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# KOREA'S DEVELOPMENT ASSISTANCE

*Performance, Prospects and Policy*

Sooyong Kim  
and  
Wan-Soon Kim



International Trade and Business Institute  
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## Preface

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In view of the growing interest in Korea's active role in global economic development and of the fact that Korea is expected to be a significant aid donor country in the 1990s, it is important to review Korea's past aid performance and to reexamine the direction of Korea's aid policy for the 1990s. A joint effort by Professor Sooyong Kim of Sogang University and Dr. Wan-Soon Kim of the International Trade and Business Institute and Korea University fulfills this long-felt need. In the main, they review the performance of Korea's official development assistance (ODA) program and discuss major policy issues of ODA that the country expects to face in the 1990s. While the lack of previous studies on this subject has posed a great difficulty to the authors, they have produced an in-depth work on Korean development assistance for the first time in English.

This study was first suggested in September 1990 by Mr. Jacob Guijt, resident representative of the UNDP at Seoul. The authors thank UNDP for their financial support for the research and Mr. Guijt for the many insightful discussions they had with him on the subject. Romulo Garcia, then deputy resident representative of the UNDP, provided valuable comments on an earlier draft.

In various stages of the research, the authors also depended on numerous Korean government officials for information and ideas about Korea's aid policy. The authors are particularly grateful to the following officials

for their kind support and cooperation: Sun Ok Kim (Director General), Byun Jae-Jin (Director), and Nam-Ki Hong (Deputy Director) of the Economic Planning Board; Sam Hoon Kim (Director General), Jee Joon Yoon (Deputy Director General), and Daesik Kim (Deputy Director) of the Ministry of Foreign Affairs; and Jae Ho Chung (Executive Director) of the Korea International Cooperation Agency. Tae-Sung Chung (Deputy Manager) of the EXIM Bank of Korea also provided valuable assistance.

The conclusions and policy recommendations in this paper represent the views of the authors and do not necessarily reflect the views of the International Trade and Business Institute, Seoul, Korea, or the International Center for Economic Growth, San Francisco, California.

A handwritten signature in black ink, appearing to read 'J. Kum', with a long, sweeping horizontal stroke extending to the right.

Kum Jin-Ho

Chairman

International Trade and Business Institute

Seoul, Korea

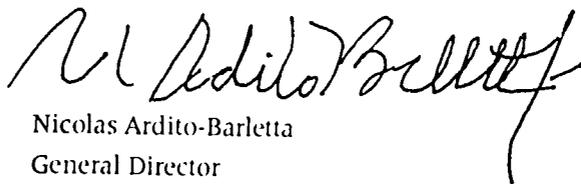
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## Co-Publisher's Preface

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While in the past, Korea has been a significant recipient of ODA from developed countries, today the country is on the verge of becoming a significant donor of development assistance. Korea's active participation as a donor of aid is timely, not only because the world community needs additional donors, but because Korea with a per capita income of almost \$6,000 can now afford to take this step.

Development assistance from Korea began as early as 1963 and has since grown. The paper reviews Korean ODA and compares it with ODA of other developed and developing countries. The types of assistance offered, the distribution of aid, and the quality of the aid are examined. The authors of this study conclude that Korean ODA has generally been of poor quality and allocated on an ad hoc basis. Their final chapter points to future directions for Korea's ODA program and policies, including the importance of assistance on environmental and population control issues.



Nicolas Ardito-Barletta

General Director

International Center for Economic Growth

Panama City, Panama

September 1992

# ONE

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## Introduction

Korea was a major recipient of development aid in the 1950s and 1960s. In the 1970s and 1980s, Korea was both a recipient and donor of aid. In the 1990s, Korea is expected to become a major donor country. The first Korean concessionary loan was disbursed in 1989, and in April 1991, a new agency specializing in foreign aid management began its work. The admission of Korea to the United Nations in September 1991 is sure to raise the public's interest in Korea's development aid to other countries.

The main purpose of this research is to review the performance of Korea's official development assistance (ODA) program and to discuss major policy issues of ODA that Korea can expect to face in the 1990s. The timing of this research is perfect considering the recent changes in Korea's position in the world economic community. But the lack of previous studies on this subject poses a great difficulty for an intensive research. Only recently have research works on this topic been available in Korea. In order to understand clearly the issues that Korea must deal with in the process of increasing ODA, we also had to study the policies and experiences of developed donor countries.

The remainder of this paper is divided into five sections. Chapter 2

discusses the current international environment for economic development and examines the ODA programs of other developed and developing countries. The third chapter reviews Korea's experience as a recipient of ODA and argues the case for Korea's active participation in aid-giving. Chapter 4 deals with the performance of Korea's ODA. Detailed data on different types of Korean aid are provided and evaluated. The quality of Korean aid is also examined and is compared with aid from the developed countries. The general ideas that Korean policymakers and the public have about Korea's aid policies and the organization of aid administration are the subjects of Chapter 5. The last chapter deals with directions for Korea's ODA in the 1990s including the major policy issues concerning the volume, quality, and sectoral and geographic allocation of Korean aid.

## TWO

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### **Developing Countries and Development Assistance in Today's World**

#### **The Recent International Environment**

While the primary responsibility for the growth of the developing countries rests with the developing countries themselves, a favorable international economic environment can enhance the effectiveness of the development policies of developing countries. The international environment is basically determined by (1) the market conditions for exports and imports of developing countries, and (2) the volume and terms of capital flows from developed to developing countries. In recent years, neither exports of nor capital inflows into developing countries have progressed at any significant rate.

The liberalization of world trade in manufactures through multilateral negotiations and the generalized system of preferences granted by many developed countries contributed to the growth of manufactured exports of developing countries in the 1960s and 1970s. However, the upsurge of nontariff barriers in developed countries in the late 1970s and 1980s has deterred the exports of manufactured products of developing countries

from becoming an engine of growth.

Primary goods exports typically make up a significant share of the exports of developing countries. However, international commodity agreements, despite prolonged discussions, have not succeeded in reducing the extent of instability of primary goods exports. The Common Fund is still not operational.

Thus, as the world economy slowed down during the early 1980s, growth of developing countries' exports fell. The revival of world demand after 1985 had only a small effect on the exports of developing countries, except for the East Asian nations. In contrast, Latin America's exports (in real terms) have only recently regained the level of the early 1970s. Sub-Saharan Africa's exports fell in the early 1980s and stagnated through 1988 (World Bank 1990:13).

Net private capital flows to developing countries, which are mainly comprised of international bank lending and direct investment, declined continuously during the period 1981–1986. Commercial bank lending to developing countries increased sharply in the 1970s and early 1980s. But the threat of default stopped most voluntary lending to the principal debtors after 1983 (see Table 2.1). Most of the loans to debtors were used to roll over existing debt. The burden of developing countries increased because real interest rates were exceptionally high during the 1980s. On average, real interest rates in the 1980s were more than twice as high as the interest rates of the 1960s (World Bank 1990:15).

Although many developing countries undertook policy reforms in order to induce more foreign direct investment (FDI), capital inflows to developing countries in the form of direct investment did not increase. While the nominal value of direct investment in developing countries increased 10 percent a year between 1967 and 1982, its real value hardly increased at all. Moreover, during 1983–1986, annual nominal values of FDI were less than that of 1982. A problem with direct investment in developing countries is that it has been concentrated for the most part in a few higher-income countries and has therefore provided very little capital to the low-income countries.

The size of total private resource flows to developing countries including direct investment, international bank lending, bond lending, and

grants by nongovernmental organizations (NGOs) decreased during the 1980s. The value of private flows was \$74.3 billion in 1981, but only \$40.2 billion in 1989 (see Table 2.1).

**Table 2.1 Total Private Resource Flows to Developing Countries (US\$ billion)**

Type of Resource flow	1981	1982	1983	1984	1985	1986	1987	1988	1989
Direct investment	17.2	12.8	9.3	11.3	6.6	11.3	21.0	25.1	22.0
Int'l bank lending <sup>a</sup>	52.3	37.9	35.0	17.2	15.2	7.0	7.0	5.8	8.0
Total bond lending	1.3	4.8	1.0	0.3	5.4	2.7	0.5	0.4	1.0
Other private	1.5	0.4	0.3	0.3	1.3	3.9	2.5	4.9	5.0
Grants by NGOs	2.0	2.3	2.3	2.6	2.9	3.3	3.5	4.2	4.2
<b>Total</b>	<b>74.3</b>	<b>58.2</b>	<b>47.9</b>	<b>31.7</b>	<b>31.4</b>	<b>28.2</b>	<b>34.5</b>	<b>40.4</b>	<b>40.2</b>

Note : a. Includes lending from all resources, i.e., including Eastern European countries and IDC donors, but excluding Taiwan.

Source : OECD (1990), p.200.

Weak external demand, declining terms of trade, and a diminishing supply of external finance combined to produce an unusually adverse economic environment for developing countries in the 1980s. As Table 2.2 shows, per capita GDP fell in both Sub-Saharan Africa and Latin America during the 1980s. Except for the countries of East and South Asia, economic performance of developing countries in the 1980s was much worse than their performance in the 1960s and 1970s.

The development experience of the past shows that the growth of developing countries is influenced considerably by the provision of external capital from and the growth of the developed countries. In particular, the capital flows should be on terms and conditions which do not aggravate the debt-servicing burden of the developing countries. The experience of the 1970s and 1980s clearly shows that heavy reliance on private commercial banks for the necessary external finance cannot work for most developing countries. Rather, a substantial transfer of capital from developed to developing countries in the form of foreign aid is required for the promotion of development in poor countries.

**Table 2.2**                      **Growth of Real Per Capita GDP  
in Developing Regions (percentage)**

Region	1965 – 73	1973 – 80	1980 – 89
Sub-Saharan Africa	3.2	0.1	-2.2
Eastern Europe	4.8	5.3	0.8
Middle East, North Africa and other Europe	5.5	2.1	0.8
Latin America and the Caribbean	3.7	2.6	-0.6
East Asia	5.1	4.7	6.7
South Asia	1.2	1.7	3.2

Source : World Bank (1990), Table 1.2.

### **Foreign Aid and Economic Development: A Historical Perspective**

The importance of foreign aid in the growth and stability of the developing countries was clearly recognized by the developed countries after World War II. Official commitment by the United States to assist in the development of poor countries was first made by President Truman in 1949 (Krueger et al. 1989:1). In his inaugural address, President Truman proposed that the United States commit itself to "a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas." The United Kingdom and other developed countries of the British Commonwealth signed the Colombo Plan in 1950. The plan began as a program of technical assistance for former British colonies in Asia, but other Asian recipient nations were included later when the United States and Japan joined the plan.

In the 1950s, the United States was the dominant source of development assistance. During 1950–1955, the United States alone accounted for about one-half of the world's total development assistance, while France accounted for about 30 percent and the United Kingdom for over 10 percent. During that period, the total world volume of development assistance amounted to \$7,897 million (in 1983 prices) with the United States supplying \$3,961 million (OECD 1985:92–3).

Although Germany and Japan joined the aid donor group in the 1950s, it was not until the early 1960s that comprehensive development assistance programs of the two countries occurred. Japan's reparations programs to Southeast Asian countries were accompanied by an expanding government-to-government loan program.

The 1960s was a period of great optimism about the possibilities of development. It was widely accepted that large increments of concessionary aid directed towards supporting comprehensive development plans would result in the self-sustaining growth of the developing countries. Thus the early 1960s was a period of extraordinary activity in the field of international cooperation. In 1961 the United Nations proclaimed the 1960s as the "Development Decade." The OECE (Organisation for European Economic Co-operation), the organization coordinating the Marshall Plan, was converted into the OECD (Organisation for Economic Co-operation and Development). In 1960 the Development Assistance Group (DAG) was created by established donors (the United States, France, the United Kingdom, the Netherlands, Belgium, and Portugal) and new donors (Germany, Japan, Italy, and Canada). The name of the DAG was later changed to the Development Assistance Committee (DAC) in 1961.

Although the 1960s was a decade of rapid growth of the developing countries, development assistance from the developed countries did not increase during this period. This lack of growth in aid was the result of a major decline in both U.S. and French aid from exceptionally high levels, which was offset to some extent by substantial increases in economic aid from virtually all of the other DAC countries. By the early 1970s, Germany and Japan had become major contributors to the international assistance effort. Aid from the Nordic countries and the Netherlands also expanded very rapidly in the 1960s. In the 10-year period between 1960/61 and 1970/71, the ODA/GNP ratio in Sweden increased from 0.06 percent to 0.41 percent and in the Netherlands, the ratio rose from 0.38 percent to 0.60 percent (OECD 1985: Table 3.1).

If the 1960s was the period for the laying of the modern foundations of aid, the 1970s was the period of greater realism with regard to both the need for, and the results of, aid (Browne 1990: 27). For many countries, funds from external sources for investment were insufficient in quantity

and the investments that were made in productive capacity were inadequate for indigenous technical know-how. Unlike the Marshall Plan, which proved the efficacy of substantial transfers of capital from stronger to weaker economies to the mutual benefit of both, the provision of assistance to the developing countries by the industrialized countries was not able to promote substantial development in recipient countries except in a few cases.

