова: Корея, политика ОПР, распределение помощи, международное сотрудничество в целях развития, Комитет содействия развитию, доноры, реципиенты.