The stagnation of aid growth and the energy and food crises in the early 1970s, on top of the frustration of many developing countries with the prevailing international economic order, led the Third World countries in 1973 to declare that the second development decade had failed and to call for a special session of the UN General Assembly. In 1974 the United Nations adopted a program for the establishment of a "New International Economic Order" (NIEO). Since then the North-South dialogue continued to focus on the issues of the NIEO, but very little concrete progress has been made.

During the 1970s development assistance was criticized from both the right and the left. The right criticized the role of foreign aid in politicizing economic activity in developing countries and in contributing to the expansion of the public sector. Critics argued that aid strengthened the control of the central planning and financial institutions over private sector activity (Krueger et al. 1989:5). The conservative critics also argued that governments that were able to use capital productively could easily borrow in private international markets as well as resort to aid. Conversely, where investors have no confidence in the domestic economic policies of a government, capital flees abroad. Therefore, if a country cannot develop without external gifts, it is unlikely to develop with them. Another criticism is that aid, having a relatively low financial cost, is more likely than private capital to be directed to projects of symbolic and prestigious significance.

The critics from the left emphasized external constraints on development and viewed development assistance as an imperialistic conspiracy, i.e., as an instrument for exploiting resources and people of developing countries.<sup>1)</sup> They argued that the principal beneficiaries of aid projects are

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1) See Chapter 11 of Riddell (1987) for details.

the wealthy and the costs of modernization are borne by the poor.

The various attacks on economic aid reflected the recipient countries' disappointment at their development performance. While economic theories of foreign aid in the 1960s argued that aid as a tool of direct intervention can help to accelerate a development process by filling critical gaps that were preventing further growth,<sup>2)</sup> development of many developing countries in the 1970s was either not occurring or was slowing down. The foreign exchange gap was widening and investment levels were not rising. Increasingly, the developing countries incurred large balance-of-payments deficits and Third World debt grew.

In spite of the disappointment and criticisms of the role of foreign aid, most governments and academic observers believe that aid can play a central role in the development of many countries. The decreased supply of private resource flows in the 1980s made the concessionary resource flows from developed countries all the more important for low-income countries.

A comprehensive study of the effectiveness of aid by the Task Force on Concessionary Flows, which was established in 1982 by the IMF and the World Bank and includes governmental representatives from a diverse group of developed and developing countries, concluded that aid has been productive and helpful to development: without it, a number of countries would not have been able to graduate from the ranks of poor to middle-income countries, and the countries that continue to be poor would have been even poorer (Burki and Ayres 1986). While the case of the "Green Revolution" in South Asian agriculture was used as an example of the spectacular success of aid, the Task Force recognized that in some situations foreign aid has been much less effective. In general, development assistance has had a better record in Asia than in Africa. Nevertheless, even in Sub-Saharan Africa where much aid has been legitimately criticized for not fully achieving its intended objectives, aid has contributed significantly to the development of basic infrastructure. Ac-

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2) The Chenery and Strout two-gap model is still regarded as the most substantial contribution dealing with the theoretical case for aid at the macro-level. See Riddell (1987), p.92.

**Table 2.3****Total Net Resource Flows to Developing Countries\***

	1981	1982	1983	1984	1985	1986	1987	1988	1989
	Current US\$ billion								
1. Official Development Finance (ODF)	45.5	44.2	42.4	47.7	48.9	56.3	61.6	66.0	69.0
Official Development Assistance (ODA)	36.8	33.9	33.9	35.0	37.3	44.5	48.3	51.6	53.1
of which : Bilateral disbursements	28.9	26.3	26.3	27.2	28.8	34.9	38.2	40.3	40.5
Multilateral disbursements	7.9	7.6	7.6	7.8	8.5	9.6	10.1	11.3	12.6
Other ODF	8.7	10.3	8.5	12.7	11.6	11.8	13.3	14.4	15.9
2. Export credits	17.6	13.7	4.6	6.2	4.0	-0.7	-2.6	-0.5	1.2
3. Private flows	74.3	58.2	47.9	31.7	31.4	28.2	34.5	40.4	40.2
Total net resource flows (1 + 2 + 3)	137.4	116.1	94.9	85.6	84.3	83.8	93.5	105.9	110.4
	US\$ billion at 1988 prices and exchange rates								
Total net resource flows	201.9	174.5	143.0	131.7	128.3	103.4	100.3	105.9	111.5
Total Official Development Finance	66.8	66.4	63.9	73.4	74.5	69.5	66.1	66.0	69.7
Total ODA receipts from all sources	54.1	51.0	51.1	53.8	56.8	54.9	51.8	51.6	53.6
Total DAC ODA (bilateral and multilateral)	37.6	41.8	41.6	44.2	44.8	45.3	44.6	48.1	47.4

Note : a. Excludes Taiwan.

Source : OECD (1990), p.123.

According to the Task Force report, the laudable record of aid includes contributions to raising food production in South Asia, rural education in Africa, infrastructural investment to self-help rural development schemes, strengthening the developing country's institutions, population programs, and initiatives to promote policy reforms in developing countries (Cassen 1986).

### **Development Assistance from Developed Countries**

During the 1980s, developing countries experienced declines in total net resource flows. As can be seen in Table 2.3, total net resource flows in real terms declined continuously during 1981–1987 and the value of total net flow in 1989 was just slightly higher than that of 1988.

Total net resource flows consist of three parts: official development finance (ODF), which includes official development assistance (ODA) as well as less-concessionary multilateral flows and certain bilateral flows; total export credits; and private flows.

Since 1981 ODA flows have stagnated in real terms. But due to the sharp fall in export credits and private bank lending following the debt crisis in 1982, the ODA share of total net resource flows increased from 27 percent in 1981 to 44 percent in 1985 and 48 percent in 1989.

This increased share of ODA in total net resource flows clearly indicates the importance of foreign aid in the developing countries of today's world. Low-income countries have extremely limited access to non-concessionary flows and depend heavily upon ODA. For the least developed countries, ODA in 1986 accounted for 86 percent of their total net capital flow while the ratio was 39 percent for upper middle-income countries (Krueger et al. 1989:38–9). The importance of ODA to developing countries may be indicated by the ODA/GNP ratios of recipients. For Sub-Saharan African countries, the ODA receipt/GNP ratio amounted to 11 percent in 1988/89 while it was 1 percent for Asian countries.

While total ODA receipts of developing countries in 1988 were \$51.6 billion, the total ODA from DAC countries in that year was \$48.1 billion; thus the ratio of DAC ODA to total ODA receipts by developing countries

**Table 2.4 ODA from DAC Countries, 1988 – 1989 (US\$ million)**

	1988	1989
A. Bilateral Official Development Assistance (1 + 2)	33,156	34,197
1. Grants and grant-like contributions	26,010	27,266
Technical assistance	10,070	10,259
Food aid	1,827	1,575
Administrative costs	1,611	1,823
Other grants	12,502	13,609
2. Development lending and capital	7,146	6,930
New development lending	6,746	7,349
Food aid loans	648	510
Equities and other bilateral assets	-248	-929
B. Contributions to Multilateral Institutions (1 + 2 + 3)	14,958	12,483
1. Grants	6,703	6,705
UN agencies	3,469	3,405
EC	2,569	2,636
Other	665	665
2. Capital subscription payments	8,272	5,792
IBRD (including IFC)	720	469
IDA	5,293	3,252
Regional development banks	2,134	1,927
Other	126	144
3. Concessional lending	-16	-14
Total (A + B)	48,114	46,679

Source: OECD (1990), Tables 51 and 52.

was 93 percent.<sup>3)</sup> In 1989 the ratio was 88 percent.

As shown in Table 2.4, net disbursements of ODA from DAC countries to developing countries and multilateral organizations were \$48.1 billion in 1988 and \$46.7 billion in 1989. Allowing for changes in prices and exchange rates, this implies that ODA in real terms decreased by 1.6 percent in 1989. The ratio of ODA to GNP of DAC countries also declined

3) DAC members presently consist of 18 developed countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

from 0.36 in 1988 to 0.33 in 1989; the average percentage during 1980–1985 was 0.36. The share of bilateral ODA was 69 percent in 1988 and 73 percent in 1989; the average during 1980–1985 was 69 percent. More than 70 percent of bilateral ODA from DAC countries are given as grants or grant-like contributions.

Among the 18 DAC countries, the United States and Japan are the two largest donors of ODA. These two countries provided 36 percent of the total ODA by DAC countries in 1989. Although the United States was the largest donor up until 1988, in 1989 it was surpassed by Japan. Table 2.5 lists other major donors in recent years; they are France, Germany, Italy, the United Kingdom, Canada, and the Netherlands. Each of these countries offered more than \$2 billion a year in development assistance.

**Table 2.5 ODA Performance of Individual DAC Countries**

Country	Volume (US\$ million)		As a share of GNP(%)		Annual average % change in volume <sup>d</sup> 1983/84–1988/89
	1988	1989	1988	1989	
Australia	1,101	1,020	0.46	0.38	1.6
Austria	301	283	0.24	0.23	0.0
Belgium	601	703	0.41	0.46	-3.4
Canada	2,347	2,320	0.50	0.44	4.1
Denmark	922	937	0.89	0.94	4.6
Finland	608	706	0.59	0.63	16.9
France <sup>b</sup>	6,865	7,449	0.72	0.78	3.0
Germany	4,731	4,949	0.39	0.41	-0.3
Ireland	57	49	0.20	0.17	0.4
Italy	3,193	3,613	0.39	0.42	14.8
Japan	9,134	8,949	0.32	0.32	3.6
Netherlands	2,231	2,094	0.98	0.94	2.4
New Zealand	104	87	0.27	0.22	-1.4
Norway	985	917	1.13	1.04	4.3
Sweden	1,534	1,799	0.86	0.97	4.9
Switzerland	617	558	0.32	0.30	3.1
United Kingdom	2,645	2,587	0.32	0.31	1.1
United States	10,141	7,659	0.21	0.15	-2.0
Total	48,114	46,679	0.36	0.33	2.2

Notes : a. At 1988 exchange rates and prices.

b. Includes flows to overseas departments and territories.

Source : OECD (1990), p. 188.

Norway, Sweden, Denmark, and the Netherlands stand out as the countries with the highest ODA/GNP ratios, with Norway in the lead at a higher than 1.0 percent level. Countries with the lowest ratios in 1989 were the United States, Ireland, New Zealand, and Austria. Finland and Italy are the two countries which have shown the most rapid growth of ODA among the DAC members. Over the period 1983/84 – 1988/89, the annual growth of ODA in real terms was 16.9 percent for Finland and 14.8 percent for Italy. For five countries – Belgium, Germany, Ireland, New Zealand, and the United States – the growth rates were negative.

The current ODA levels of the DAC members are contrasted with the recommendation of the Pearson Report in 1969 that, by 1980 at the latest, every developed country should attain an ODA/GNP ratio of 0.7 percent (Pearson 1969: Chap. 7). Denmark, the Netherlands, Norway, and Sweden are the only countries whose ODA performance was consistently higher than the recommended rate. However, these countries are small in terms of GNP and their total ODA in 1989 was just \$5.7 billion, less than 13 percent of the ODA by all DAC members.

### **Development Assistance from non-DAC Countries<sup>4)</sup>**

ODA from non-DAC countries in 1988 was \$7.8 billion. The USSR and Saudi Arabia were the largest non-DAC aid suppliers, accounting for 80 percent of all non-DAC aid in 1988 (OECD 1990: Table 20).

Non-DAC ODA has fluctuated considerably over the years due to fluctuations of ODA from the OPEC countries. During the period 1975 – 1981, the volume of ODA from Arab donors was more than 30 percent of the total ODA from DAC countries. But in 1988, the ratio was less than 5 percent, reflecting the close relationship between oil prices and aid from Arab countries.

The USSR provided \$4.2 billion of ODA in 1988. The East European countries – mainly the German Democratic Republic, Czechoslovakia, and Bulgaria – provided about \$0.5 billion in net aid to developing

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4) Note that the definition of aid by socialist countries may include forms of economic cooperation which fall outside the DAC definition of ODA.

countries. The aid from these socialist countries was concentrated in socialist developing countries including Cuba, Mongolia, Vietnam, Afghanistan, and North Korea. Among the other developing countries, India was by far the largest recipient of Soviet aid.<sup>5)</sup>

Other non-DAC donors include non-DAC OECD countries and some LDC donors. Spain, Portugal, Greece, Luxembourg, and Iceland belong to the former group. Their total ODA in 1988 was less than \$0.4 billion. Among the LDCs, China and India were the two largest donors in 1988, providing \$128 million and \$82 million, respectively. It should be noted that China and India are two of the least developed countries in the world; yet they provide development assistance to other developing countries. At the same time, the ODA receipts of China and India are more than ten times their development assistance to others. In fact, China and India were the two largest recipients of ODA from DAC countries, receiving \$1,973 million and \$2,099 million, respectively, in 1988. Venezuela, Korea, Taiwan, Israel, Nigeria, and Yugoslavia are other LDCs that provided ODA to developing countries and multilateral agencies in 1988.

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5) It is somewhat ironic that the USSR, whose economy has experienced severe shortages of basic goods in recent years, was the fifth largest ODA donor in 1988 after the United States, Japan, France, and Germany. By 1991, virtually all aid flows from the USSR had stopped, and today many of the former Soviet republics are eager to receive aid and commercial loans from the West. The newly independent nations of the former Soviet Union are to receive \$3 billion in loans from Korea over the 1991 - 1993 period, mainly for relief of consumer goods shortages.

## THREE

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### **Korea and Foreign Aid**

#### **Korea as a Recipient of Foreign Aid**

In the 1950s and 1960s, Korea was a principal recipient of ODA from developed countries. Economic assistance began in 1945 when Korea was liberated from Japanese rule and the American military government was established in South Korea. The Korean War (1950 – 1953) had devastated the Korean economy. South Korea had few natural resources and a small manufacturing capacity at the time of the division of the Korean peninsula. After the war, the economy suffered from shortages of all essential materials for consumption and investment. Moreover, Korea was not able to obtain foreign resource flows from the private international capital market because no private lender regarded Korea as being creditworthy. At that time, exports could finance only a small fraction of imports.<sup>6)</sup> As shown in Table 3.1, the average foreign aid/imports ratio was 71 percent during the period 1953

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6) In each year during the period 1954 -- 1960, exports amounted to less than 10 percent of imports.

—1962.<sup>7)</sup> Aid received amounted to 8 percent of GNP and almost 80 percent of the total investment during those ten years (Mason et al. 1981:204).

**Table 3.1** Foreign Aid Received and Commodity Imports during 1953—63

Year	Foreign Aid (US\$million)	Imports (US\$million)	Ratio of Foreign Aid to Imports(%)
1953	194.2	345.4	56.2
1954	153.9	243.3	63.3
1955	236.7	341.4	69.3
1956	326.7	386.1	84.6
1957	382.9	442.2	86.6
1958	321.3	378.2	85.0
1959	222.2	303.8	73.1
1960	245.4	343.5	71.4
1961	199.2	316.1	63.0
1962	239.3	421.8	56.7
1963	216.4	560.3	38.6

Source : Bank of Korea (1982).

Under these circumstances, it is almost unimaginable to expect that Korea could have maintained political or economic stability without economic aid. Postwar reconstruction had to depend heavily on resources from the United States. That Korea was one of the major recipients of ODA in the 1950s and 1960s is also evident from international comparisons. For instance, in 1960—1961 Korea's aid receipts were 4.5 percent of the total ODA from DAC countries. Only three countries—India, Algeria, and Pakistan—received more aid than Korea during this period (OECD 1985:123).

During the 1950s and early 1960s, the United States was Korea's major

7) The aid amounts in Table 3.1 include aid from the United Nations as well as the United States. The UN sources were the Civil Relief in Korea (CRIK) and the United Nations Korea Reconstruction Agency (UNKRA). However, since most of these UN institutions were financed by the United States, the United States was virtually the only donor of aid to Korea until the early 1960s.

source of foreign aid. However, after 1963, U.S. economic aid to Korea declined sharply. But other donors were added in the 1960s. The World Bank made its first loan to Korea in 1962 and formed the Consultative Group for Korea in 1966 as a forum for aid coordination for Korea's development.<sup>8)</sup> Japan became a new donor for Korea in 1965 after normalization of Korea's diplomatic relations with Japan.<sup>9)</sup> The Asian Development Bank became a donor in 1968.

In the 1980s bilateral ODA from Japan continued to flow into Korea, mainly in the form of concessionary loans for infrastructure projects. In 1980/81, as in 1970/71, Korea ranked second after Indonesia on the list of Japan's ODA recipients. But by 1988/89, Korea ranked 16th with concessionary loans amounting to 27.3 billion yen in the 1988 fiscal year and 7.6 billion yen during April – December 1989 (MITI 1990: 182 – 8).

Korea was eliminated from the list of Japan's OECF recipients in 1990 as a result of the rapid growth in Korean per capita income. The IBRD is currently the only source of concessionary loans for Korea.<sup>10)</sup>

### **Korea as a Donor**

The number of donors of economic aid in the world has increased over the years. In the 1960s, DAC countries were virtually the only sources of ODA from non-Communist countries. During the 1970s and 1980s, non-DAC OECD members, Arab oil exporters, and some LDCs became new donors. As shown earlier, the volume of aid from LDC donors remained small compared to aid from the Arab countries, the USSR, or the East European countries. Nevertheless, an important point is that a donor

8) The Consultative Group was dissolved in 1984.

9) The normalization pact included 102 billion yen in grants over 10 years (1965 – 1975) as Korea's claim to Japan for the damages incurred while Korea was under Japanese colonial rule. Other grants and concessional loans from Japan began in 1971.

10) Since 1962 Korea has received more than 57 billion of concessionary loans from the IBRD (*Maeil Kyungje* [The economic daily] 1991). However, the United States and several other developed countries have recently been urging the IBRD to discontinue providing concessionary loans to Korea because of its high income level.

country is not necessarily a rich country. As in the case of China and India, a country can be a donor even if it is very poor and receives a large amount of foreign aid every year.

The motives for foreign aid range from the pure humanitarian desire to reduce poverty to the political and commercial interests of suppliers. Foreign aid can enhance investment and growth in developing countries and increase global output and efficiency. In this process, developing countries' demand for imports also increases. In addition, if developing countries are succeeding in their development efforts which are financed partly through foreign aid, they can be expected to control communicable diseases, avoid environmental disasters, and generate jobs at home, and thereby reduce illegal immigration to rich countries (Gulhati and Nallari 1988:1173). Therefore, foreign aid can benefit both the donor and the recipient country.

The same motives for foreign aid and the same understanding of the roles of foreign aid that are applied by rich countries can also be applied to a middle-income country like Korea. Only the capacity to transfer resources and the public support for the transfer differ among countries. Many Koreans are well aware that Korea received a substantial amount of foreign aid in the earlier years and that the aid contributed significantly to the rapid growth of the Korean economy.<sup>11)</sup> They also know that the development assistance given to Korea benefitted the donor countries as well through the expansion of Korean demand for imports of goods and services. Moreover, these benefits to donors continued long after the termination of the aid.

According to the World Bank, Korea's per capita GNP in 1988 was \$3,600; there were 88 countries with lower income levels (this did not include the poor countries with populations of less than 1 million and the poor nonreporting socialist countries). Among the 88 countries, 42 countries

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11) Korea's development performance, however, is also cited as evidence of a contrasting view which says that aid impedes development and that the absence of aid is the surest way to advance. Proponents of this viewpoint cite the fact that Korea's economic growth in the 1954 - 1960 period, when Korea received a larger amount of aid, was minimal compared with the performance of the post-1961 period when aid flows decreased (Riddell 1987:249)

had per capita incomes of \$545 or less. This gap between the incomes of Korea and the poorer developing countries is sufficient to call for efforts by Korea to provide development assistance to poor countries. Helping poor countries is not the responsibility of highly developed countries alone.

As mentioned above, economic aid eventually benefits all countries, if the aid is used properly. In this case a country can be a "free-rider" that does not provide aid but receives benefits induced by the aid given by others. But there are some important direct benefits that only donor countries can enjoy. These benefits may be divided into two categories: economic benefits and political benefits.

The most obvious of economic gains to donors are those which accrue from exports of commodities or services that are made possible by the assistance program. For instance, producers of food benefit from food assistance and engineering firms gain from contracts associated with infrastructure development projects. Aid also plays the role of strengthening commercial ties between the donor and the recipient. Commercial contacts made during a period of assistance can be expected to continue into the future. If a developing country receives assistance for the development of its communication network, future demand for new and replacement equipment compatible with the aid-assisted investment will increase the donor's sales opportunities. If aid promotes economic growth or alleviates economic difficulties in a developing country in which the donor has substantial overseas investment, then the aid benefits the donor by ensuring continued profitability of the foreign investment.

Of course, the value of a given level of assistance to the recipient country is reduced if the donor uses the assistance resources to support domestic suppliers of commodities and services or overseas investment. Yet many donor governments have indicated that their own national economic interests are, in fact, considered in decisions on aid allocations. Empirical studies of major donor countries' bilateral aid have found that the donors' interests provided good explanations of the aid allocation.<sup>12)</sup>

Development assistance is beneficial to the donor country because it also strengthens the political commitment of the aid recipient to the donor.

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12) One example is the study by Maizels and Nissanke (1984)

Political interest and strategic concerns were prominent motives for the Marshall Plan and the Kennedy Administration's "Alliance for Progress" program (Ruttan 1989). If Korean aid to developing countries can bring increased political support of the recipients and enhance national security in Korea, the case for Korea's ODA is strengthened. The continuing confrontation with socialist North Korea makes this political interest more important for Korea than for many other donor countries.

For a middle-income country like Korea, which is newly joining the group of donors, the economic and political benefits that can be accrued from providing foreign aid are important and should be stressed to gain public support for aid-giving. However, it must be emphasized at this point that the donor's self-interest must not be a primary rationale for development assistance. If the self-interest is pursued too far, the aid can even harm the recipient country.

Korea as a donor is appropriate in today's world not only because the international economic community needs additional donors, but because the Korean economy can now afford it. Active participation of upper middle-income countries in aid-giving is called for as growth of world development assistance has stagnated. In recent years, aid from DAC countries has only grown at about 2 percent each year in real terms, and it is not likely to grow at a faster rate in the near future (OECD 1989:155). Aid from Arab countries has declined continuously after 1986, and the sagging trend will continue unless the price of oil rises sharply in the future. Aid from the former USSR is not expected to resume in the near future, as the restructuring of the economy and the economic difficulties that will emerge in the process will not allow the new nations to allocate the available scarce resources to aid.<sup>13</sup> Note, however, that if the reforms in the socialist countries continue and the strains between the East and the West blocs are eased, then the aid from the former USSR loses its rationale as much of the aid has been for the purpose of garnering political support from other socialist countries.

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13) With the dissolution of the USSR and subsequent events in the newly independent nations, the nations of the former Soviet Union are now seeking aid rather than disbursing aid to other countries.

Many Koreans believe that economic aid to other countries is proper only so long as Korea experiences surpluses in its current account. To the extent that economic aid is a form of transfer of resources to other countries, the aid will involve a deterioration of the donor's current account balance. However, as long as the aid is not in the form of an untied cash grant, the negative effect on the donor's balance of payments may be negligible. Furthermore, as discussed earlier, the long-term effect of aid on the donor's balance of payments could be positive because of increased demand for imports in recipient countries.

Many countries have provided a significant volume of economic aid to others in spite of their own large current account deficits. For instance, during 1988 – 1989 all DAC countries (except Japan, Germany, the Netherlands, Switzerland, and Belgium) registered current account deficits; yet they provided more than \$59 billion of ODA in the two years. In particular, the six countries – Finland, Italy, Sweden, Denmark, Norway, and Canada – whose real ODA growth rates in the 1980s were higher than that of any other DAC members, all showed deficits in their current accounts for most of the period. Thus, the current account, or any other measure of balance of payments, is not a measure of the capacity to provide aid to others; it is simply a measure of a country's international transactions.

## Four

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### Performance and Quality of Korea's ODA

#### Overview of Korea's Economic Cooperation with Developing Countries

Up until the mid-1970s, Korea's economic relations with developing countries were not close as most of its international trade was mainly with developed countries. From the early 1960s when Korea adopted an outward-looking development strategy, its exports were mostly manufactured products that were mainly directed to developed countries, in particular, the United States and Japan.<sup>14)</sup> The United States and Japan were the two dominant trade partners for Korean imports as well, accounting for 70 percent of Korea's total imports in 1970.

Korean trade with developing countries began to increase after the first oil shock. The increased value of oil imports from the Middle East and increased demand for Korean exports by the oil-producing countries were the main causes of increased trade relations between Korea and developing

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14) The share of manufactured goods in exports rose from 50 percent in 1964 to 90 percent in 1974 (S. Kim 1982: Table 2.4).

countries after 1975 (see Table 4.1). Increased efforts by Korean exporters to diversify their export markets, induced by the surging protectionism in developed countries, also contributed to the increasing significance of developing countries for Korean exports.

**Table 4.1 Developing Countries' Share of Korean Trade<sup>a</sup> (percentage)**

	1960	1970	1975	1980	1985	1989	1990
Exports	11.3	12.7	20.0	31.7	29.9	26.2	30.7
Imports	9.3	16.8	27.1	35.6	36.2	26.4	28.9

Note: a. Developing countries refer to all non-OECD countries including socialist countries.

Sources: MFA (1990); EPB (1990a, 1991a).

The size of Korea's FDI abroad was very small until the early 1980s. During the 1960s and until the late 1970s, Korea was a typical labor-abundant but capital-scarce country. The total net foreign direct investment from Korea during 1968 – 1982 was only \$290 million, and it was only in 1986 that Korea's annual FDI level surpassed the \$100 million level. As shown in Table 4.2, the share of Korean foreign direct investment in developing countries has been around 40 or 50 percent, which is much higher than the developing countries' share of Korea's commodity trade. Among the developing countries, most of the Korean FDI is in the Asian countries such as Indonesia, the Philippines, Malaysia, and Thailand.

Indonesia has been by far the most important destination country for Korean capital. Of the cumulative net total FDI in developing countries at the end of 1990 (\$1.028 billion), \$425 million or 41 percent was invested in Indonesia. Malaysia and the Philippines are next with cumulative totals of \$50 million and \$38 million, respectively. Recently, direct investments in China and Sri Lanka have increased markedly. Among non-Asian developing countries, Panama, Guatemala, Papua New Guinea, Turkey, and Algeria are the countries that hosted most Korean foreign direct investments. About 48 percent, or \$498 million, of Korean FDI in developing countries is invested in manufacturing and 27 percent is in mining.

**Table 4.2 Korea's Foreign Direct Investment Abroad**

	1968-1985	1986	1987	1988	1989	1990
World (US\$ million)	626	172	397	212	493	1,020
Developing Countries <sup>a</sup> (US\$ million)	259	85	209	91	235	375
As a Share of Total FDI to World (%)	41.4	49.4	52.6	42.9	47.7	36.8

Note: a. All non-OECD countries.

Source: Bank of Korea statistics.

Korea's relations with developing countries as a donor of development assistance began very early. In 1963, the Korean government began technical cooperation by receiving trainees from developing countries. However, the cost of this program was covered by the USAID aid program. Acceptance of trainees funded by the Korean government started in 1965 and the first dispatch of experts to developing countries by Korea was made in 1967 (MFA 1990:37). Bilateral grant aid began in 1977 when the Ministry of Foreign Affairs provided 900 million won (\$1.66 million) for developing countries to purchase machines and equipment needed for development activities.

The Korean development assistance program was greatly enhanced by the creation of the Economic Development Cooperation Fund (EDCF) in 1987. The fund was established with the government subscription of 30 billion won (\$37.9 million) and was intended mainly for concessionary bilateral loans to developing countries. Currently Korea's ODA administration is being restructured by the establishment of the Korea International Cooperation Agency (KOICA) in early 1991.<sup>15)</sup> Calls for a central aid agency like KOICA appealed to consistency and efficiency in aid policy.

KOICA's major responsibilities are to manage Korea's technical assistance and grant aid programs which were hitherto dealt with by several dif-

15) The law establishing KOICA was passed in January 1991 and the agency began operation in April 1991.

ferent government ministries (see Table 4.7). Another important function of KOICA is to implement the new Korean Youth Volunteers program which sends qualified young Koreans to developing countries to work with local people. In many ways, KOICA was modeled after JICA (Japan International Cooperation Agency) which was established in 1974. Like JICA, KOICA is under the authority of the Ministry of Foreign Affairs. The major functions of JICA and KOICA are similar, even in their main non-aid function which is to assist in the emigration and overseas employment of their nationals.

Contributions by Korea to multilateral institutions, which include grants and capital subscriptions, have been greater in volume than Korean contributions to all bilateral ODAs combined. More than 90 percent of the multilateral assistance in the 1980s was in the form of capital subscription payments to international or regional financial institutions such as the IMF, IBRD, IDA (International Development Association), and ADB (Asian Development Bank). But after peaking at \$222 million in 1983, total contributions to multilateral institutions declined.

Official flows of financial resources from Korea to developing countries and multilateral agencies are shown in Table 4.3. The data show that Korean ODA is relatively small and fluctuates widely. Since 1988, the ODA/GNP ratio has been only 0.04–0.05 percent, and over the entire ten-year period, the ODA amount exceeded \$100 million in only three years. Furthermore, the relatively large amounts of ODA in these years were entirely due to the unusually large capital subscriptions to multilateral financial institutions. Grant aid and technical assistance remained very small. The sum of grants and technical assistance surpassed the \$20 million level for the first time only in 1989.

During the period 1981–1990, the amount of total ODA in current dollars fluctuated between a low of \$20.9 million (1981) and a high of \$233.7 million (1983). It did not show any trend of steady increase over the years. The fluctuations were due to the unstable variations in contributions to multilateral institutions. Grants and technical assistance, however, have shown trends of steady increase. The sum of these two types of expenditures increased from \$5.3 million in 1981 to \$20.7 million in 1990.

Other official flows (OOF) from Korea to developing countries comprise

**Table 4.3 Total Official Flows from Korea to Developing Countries and Multilateral Agencies (US\$ million)**

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 <sup>a</sup>
I. Official Development Assistance (ODA)	20.9	126.4	233.7	28.0	48.3	111.5	74.7	62.3	98.5	89.2
1. Grants	4.0	4.1	6.9	6.3	8.5	8.5	9.1	11.4	12.6	11.6
2. Technical cooperation	1.3	3.3	4.5	6.1	6.4	6.5	8.2	8.5	8.5	9.1
Students and trainees			1.7	2.3	2.4	2.2	2.3	2.9	3.6	3.4
Dispatch of experts			0.2	0.2	0.3	0.3	0.6	0.7	0.7	1.4
Engineering service			—	1.3	1.2	1.3	0.9	1.1	1.9	1.8
Others			2.6	2.3	3.5	2.7	4.4	3.8	2.3	2.5
3. EDCF loans	—	—	—	—	—	—	—	—	1.8	9.9
4. Contributions to multilateral institutions	15.6	119.0	222.3	15.6	33.4	96.5	57.4	42.4	76.6	56.8
Subscription payments	11.9	115.6	218.2	11.1	28.5	91.6	51.6	35.7	66.9	46.5
Grants	3.7	3.4	4.1	4.5	4.9	4.9	5.8	6.7	8.7	10.3
II. Other Official Flows (OOF)	308.8	353.1	363.5	359.9	368.0	275.6	346.5	433.0	304.8	426.7
1. Official export credits	293.0	331.0	326.0	352.4	350.1	261.4	333.1	403.9	155.7	212.9
2. Foreign investment credits	15.8	22.1	36.5	7.5	17.9	14.2	13.4	29.1	149.1	213.8
ODA + OOF	329.7	479.5	597.2	387.9	416.3	387.1	421.2	495.3	403.3	515.9
ODA/GNP (%)	0.03	0.18	0.31	0.03	0.05	0.11	0.06	0.04	0.05	0.04

Note: a. The total ODA amount includes aid administration costs of \$1.9 million.

Source: EPB statistics.

export credits and overseas investment credits, both of which are supplied by the EXIM Bank of Korea.<sup>16)</sup> As shown in Table 4.3, export credits accounted for more than 90 percent of OOF until 1988. Since much of the export credits were for exports of ships, the total export credits fluctuated along with the exports of the Korean shipbuilding industry. In the late 1980s, the share of overseas investment credits increased substantially, reflecting the increased foreign direct investment by Korean firms in developing countries.

### **Classifications of ODA**

Korea's classification of official development assistance differs from that used by the DAC. This difference in measurement is the major cause of the severe fluctuations in the Korean statistics of ODA and ODA/GNP ratios as shown in Table 4.3. The difference in defining and classifying ODA becomes clear if we compare the Korean classification in Table 4.3 with the classification adopted by the DAC in Table 2.4.

Bilateral ODA in the DAC classification is divided into two types, while in the Korean case it is divided into three types. The difference is that in the Korean data, technical assistance and grants are treated as two separate types of ODA. In the Korean data, bilateral grants refer to funds for the purchase of materials, machines, and equipment, or for disaster relief.

A more important difference is found in the treatment of multilateral ODA. In Korea, all capital subscriptions to international institutions and funds, including the IMF, are counted as ODA. In contrast, the DAC does not count subscription payments to the IMF as ODA, as the IMF is not regarded as an important multilateral institution which provides concessionary flows to developing countries. Only the disbursements under the Trust Fund, the SAF (Structural Adjustment Facility), and the ESAF (Enhanced Structural Adjustment Facility) of the IMF are considered to be part of ODA by DAC.<sup>17)</sup>

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16) The EXIM Bank was established in 1976. Before this time, the EXIM Bank business was handled by the Korea Exchange Bank.

17) See the Statistical Annex, Table 27 of OECD (1990) for a more detailed explanation.

If subscription payments to the IMF are included in ODA, then Korea's contribution to international institutions in 1989 is negative because in that year Korea received 59,099 million won (\$88.0 million) from the IMF as a result of a readjustment in the value of a previous capital subscription according to the won's appreciation. But in Korea's ODA statistics, this negative contribution was not taken into account. The refund from the readjustment occurred in the case of the World Bank as well, but the amount was much smaller.<sup>18)</sup>

For any activity or any flow of resource to be called ODA, it must satisfy certain conditions. ODA is generally defined as all flows to developing countries and multilateral institutions provided by official agencies which meet the following tests: (1) they are administered with the promotion of economic development and welfare of developing countries as their main objective; and (2) their financial terms are intended to be concessionary in character, i.e., the monetary flow must contain a grant element (GE) of at least 25 percent.

The grant element is determined by the financial terms of a transaction: the interest rate, maturity, and grace period. The grant element of a loan is the excess of the loan's face value over the present value of each repayment installment at the market rate of interest, expressed as a percentage of the face value. The market rate is usually taken as 10 percent. Thus the GE is nil for a loan carrying an interest rate of 10 percent and it is 100 percent for an outright grant. If a loan's maturity is more than 10 years, with a grace period of 5 years, then it will have a GE of over 25 percent if the interest rate is not above 5 percent.

### **Korean Bilateral ODA**

As explained earlier, Korean bilateral ODA consists of three categories: grants, technical cooperation, and development loans. These three types of aid are discussed in further detail in this section.

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18) According to officials responsible for the government's ODA statistics, the subscription payment to the IMF will not be counted as part of Korean ODA beginning with 1991 statistics.

**Grants.** In the past, bilateral grant aid has been implemented by the Ministry of Foreign Affairs. But beginning in April 1991, Korean aid has been administered by KOICA under the supervision of the Ministry of Foreign Affairs.

Bilateral grants are mainly intended to promote diplomatic and commercial relations with Third World countries. The grants are regarded as the assistance tool that can respond most effectively to the recipient's need. In principle, the grants are for the purchase of Korean machinery and equipment from Korean producers. Therefore, this aid is fully tied aid. In the sense that the grant aid is fully tied and that it is aimed at mainly machinery and equipment, the Korean grants are differentiated from those of developed countries. Of course, the procurement-tying reduces the real value of the grants to the recipient because it forces the recipient country to buy supplies at noncompetitive prices. Since many Korean policymakers think that the balance of payments is an important constraint to the growth of grant aid, the aid tying may contribute to the increase of the aid.

Korean grant aid is a kind of program aid, as distinct from project aid. A program aid takes the form of general balance-of-payments support,<sup>19)</sup> while project aid, for construction of a chemical plant, for instance, requires more administrative resources of the donor and takes a longer time for decision making. Project aid would not be necessary on development grounds if the donor was confident that both the preferences and capabilities of the recipient assured the best possible use of all resources available. Therefore, an important question is the capacity of the donor country to assist in the process of project identification and execution if project aid is preferred by the donor (Economic Council of Canada 1978:93). At present, Korea's grant aid program lacks both the manpower and financial resources required for making project aid a major type of grant aid.

Grant aid is initiated by a request to the Ministry of Foreign Affairs (MFA) from the developing country through the Korean embassies and

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19) A fully untied program aid is a simple gift of money to be spent in any way the recipient chooses.

legations abroad. After securing its annual budget for grants, which is determined prior to receipt of requests, the MFA evaluates the requests and selects the Korean producers that will supply the approved products. Currently these evaluation and selection tasks are executed by the Koryo Trade Co., a general trading company managed by the Korean government. After the approved products are contracted for and produced, they are inspected and sent to the recipient countries. The shipping documents are sent to the Korean embassies or legations in the recipient countries. The inspection and transporting of the products and the preparation of the documents are all done by the Koryo Trade Co.

The allocation of grants among developing countries by the MFA is usually made on the basis of the previous year's allocation.<sup>20</sup> Reflecting the Korean government's attempt to accommodate the request of any

**Table 4.4** Korea's Grant Aid to Developing Countries<sup>a</sup>,  
1977 - 1990 (US\$ thousand)

	1977-1985	1986	1987	1988	1989	1990	Total
Asia	6,394	2,118 (15)	1,935 (17)	2,406 (21)	2,605 (21)	2,620 (19)	18,078
Middle East	2,655	464 (5)	869 (6)	1,127 (27)	1,128 (8)	992 (8)	7,235
Africa	18,816	2,532 (23)	3,368 (24)	4,340 (9)	4,718 (30)	3,738 (29)	37,512
Latin America	10,331	3,381 (26)	2,928 (26)	3,569 (27)	3,506 (27)	3,068 (28)	26,783
Others	42	-	-	-	607 (3)	1,176 (10)	1,825
Total	38,238	8,495 (69)	9,100 (73)	11,442 (84)	12,564 (89)	11,594 (94)	91,433

Notes: - = zero or near zero.

a. Number of countries is indicated in parentheses.

Source: MFA statistics.

20) This 'incrementalism' of aid decisions is widespread in developed countries too. For more information, see Gulhati and Nallari (1988), p. 1177.

Third World country, the allocation pattern has been one in which a small amount of aid is granted to each of many countries. The trends in total annual volume and broad geographical distribution of Korean grant aid are shown in Table 4.4.<sup>21)</sup> In the 14-year period since 1977, \$91 million worth of grants have been given by Korea. In recent years the annual volume has been a little over \$10 million. Individually, the size of grant aid to any one country has not been large. In 1990, for instance, \$11.6 million of aid was allocated among 94 countries. Of these 94, only 12 countries received \$200,000 or more of grant aid from Korea (Table 4.5). On the other hand, 45 countries each received \$100,000 or less.

**Table 4.5**                      **Recipients of Korean Grant Aid \$200,000 or More in 1990 (US\$ thousand)**

Country	Amount	Country	Amount
Bhutan	200.0	Surinam	274.5
Sri Lanka	308.9	Senegal	281.8
Philippines	226.0	Somalia	269.9
Pakistan	247.8	Ethiopia	286.9
Mongolia	448.0	Egypt	360.2
Bolivia	202.8	Bulgaria	249.7
Total		3,356.5	

Source: EPB (1991a).

Twenty-three countries each received more than \$1 million in grants from Korea over the period 1977 – 1989 (Table 4.6). During this period, these countries together received a total of \$39 million in grants, which is about one half of the total grants disbursed by Korea during the period. Although 14 of the 23 countries are African countries, only 9 of the 23 are so-called LLDCs (Least Developed Countries) using the DAC classification. Thus it is not correct to say that a major portion of Korean grant aid

21) Note, however, that the volume of aid in any given year is expressed in U.S. dollars and thus depends on the average won/dollar exchange rate of that year.

was directed to the poorest countries of the world. Rather, the allocation was made mainly on the consideration of maintaining good diplomatic relations with more developing countries.

**Table 4.6 Recipients of Korean Grant Aid of \$1 Million or More During 1977-89 (US\$ thousand)**

Country	Amount	Country	Amount
Burma	1,696	Sierra Leone	1,183
Nepal	1,175	Côte d'Ivoire	1,289
Pakistan	1,694	Uganda	1,100
Sri Lanka	2,320	Ethiopia	3,965
Sudan	1,548	Zaire	1,438
Egypt	1,163	Central African Rep.	1,511
Mauritania	1,243	Peru	2,688
Ghana	1,412	Dominican Rep.	1,007
Gabon	1,094	Costa Rica	1,660
Guinea-Bissau	1,514	Panama	1,332
Liberia	2,117	Bolivia	1,727
Senegal	2,897		
Total		38,778	

Source: MFA statistics.

This strong non-economic consideration in the allocation of the grant aid is not unique to Korea. Empirical studies of intercountry allocation of foreign aid by developed countries point out that political and trade variables are important factors determining grant aid for many countries and partly as a result of this, many poor countries were neglected in foreign aid allocation. A study by Gulhati and Nallari (1988), which analyzed the intercountry allocation of foreign aid by 8 donors, found that major aid donors have distinctive aid profiles. Political interests are important for the United States and the United Kingdom, but are of scarcely any significance for the Netherlands and Sweden. The trade factor is significant for Japan

**Table 4.7 Type, Volume, and Ministries Involved in Korea's Technical Assistance Program, 1987 - 1990**

Type of Assistance and Ministry Involved	1987		1988		1989		1990	
	Persons	Amount (US\$ thousand)						
1. Trainees & students	457	2,266	513	2,939	597	3,600	580	3,038
Ministry of Science & Tech.	285	1,041	339	1,593	352	2,090	393	1,763
Ministry of Foreign Affairs	53	286	56	303	80	380	51	342
Ministry of Construction	42	344	48	410	51	447	35	353
Ministry of Labor	23	266	26	327	40	307	36	206
Ministry of Communications	4	64	4	81	28	341	51	342
Ministry of Education	50	265	30	226	5	37	—	—
Ministry of Gov't Administration	—	—	—	—	30	—	14	31
Office of Fisheries	—	—	—	—	11	—	—	—
2. Dispatch of Experts	51	618	60	682	83	739	113	1,444
Ministry of Science & Tech.	28	192	44	268	66	302	51	321
Ministry of Foreign Affairs	7	58	5	56	—	—	3	55
Ministry of Labor	11	329	11	358	11	399	9	325
Ministry of Communications	1	19	—	—	3	7	6	283
Ministry of Education	—	—	—	—	3	31	44	461
Ministry of Energy and Resources	4	19	—	—	—	—	—	—
3. Engineering Service	4*	898	7*	1,146	10*	1,878	9*	1,864
Ministry of Science & Tech.	1*	36	2*	52	2*	25	—	—
Ministry of Communications	—	—	—	—	1*	274	1*	487
Ministry of Construction	3*	862	5*	1,095	5*	1,450	8*	1,376
Economic Planning Board	—	—	—	—	2*	128	—	—
4. KDI's IDEP <sup>a</sup>	107	350	94	388	124	505	107	305
5. Special Assistance (Tech. wondo and Medical assistance)	—	2,348	—	2,410	—	1,656	37	1,300
6. Training Center (equipment)	—	1,362	—	878	—	31	—	24
7. Others	—	266	—	150	—	86	—	1,127
<b>Total</b>		<b>8,108</b>		<b>8,593</b>		<b>8,495</b>		<b>9,102</b>

Notes : \*Number of projects.

a. International Development Exchange Program.

Sources : EPB (1990a) and EPB (1991a).

and Italy, while developmental motivations are strong in the case of West Germany. There is also the well-known bias in per capita aid flows against large (populous) countries. This large-country bias is explained by several reasons. Aid programs are usually organized on a nation-by-nation basis rather than on a population basis. Furthermore, as population increases, the marginal political benefit and the perceived economic benefit of giving more aid decreases when compared with aid to less populous countries.<sup>22)</sup>

**Technical Assistance.** The volume of Korean technical aid has been small. Korea's annual disbursements of technical assistance never rose over \$10 million until 1990. Korean technical assistance mainly involves flows of people, either inviting trainees and students from developing countries or dispatching Korean experts to these countries. In spite of the small size of this type of aid, at least eight different government ministries are involved in implementing Korea's technical assistance policy. But a major portion of the technical aid management has been carried out by two ministries, the MFA and the Ministry of Science and Technology (MOST). The different types and volumes of technical assistance and the administration ministries involved are shown in Table 4.7. As the table indicates, the volume of Korean technical assistance in terms of U.S. dollars has not exhibited a clear increasing trend in recent years.

Technical assistance, like a capital grant, begins with a request for assistance from the developing country's government. The MFA and MOST evaluate the requests, and MOST makes plans for implementing approved aid. Then the Korea Science and Engineering Foundation does the work of inviting trainees and assigning them to training institutions in Korea. The Korea Science and Engineering Foundation also does the work of searching for and selecting appropriate experts to dispatch to developing countries. In the case of technical assistance involving other ministries, each ministry makes its own plans and informs the MFA of the plan. The implementation is also the responsibility of each ministry.

Korean government officials believe that Korea's technical assistance is of great value to developing countries because (1) Korea's development

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22) See Dowling and Hiemenz (1985) for empirical evidence.

experiences are more relevant to the developing countries, and (2) the level of Korean technology is only slightly ahead of the technology levels of these developing countries. Therefore, technology assistance should be the area of emphasis of Korea's future ODA program. A unique program of Korean technical assistance is its International Development Exchange Program (IDEP) which began in 1982. The program is operated by the Korea Development Institute (KDI) for the main purpose of introducing Korea's experiences in its industrialization process to high-ranking government officials of developing countries. The program consists of three major parts: Policy Forum, Seminar and Workshop, and Country Specific Program. Over a 9-year period (1982 - 1990), a total of 890 persons from developing countries attended forums or workshops which usually lasted one or two weeks.

Both the training and the experts dispatch programs have been most active in such areas as agriculture and fisheries; science, education, and administration; and mining and manufacturing (see Table 4.8). The geographical distribution of the trainees and experts programs shows a bias towards the Asian countries in the allocation of aid. Of the 3,138 trainees Korea received during 1985 - 1990, 1,644 trainees (52 percent) were from Asian countries. In the same period, the Asian countries' share of involvement in the experts dispatch program was 61 percent.

**Table 4.8** Trainee and Students and Dispatch of Experts<sup>a</sup>

Area of Assistance	Trainees and Students (1963 - 1990)		Dispatch of Experts (1967 - 1989)	
	Persons	Percentage	Persons	Percentage
Agriculture & Fishery	2,267	31.1	199	46.8
Science, Education and Administration	2,017	27.7	103	24.2
Mining and Manufacturing	809	11.1	98	23.1
Health and Social Affairs	1,492	20.5	6	1.4
Others	707	9.7	19	4.5
Total	7,292	100.0	425	100.0

Note: a. Excludes technical assistance administered by the ministries other than MAF and MOST.

Sources: MFA and EPB (1991a).

In spite of the small volume of technical assistance by Korea, the recipients of the aid are large in number. In 1990, for example, the MOST and MFA together accepted 444 trainees from 77 countries. In the previous year, there were 432 trainees from 105 countries. In 1989, the MOST alone dispatched 66 experts to 21 countries. The budget allocated for this was 203 million won (\$0.3 million). Therefore, as can be seen in Table 4.9, the dispatch of Korean experts was diverse in terms of areas of expertise and destination countries, but the assistance received by individual recipients in terms of the number of experts and the period during which the experts worked was very small.

**Table 4.9**                      **Dispatch of Experts by MOST, 1989**

Country	Area	Period	Number of Experts
India	Electronics	1 year	1
Indonesia	Resource probe	8 days	1
	Geological survey	8 days	1
	Resource development	8 days	2
	Technology cooperation	8 days	1
	Oil probe, drilling	1 month	2
	Briquet manufacturing	1 month	1
Malaysia	Resource probe	4 days	1
	Geological survey	4 days	1
	Resource development	4 days	2
	Technology cooperation	4 days	1
	Genetic engineering	9 days	2
	Korean language	8 months	1
Nepal	Technology cooperation	5 days	2
	Sericulture	10 days	2
Pakistan	Automation system	15 days	1
	Semiconductor processing	12 days	1
	Forestry	7 months	1
Philippines	Sericulture	35 days	1
	Mine security management	1 month	1
Thailand	Teaching (university)	1 year	2
	Rural development	15 days	1
	Research guidance	15 days	1
	Rural guidance	15 days	1

	Paddy cultivation	15 days	1
	Sericulture	15 days	1
	Agricultural machine operation	15 days	1
	Plant cultivation	15 days	1
	Technology cooperation	4 days	2
	Resource probe, development	5 days	4
	Technology cooperation	5 days	1
Bahrain	Agriculture	2 months	1
North Yemen	Horticulture	3 months	1
Equatorial Guinea	Telephone installation	1 month	1
Ethiopia	Economy	1 month	1
Ghana	Rice farming	1 year	1
Kenya	Job training	36 days	2
Malawi	Sericulture	35 days	1
Italy	Sericulture	18 days	1
Hungary	Economic development	42 days	1
Yugoslavia	Technology development policy	9 days	1
Argentina	Inland water culture	2 months	1
Ecuador	Agricultural machine operation	40 days	1
Bolivia	Sericulture	2 months	2
Colombia	Sericulture	3 months	1
	Electronics, communication	11 days	1
	Electronics, communication	1 months	2
Costa Rica	Research management	16 days	1
	Research personnel	16 days	1
	Accounting, budget	16 days	1
Paraguay	Sericulture	2 months	1
Peru	Rice farming	53 days	1
Total			66

Source: Ministry of Science and Technology statistics.

Engineering service aid provides consulting services concerning development projects. It includes such services as project identification, feasibility study, site survey, detailed design, and construction supervision. Frequently, engineering service aid is not an end in itself but is a means for increasing opportunities for Korean firms to participate in development projects. Needless to say, those firms that participated in conducting site surveys or making project identification had better chances of securing the contracts.

In 1989, Korea provided 10 such development consulting services totaling \$1.9 million. The recipient countries and related projects listed in Table 4.10.

**Table 4.10 Recipients and Size of Engineering Service Aid, 1989**

Country	Project	Aid value (US\$ thousand)
Papua New Guinea	Feasibility study and detailed design of a drainage work	143
Bangladesh	Detailed design for a bridge	156
Bangladesh	Long-term telephone facility plan	274
Pakistan	Tunnel construction	471
Thailand	Agricultural development	73
Costa Rica	Technology research center	7
Indonesia	Agricultural development	59
Indonesia	Training center construction	69
Others		626
<b>Total</b>		<b>1,878</b>

Source: EPB (1990a).

Korea also sends medical personnel and Taekwondo (Korean martial art) coaches to developing countries upon request. The dispatchment of these people is classified as technical assistance for special purposes. In 1990, 19 medical personnel were sent to 13 developing countries at a cost of \$871,000, and 17 Taekwondo coaches and an archery coach were sent to 15 countries at a cost of \$398,000.

Of the assistance types listed in Table 4.7, the Training Center refers to assistance used for establishing job training centers in Indonesia and Gabon (Korea promised these countries to help build training centers in 1982). In addition to providing job training equipment, Korea has trained local instructors and dispatched Korean advisers in the past several years to these countries for the projects. The assistance of training and adviser dispatch is counted in Trainees and Students and Dispatch of Experts. Therefore only the value of equipment supplied is counted as a

separate type of technical assistance.

Other types of technical assistance include support for joint research programs between research institutions of Korea and developing countries. Also included in 'Others' are the training and experts dispatch program specifically for the OAS (Organization of American States) and the Korea-ASEAN cooperation program. The latter, which was started in 1990 with a budget of \$1 million, funded various activities undertaken during ASEAN week in Korea and the education of Korean language in the ASEAN countries.

**Economic Development Cooperation Fund (EDCF) Loan.** The EDCF loan is the Korean version of concessionary long-term loans to developing countries. The EDCF was established on June 1, 1987 with the purpose of contributing to the industrial development of or economic stabilization in developing countries through the extension of soft loans. The EDCF is under the management of the Ministry of Finance and the Export-Import (EXIM) Bank of Korea is responsible for the execution of the loan agreement and administration work related to extending loans.

An EDCF loan can be of two kinds : (1) loans made directly to governments or corporations of developing countries and (2) loans to Korean corporations for equity investment or ventures in developing countries.

There are five types of EDCF loans to developing countries :

1. Project Loan : A project loan provides funds needed to conduct specific development projects.
2. Equipment Loan: The funds are only to be used for the procurement of equipment and other materials needed for industrial development projects in specific sectors or specific regions.
3. Two-Step Loan : The funds are provided to governments or financial institutions so that they can make sub-loans to end-users in order to procure equipment and other materials.
4. Commodity Loan : Funds are used for the importing of commodities for the purpose of contributing to economic stabilization of a developing country.
5. Project Preparation Loan : This loan provides funds for the prep-

aration of development projects including feasibility studies and detailed design.

After identifying a development project and studying its feasibility, the prospective recipient government officially makes a loan request to the Korean government by submitting the request and supporting documents to the Korean embassy in the country. The MOF, having received the loan request, requests the EXIM Bank of Korea to study the information provided. The Bank prepares an appraisal report of the project. Taking into account the appraisal report, the MOF, through consultations with the ministries concerned, decides whether or not to finance the project. If the decision is to finance the project, the MFA informs the borrower of Korea's willingness to extend a loan, the total amount of the loan, and so on. An agreement is then concluded between the Korean government and the recipient government, stating the basic financing terms and conditions. After the Exchange of Notes (E/N) is concluded, subsequent procedures such as the Loan Agreement, Procurement, Disbursement, Supervision, and Evaluation are largely carried out by the EXIM Bank.

As stated above, the loan is officially initiated at the request of borrowing countries. But, in reality, an EDCF loan is initiated by the Korean General Trading Companies or construction companies which are involved with large development projects in developing countries. These Korean firms ask their government to use an EDCF loan as a means of increasing Korea's commodity exports and Korea's participation in development projects (Hoonmock Chung 1989).

Although the EDCF loan is offered in Korean currency, the borrowing country is not required to procure all goods and services from Korea. Officially the borrowing country is only required to procure goods and services from eligible source countries which are agreed upon between the Korean government and the recipient government. Borrowers are normally required to obtain goods and services through International Competitive Bidding (ICB) among suppliers of source countries.

In spite of these guidelines regarding procurement, the borrowers' procurement must nevertheless be from Korean suppliers because the Korean currency at present is not accepted as a means of payment in other countries. Therefore an EDCF loan, unlike DAC members' concessionary

loans, is a 100-percent tied loan.

The terms and conditions of loans to developing countries are shown in Table 4.11. For EDCF loans to Korean corporations, the financial terms and conditions are slightly stricter, with interest rates between 5 percent and a maturity of less than 15 years.

By the end of 1990, the total volume of the EDCF stood at 194.5 billion won (about \$275 million). Of that amount, 110 billion won was from

**Table 4.11**                      **Terms and Conditions of EDCF Loans to Developing Countries**

Loan amount	Upto the total of foreign currency costs (in an exceptional case, a portion of the local currency costs may be financed by the EDCF)
Interest rate	Between 2.5 percent and 5.0 percent per annum depending on the per capita GNP of the borrowing country
Maturity	Upto 20 years, including a grace period (25 years for LLDCs)
Grace period	Upto 5 years (7 years for LLDCs)
Repayment	Semi-annual installments
Interest payment	Every 6 months
Loan denomination	Korean won

Source: EXIM Bank of Korea (1990).

government subscriptions during 1987–1990 and 40 billion won was obtained through borrowing. The remaining 44.5 billion won was obtained from earnings from the fund management. According to the government plan, the total fund is expected to increase by \$104 million during 1991 (EXIM Bank of Korea 1991; EPB 1991a).

During the period 1987–1990, a total of 29 countries made loan requests concerning 67 development projects. The total amount of the loans requested was about \$1 billion. As of the end of April 1991, 9 projects of 9 countries were chosen to receive EDCF loans totaling 64.1

billion won (\$87.4 million).

The projects to receive the EDCF loans and the size and conditions of the loans are listed in Table 4.12. The largest loan of \$14.5 million was granted to a road construction project in Sri Lanka. The duration of the loans is either 20 or 25 years.<sup>23)</sup> The interest rate is 3.5 or 4.0 percent for those projects selected before 1991 and 2.5 percent for those selected in 1991.

Among the projects approved for loan assistance, loan disbursements were made for only one project, Nigeria's railway vehicle modernization plan, until the end of 1990. Increased loan disbursements for approved projects are expected in 1991 and thereafter.

An EDCF loan to a Korean firm for equity investment in developing countries was undertaken for the first time in 1990. A loan of \$864,000 was given to a Korea-Philippine joint venture for raising silkworms and manufacturing silk thread in the Philippines. The loan was for 15 years at an interest rate of 5 percent.

The EDCF is expected to become the main component of Korea's ODA program within the next few years.<sup>24)</sup> The Korean government is planning to substantially increase the size of its ODA, and concessionary loans are easier to increase than grants or technical assistance. Loans have an apparent advantage over grants in terms of the government expanding its aid budget because it means increased opportunities for Korean exports and overseas construction contracts.

### **Multilateral ODA of Korea**

The share of multilateral aid in Korea's total ODA has been very high, ranging from 56 percent to 95 percent in the 1980s. For the DAC countries, the average share has been around 30 percent. This high ratio reflects two characteristics of Korea's ODA. One characteristic is that other forms of development assistance such as grants and technical assistance were very

23) The grace period for a 25-year loan is 7 years and that for a 20-year loan is 5 years.

24) According to government plan, the loan disbursement in 1991 is expected to reach \$200 million (EXIM Bank of Korea 1991).

Table 4.12

## EDCF Loan Projects

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Country	Project	Loan Amount (US\$ million)	Duration and Interest Rate (years/%)	Decision Date
Indonesia	Road construction	11.0	25/3.5	12/87
Nigeria	Railway vehicle purchase	10.0	20/4.0	12/87
Peru	Fishing boat purchase	9.8	20/3.5	12/88
Fiji	Bridge construction	6.2	20/4.0	7/89
Ghana	Construction of storage facility for refined oil	13.0	20/3.5	3/90
Philippines	Installation of telecommunication facility	5.4	20/3.5	5/90
Sri Lanka	Road construction	14.5	20/3.5	8/90
Jordan	Construction of sewage control facility	10.0	25/2.5	3/91
Uganda	Installation of telecommunication facility	7.5	25/2.5	4/91
Total		87.4		

Source : EPB (1991a).

small in size. A second characteristic is that in presenting the ODA figures, the Korean government includes all subscription payments and grants to multilateral institutions as development assistance. As pointed out earlier, some of the subscriptions are not regarded in other countries as multilateral aid.

Table 4.13 shows Korea's capital subscriptions to various multilateral institutions during the period 1986 – 1990. In 1986, capital subscription payments and other similar payments to multilateral institutions

**Table 4.13**                      **Subscription Payments to Multilateral Institutions, 1986 – 1990 (US\$ thousand)<sup>a</sup>**

	1986	1987	1988	1989	1990
IMF	76,044	21,738	—	35,506	—
World Bank Group					
IBRD	2,252	9,148	17,353	—	14,882
IDA	2,616	6,189	6,959	7,581	12,180
IFC	—	1,756	585	585	3,637
MIGA	—	—	971	—	—
Asian Development Bank Group					
ADB	4,432	4,610	—	—	—
ADF	384	1,250	1,741	1,250	1,250
TASF	150	150	150	—	150
Africa Development Bank Group					
AFDB	662	1,343	1,511	640	711
AFDF	3,018	3,724	4,188	6,185	12,370
Common Fund	—	—	311	291	356
Others	—	—	—	15,611 <sup>b</sup>	951 <sup>b</sup>
<b>Total</b>	<b>89,558</b>	<b>49,908</b>	<b>33,769</b>	<b>67,649</b>	<b>46,847</b>

Notes : a. Since some of the raw data were given in Korean won, the dollar amounts reported in this table depend on the exchange rates used in making the conversion. The rates used here are the averages during each year, i. e. , won/\$ rates : 1986 – 881.45, 1987 – 822.57, 1988 – 731.47, 1989 – 671.46, and 1990 – 707.76.

b. Contributions to two international satellite organizations by the Ministry of Communication.

Sources : Statistics from the EPB, MFA, and Bank of Korea.

amounted to \$89.6 million. But if the payments to the IMF are excluded, this amount is reduced to \$23.5 million and the total ODA of the year is reduced to \$35.5 million instead of \$111.5 million as cited in Table 4.3. The ODA/GNP rate is also reduced from 0.11 percent to 0.03 percent.

**Table 4.14** Grants to Multilateral Institutions, 1986 – 1990 (US\$ thousand)

	1986	1987	1988	1989	1990	5-year Total
ESCAP	34	31	32	32	—	129
UNCTAD	97	95	125	130	—	447
UNIDO	89	250	144	368	485	1,336
UNEP	10	10	10	19	15	64
GATT	513	665	772	777	996	3,723
APDC	35	46	45	45	80	251
UNDP	565	712	757	1,104	630	3,768
UNICEF	137	160	170	300	400	1,167
FAO	436	359	623	584	724	2,726
UNESCO	350	365	588	755	660	2,718
WHO	444	467	517	526	691	2,645
WIPO	38	47	48	42	54	229
WTO	36	45	61	87	95	324
APO	128	138	141	164	369	940
ASPAC	225	225	225	225	225	1,125
ITU	—	—	—	294	1,266	1,565
Others	1,800	2,139	2,471	3,264	3,630	13,304
Total	4,937	5,754	6,729	8,721	10,320	36,461

Note : — = zero or near zero

Source : EPB (1990a).

Grants to multilateral institutions consist largely of assistance to United Nations' agencies but include support to many other international organizations as well. In 1990, for example, a total of \$10.3 million was disbursed to more than 80 UN agencies and international organizations. Major recipients and amounts during 1986 – 1990 are given in Table 4.14.

Of all the international organizations or UN agencies, the UNDP receives the largest portion of Korean grants. This also seems to be the case in other countries as concessionary disbursement by the UNDP is larger than that of any other UN agency.<sup>25)</sup>

### **The Quality of Korean Aid**

From a recipient country's viewpoint, foreign aid is more valuable if it is given at more concessionary terms and when it has less procurement requirements attached to it. In this sense, an outright cash grant with no procurement tying is aid of the highest quality.

The degree of concession of a loan is determined by the grant equivalent. A full grant has a grant equivalent of 100 percent of its value and a commercial loan has a grant equivalent of 0 percent. An overall measure of concession of a country's ODA can be determined using the grant element formula which reduces the value of the total aid flow to its grant equivalent and then expresses this grant equivalent as a percentage of the total nominal flow.

DAC has established quantitative norms for aid in financial terms. According to the Recommendation on Terms and Conditions of Aid adopted in 1972 and amended in 1978, each member's annual ODA should have at least an 86 percent grant element on a three-year average of aid to each of the LLDCs. As shown in Table 4.15, the grant elements of ODA commitments of all DAC members, except Italy, have increased over time. Japan has yet to reach the DAC norm of 86 percent.<sup>26)</sup> In 1989, only France failed to reach the 90 percent target for the least developed countries.

25) See OECD (1990), Table 27.

26) The low grant element of Japanese ODA is due to the relatively low share of grant in Japan's ODA. In 1989, the share was 52 percent and it was the second lowest after that of Austria among the DAC members.

**Table 4.15 Grant Element of ODA Commitments of DAC Members**

	Grant Element of Total ODA			Grant Element of ODA to LLDCs	
	1965-1966	1980-1981	1989	1975-1976	1989
Australia	100.0	100.0	100.0	100.0	100.0
Austria	38.0	61.4	—	89.5	96.0
Belgium	97.8	97.9	—	98.9	100.0
Canada	96.7	97.6	100.0	97.7	100.0
Denmark	83.6	96.6	100.0	91.4	100.0
Finland	—	96.5	99.3	86.3	100.0
France	87.7	89.9	—	96.4	30.0
Germany	67.7	86.7	—	90.1	98.0
Ireland	—	—	100.0	—	100.0
Italy	49.6	94.0	85.6	100.0	96.0
Japan	55.4	74.7	80.1	78.1	92.0
Netherlands	86.5	93.0	95.0	94.5	100.0
New Zealand	—	100.0	—	100.0	100.0
Norway	99.0	99.8	—	100.0	100.0
Sweden	92.6	99.4	100.0	100.0	100.0
Switzerland	78.8	97.0	100.0	93.9	100.0
United Kingdom	79.6	96.8	99.0	99.3	100.0
United States	88.3	92.4	98.5	81.2	97.9
Total	84.0	89.7	90.9	91.3	95.1

Source : OECD (1985, 1990).

In the case of Korea's ODA, all aid was in the form of grants before 1989 and, therefore, the grant element of Korea's total ODA should be 100 percent for years before 1989. Grants and capital subscriptions to multilateral agencies are all treated as grants following the OECD rules of grant element calculation. The \$1.8 million EDCF loan disbursed in 1989 had a grant element of 39.4 percent. Therefore the grant element of total Korean ODA in 1989 was 98.9 percent. In 1990, the \$9.9 million EDCF loan had a grant element of 38.5 percent.<sup>27)</sup> Thus the figure for the total ODA turned out to be 93.2 percent. Therefore Korean ODA has met the DAC target in financial

27) For calculating the grant element, a discount rate of 10 percent was used and semi-annual installment was assumed. Among \$9.9 million, \$8.6 million had a maturity of 15 years with a 5-year grant period and the interest rate was 5 percent. The remaining loan's condition was a 20-year maturity with a 5-year grace period and a 4 percent interest rate.

terms. Since the share of EDCF loans is expected to rise in coming years, however, the grant element of Korean ODA may fall below the target level.

Aid tying has been the most direct mechanism used by donors to promote their commercial interests. Donor countries have sought to justify and maintain public or parliamentary support for their aid programs by arguing that foreign aid serves domestic commercial interests through increased exports. Aid tying can be (1) by source, requiring the recipient country to use the foreign aid to purchase goods and services in the donor country, or (2) by end use, specifying the project, product, or sector to which the aid will be allocated (Krueger et al. 1989: 73). Often both forms of tying are used.

Aid tying by source has been most prevalent and has been used by all bilateral donors. DAC members report this tying status each year. According to OECD (1990), 30.5 percent of DAC ODA provided in 1988 was tied, while 7.6 percent was classified as partially untied.<sup>28)</sup> The figures for 1982—1983 are 30.0 percent and 7.2 percent, respectively, indicating that the tying status has not changed much in the 1980s. In 1988, Austria and Italy were the two countries with the highest tied aid ratios of 69 percent and 58 percent, respectively, while in the Netherlands and Japan the ratios are reportedly 10 percent and 11 percent, respectively. It is generally believed, however, that some assistance, technically classified as untied, effectively remains tied to the donor country in practice.

A large part of Korea's bilateral ODA should be classified as tied aid. Most grant aids are commodity grants such as those for transportation equipment, agricultural machinery, medical supplies, clothes, etc.; cash grants account for only a small portion. Of the \$91.4 million grant aid during the 1977—1990 period, only \$8.31 million, or 9 percent, were cash grants. In 1990 the cash grant share was a mere 4 percent.<sup>29)</sup>

Korea's technical assistance is mostly tied as well. Assistance involving the invitation of students and trainees or KDI's IDEP program are fully tied. The dispatch of experts to developing countries or the provision of

28) The tied or partially untied ratios are actually the ratios of tied bilateral ODA or partially untied bilateral ODA to total ODA. Since most multilateral ODA is classified as untied, tied bilateral ODA can be regarded as total tied ODA.

29) This information was obtained from internal documents of KOICA.

engineering services may involve a small portion of untied aid in the sense that some of the aid budgets are spent in the recipient countries. Nevertheless, the untied portion of overall technical assistance is very small. As noted earlier, EDCF loans, which are offered in won, are virtually 100 percent tied.

Considering this tying status of different bilateral ODAs, it can be safely concluded that at least 90 percent of Korean bilateral ODA is tied aid. Since bilateral aid accounted for 36 percent of total ODA in 1990, it can be said that at least 33 percent of Korean ODA was tied in that year. If the multilateral ODA portion declines and bilateral loans increase in the future, which is what most people expect will happen, then the tied aid ratios of Korean ODA will rise continuously for some years to come.

The EDCF law and the grant aid regulation state that one main purpose of assistance is to increase the level of economic transactions with the recipients. In reality, one of the purposes of establishing the EDCF was to help diversify Korean export markets and secure import sources of raw materials from developing countries (M. Chung 1989 : 1).

The increase in Korean exports that results from aid tying, however, is very small compared with the size of total Korean exports. For instance, even if we assume that all grant aids and EDCF loans in 1990 were used to purchase goods from Korea, the increased exports from tied aid would only be 0.03 percent of the year's total exports. Therefore the balance-of-payments effect of aid tying is negligible.<sup>30)</sup> Even if all Korean bilateral aid becomes completely untied, the demand for Korea's goods and services will rise if Korean goods and services are competitive in the world market, and the aid to these countries in turn increases their demand for goods and services overall or increases their foreign exchange holdings.

The quality of a country's ODA can also be measured by criteria other than the grant element or direct tying by source. The quality of aid may rise if it is used for the poorest people of the recipient countries rather than for 'commercially interesting' projects. Mosley (1985) assumes that the greater the part of the aid that is devoted to rural development and social infrastructure, rather than to industrial development, urban housing, etc.,

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30) The increased exports or production could have significant effects for a particular industry or a firm.

the greater the proportion of aid which goes directly to the poor. In the case of the DAC countries, on average, 35 percent of their bilateral aid was allocated to agriculture and social infrastructure in 1989 (OECD 1990 : 217). For Korea, this information is not available, but by examining the approved EDCF projects and the composition of grant aid supplies, the proportion of Korean bilateral aid allocated to the agricultural and social infrastructure sectors looks smaller than the DAC average. Almost all of the EDCF projects are either for economic infrastructure such as transportation and communication or for manufacturing. Grant aids are mostly for industrial production or transportation although some agricultural machineries are included.

Another criterion for measuring aid quality could be the proportion of aid going to the LLDCs. This is based on the assumption that a given amount of aid is worth more in a very poor country than in a less poor country.<sup>31</sup> Also, as Mosley (1987 : 72) argues, the larger the total number of countries to which aid is provided, the lower the aid quality becomes as diplomatic interest is the main factor behind the allocation of aid which is spread across the largest number of countries as possible.

On both counts, Korean ODA must be judged to be low in quality. Korea's \$20 million or \$30 million a year of bilateral ODA has been spread across nearly 100 countries. As shown in Table 4.6, among the 23 countries that have received more than \$1 million in grant aid from Korea, 9 countries are LLDCs. But of the 9 countries that as of the end of 1990 decided to receive EDCF loans, only one country, Uganda, belonged to the LLDCs.

Judging by financial terms or tying status or any combination of the above-mentioned quality indicators, DAC ODA as a whole experienced slight quality improvement over the years. On the other hand, Korean ODA is expected to experience a deterioration in quality in the near future, though this trend is expected to reverse itself sometime in the late 1990s. The rapid increase of EDCF loans and their share in Korean ODA over the next several years will lower the grant element of Korea's total ODA and raise the portion of tied aid.

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31) Aid to LLDCs accounted for 24 percent of total DAC aid in 1989. In 1988, it was 26 percent.

## FIVE

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### **Korea's Aid Philosophy and Aid Administration**

#### **Aid Philosophy**

To date, Korea's economic aid has been provided without clearly defined principles or philosophies. As many government officials admit, Korea's ODA has been repetitions of past aid operations by the individual ministries without consideration of the targets or effects of the aid from the national or global point of view. The two dominant types of Korea's bilateral aid, grants and technical cooperation, have been allocated as broadly as possible so that the size of the aid for any particular recipient has been very small. There has not been any serious discussion concerning the principles of aid allocation or types of aid or aid evaluation.

As the data on aid show, total bilateral aid from Korea has been minimal in the past. The small volume of aid, however, did not justify the government's lack of endeavors to review its aid administration or to clarify its aid philosophy. This situation is to be changed, and Korea's aid policy is about to enter a new stage. Individuals from both inside and outside the government advocate the idea that a substantial increase in Korea's ODA volume over a short period of time is important as a basic policy goal. The

beginning of won loans as the third type of Korea's bilateral ODA and the creation of the KOICA represent concrete steps toward this policy goal.

In the past, Korea's economic aid to other countries was unknown to most Koreans. And many government officials regarded economic aid merely as a means of obtaining support from Third World countries in the diplomatic offense against North Korea. It was generally believed that Korea was not rich enough to afford economic aid that is purely motivated by humanitarian purposes.

For any country, however, the primary motivation of economic aid should be the alleviation of poverty in developing countries. Still, a comprehensive review of past ODA by DAC countries reveals that development aid has done much less to reduce poverty than might have been hoped (World Bank 1990:127). The most important reason for this is simply that much of this aid has not been directly concerned with economic development or poverty reduction in recipient countries. If a substantial proportion of aid is provided at least partly for purposes other than to promote development, the impact of aid on poverty will be smaller than it might have been.<sup>32)</sup>

For the reduction of poverty, ODA must help recipient countries to grow continuously without continuing their dependence on foreign aid. Actually, "sustainable and equitable development" was chosen by DAC as the guiding theme for setting the development cooperation priorities for the 1990s (OECD 1989:Chap. 2). At its best, development assistance should help developing countries in their own efforts to improve their economic and development policies. In this respect, Korea's grant aid, which has been provided on an ad hoc basis without consideration of the longer-term impacts, needs an overall review. A comprehensive planning and administration of aid provision is required if Korea's aid is to contribute to sustainable and equitable development of poor countries.

This humanitarian view of economic aid is closely related with the notion that we all live in one global village. In today's world of increasingly

32) For example, it is said that only 8 percent of the U.S. aid program in 1986 could be identified as development assistance to low-income countries (World Bank 1990:128)

interdependent countries, one country's economic condition influences the economic conditions of other countries. The stable growth of the world economy is not possible without sustainable economic development of poor countries. Contributing to environmentally sound development is one particular aim of development assistance in today's interdependent world. It is essential that all countries actively participate in confronting global environmental issues. Combating deforestation and desertification and protecting the ozone layer, for instance, are among the central concerns. A priority task for aid is to assist developing countries in identifying and managing these environmental problems (see the discussion in the text below).

The importance of economic development or economic stabilization in developing countries for Korea's long-term growth has been well recognized by Korean policymakers. The EDCF Law which was promulgated in December 1986 states that the main purpose of the EDCF is to assist developing countries in implementing projects which contribute to their industrial development or economic stabilization. The KOICA Law promulgated in January 1991 also states that the purpose of establishing the KOICA is to assist economic and social development in certain countries and to enhance friendly cooperation between Korea and these countries.<sup>33)</sup>

Government officials at the EPB or the MFA, however, emphasize that since Korea's ODA program is at its initial stage with limited availability of resources, Korea cannot avoid considering her own national interest in determining its aid policies. This view of Korean policymakers, which emphasizes national interest, is generally supported by the business sector and the researchers of this subject. C. Kim (1989) suggests that the emphasis of Korea's ODA policy should be on the pursuit of mutual economic benefits rather than on the humanitarian aspects of the aid. Rha and Song (1989:201-203) assert that national security and national economic interests should be the driving force behind Korea's ODA policy. Although

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33) The 'certain' countries are to be determined by the Minister of Foreign Affairs based on considerations of income levels, industrial structures, and stages of development of the countries.

they warn policymakers against too much emphasis on national interest in setting ODA policies, they nevertheless note that since Korea is in the transition process towards becoming an advanced industrial society, national economic interest and national security should be considered more important as goals of Korea's ODA than economic development of the recipients. Their notion of national economic interest has three aspects. The first aspect is that ODA helps the declining industrial sectors move out of Korea to recipient countries. The second and third aspects are that ODA expands Korean exports and ODA increases Korea's resource development activity in foreign countries.

Since Korea's ODA volume is small, policymakers believe that focusing on a few countries in the allocation of aid rather than thinly distributing it among many countries will result in better effects of the aid. In the case of EDCF loans, six countries were selected in 1989 as priority countries; they are Indonesia, the Philippines, Thailand, Pakistan, Nigeria, and Colombia.

Major donor countries have their own priority countries. The allocation of U. S. bilateral aid, for example, has been closely related to the political circumstances and the 'military resources' of recipient countries. The massive aid to Israel, Egypt, South Vietnam, and other countries in the Middle East and South Asia in the 1960s and 1970s reflected this bias (U. S. Congress Budget Office 1980: Appendix II). France directs her aid primarily to former French colonies, which are also those developing countries with which France has the closest trade relations. Unlike the United States, France does not appear to take global political and security interests into account in its aid allocations (Maizels and Nissanke 1984). Trade interests have dominated the Japanese aid patterns which initially focused on Asia, but have spread recently to other areas.

Korea has neither global political interests nor former colonies. But Korea has important trade interests with some developing countries and diplomatic interests with many countries in relation to the situation of continuing confrontation with North Korea. Recently there have been a few attempts to determine appropriate criteria for selecting the recipients of Korea's ODA. Rha and Ha (1989) suggested five criteria, namely, growth potential, degree of self-help, requirement of foreign capital, ca-

capacity to pay back foreign debt, and potential for economic linkage with Korea. Using these criteria, they selected 20 countries including 8 African countries and 7 Asian countries.

H. Kim (1990) suggests a simpler method. Using the average of three ratios i. e., the country's share in Korean exports, Korean imports, and Korean foreign direct investment, the country with the highest average is said to be economically the most important developing country for Korea's ODA. According to Kim, the countries which ranked high in this economic benefit rank and which should be priority countries in Korean aid allocation are, in descending order, Indonesia, Malaysia, Yemen, Thailand, India, Oman, Panama, Papua New Guinea, and the Philippines.

None of these or other selection methods have actually been used in the allocation of Korea's ODA except for the selection of six priority countries for EDCF loans. Government officials would like to have a definite guiding rule, but they have not found one that is both reasonable and practical. It is worthy to note that neither Rha and Ha (1989) nor H. Kim (1990) include per capita GNP as a determinant of aid allocation.

### **Aid Administration**

The Ministries of Foreign Affairs (MFA) and Finance (MOF) have primary responsibility for Korean ODA. Responsibility for bilateral and multilateral grant aid and bilateral technical assistance belongs to the MFA, and the MOF approves and supervises capital subscriptions to multilateral financial organizations and bilateral concessionary loans.

The Korea International Cooperation Agency, under the authority of the MFA, handles the implementation of bilateral grant aid and technical assistance. Before KOICA began operation in April 1991, bilateral technical assistance was provided by several different ministries including the Ministries of Foreign Affairs, Science and Technology, Construction, Labor, and Communications, and the Economic Planning Board. Each of these ministries had separate budgets and plans for technical assistance, and the lack of policy coordination among the ministries was blamed for inconsistencies and inefficiency in Korea's technical assistance program.

**Table 5.1 Administration of Korean Aid**

Type of Aid	Ministry	Executive Agency	
Bilateral ODA			
· Grant Aid	MFA	Koryo Trade Co.	} KOICA After April 1991
· Technical Assistance			
Trainees and Students	MFA, MOST, MOC,	Korea Science and	
Dispatch of Experts	MOL, MOCm	Engineering Foundation, Korea Vocational Training & Management Agency, Agricultural Development Corp. etc.	
Engineering Service	EPB, MOC, MOST MOCm	Construction Technology Corp., Agricultural Development Corp. etc.	
Special Assistance	MFA	—	
IDEP	EPB	KDI	
International Joint Research	MOST	KAIST	
· EDCF loan	MOF	EXIM Bank of Korea	
Multilateral ODA			
· Grant Aid	MFA	—	
· Capital Subscription to Development Banks	MOF	Bank of Korea	

With the establishment of KOICA, however, the role of the MFA in Korean ODA has increased as the MFA now administers all of the Korean technical assistance which was previously administered by the different ministries. As Table 5.1 shows, KOICA manages all of the technical assistance programs as well as the grant aid program. KOICA is also responsible for the Korean Youth Volunteers program and the emigration and overseas employment of Koreans.

The Korean Youth Volunteers, like the Peace Corps of the United States or the Japan Overseas Cooperation Volunteers, is a government-sponsored volunteer program. The program was established in 1989 and in September 1990, 44 volunteers were sent to four Asian countries for the first

time to work with local people for at least two years in such fields as agriculture, health care, education and athletic coaching. Another 38 volunteers were sent in September 1991 to seven countries. Before the establishment of KOICA, this program was the responsibility of the Ministry of Education.

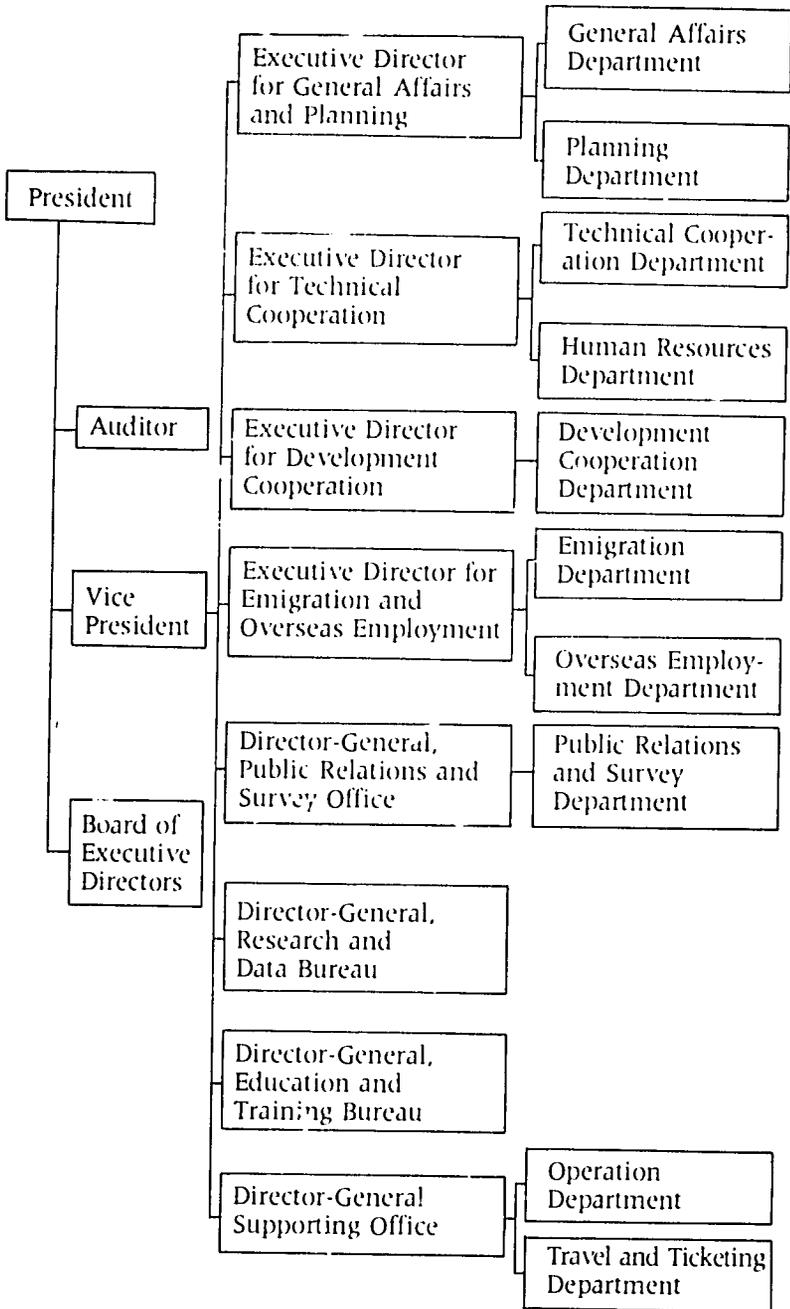
Although emigration and overseas employment of Koreans are not part of Korea's development assistance, the entry of Koreans into foreign countries as immigrants or employees are facilitated by KOICA. This role of KOICA is mainly due to the fact that the Korea Overseas Development Corporation which was previously responsible for this program was integrated into KOICA.

As of Fall 1991, KOICA was staffed with about 210 persons including a president, a vice president, and four executive directors (see Table 5.2). The size of KOICA's staff will have to grow rapidly as the size of Korea's ODA and the corresponding need for foreign offices and development studies will grow in the near future. But how the nature and quality of grant aid and technical assistance will be changed by the establishment of KOICA is not yet clear.

Since EDCF loans are provided by the MOF and grant aid and technical assistance are provided by the MFA, coordination between these different types of assistance programs becomes an important policy issue. When a country or a particular project in a country is selected for support, the type of assistance or the proportions of the different types of assistance must be clearly defined. In principle, coordination and decisions on basic ODA policy directions are the responsibility of the Committee on Overseas Cooperation, which was established in 1986 in the EPB. All of the ministers of the ODA-related ministries are members of the committee and the EPB minister is the chairman. Although the effectiveness of the committee in the past is not clear, the role of the committee will increase in the future as the size of Korean ODA increases.

One type of assistance which is closely related to both EDCF and technical assistance is the grant of engineering services. Engineering services are usually provided for feasibility studies of proposed projects or identification of projects that will receive EDCF loans. In this case, a question arises as to which organization should administer the engineering service

**Table.5.2 Organization of KOICA**



aid. Since the EDCF is for concessionary loans only, engineering service grants should be provided by KOICA. Currently, the rule of thumb is that if the engineering service for the project survey costs more than \$1 million, the Project Preparation Loan of EDCF is used to cover the cost; if the service costs less than \$1 million, KOICA provides it as technical assistance.

The fact that EDCF loans are controlled by the Ministry of Finance rather than by the Ministry of Foreign Affairs or an independent aid office is believed to be one reason for the slow expansion of concessionary loans to developing countries. As in any other country, the MOF must be less positive towards ODA expansion than the MFA and more concerned with domestic financial stability and the balance-of-payments position.

In the major DAC countries, bilateral loans are rarely administered by the finance ministry. In Japan, the OECF (Overseas Economic Cooperation Fund) is primarily under the authority of the Economic Planning Agency; USAID, which has primary responsibility for administering U.S. ODA including concessionary loans, is under the general authority of the State Department, and the USAID director is an undersecretary of the State Department. In Germany, the Federal Ministry for Economic Cooperation (Bundesministerium für wirtschaftliche Zusammenarbeit, BMZ) takes overall responsibility for the aid program insofar as both financial and technical assistance are concerned. Under the supervision of the BMZ, the Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation, KfW) extends loans and grants to developing countries.<sup>34)</sup> The issue of a supervising institution of the EDCF is expected to become an important problem in the administration of Korea's ODA program in the near future.

The centralization of aid administration is the dominant pattern in DAC countries. Aid policies are formulated in a separate administrative entity, either independently or under the supervision of the foreign ministry. This can give the aid program a firm political direction and facilitate the integration of aid policy with other economic

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34) See Browne (1990), Chap. 8 for other country cases.

policies toward developing countries. The creation of KOICA is regarded as an important step toward a centralized aid administration in Korea.

If the size of Korean ODA increases more than fivefold over the next five years,<sup>35)</sup> the aid administration will face severe shortages of competent personnel in most areas, including country specialists, project economists, and engineering advisers. KOICA should expand its staff so that the agency can execute the technical assistance using its own staff and can strengthen the research of developing countries and aid policies. KOICA should also concentrate its energies on development assistance and should stop its activities in accommodating Korean emigration or helping provide overseas employment for Koreans, not to mention passport processing and airplane ticketing.

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35) See the next chapter for a discussion of the size of Korean ODA in the future.

## SIX

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### **Policy Directions for Korea's ODA**

The decade of the 1990s will be a new era for Korea's ODA program. With the first disbursement of EDCF soft loans in 1989 and the creation of a new aid agency, KOICA, in 1991, Korea will become a substantial aid donor in a few years. Korea will be the first middle-income country that has transformed itself from being a major recipient of foreign aid to a donor of substantial aid to developing countries. The continuous rapid economic growth of Korea since the 1960s and the resulting high level of per capita income have encouraged the idea that Korea is now in a position to become a real member of the donor countries of the world.

The admission of Korea to the United Nations in 1991 and the discussion of Korea joining the OECD in the mid-1990s support the expectation that Korea's ODA will increase very rapidly in the next several years. The rapid increase in the size of the aid and the increased interest in Korea's ODA both from within and from outside the country will raise several new important issues for Korean policymakers. This chapter will discuss the future policy directions for these issues.

## The Size of Korean ODA

ODA officials at the EPB in December 1990 estimated that the proper size for Korea's ODA is 0.2 percent of GNP (EPB 1990b). They offered three bases for this estimation: Korea's capital subscription to the IMF compared with those of 18 DAC countries, the average ODA/government budget ratio of the DAC countries, and the Japanese ODA/GNP ratio in 1970, when the nominal GNP of Japan was about equal to that of Korea in 1989. That is, if Korea was to keep the same share of ODA as its share in the IMF subscription, the same ODA/government budget as the DAC countries, and the same ODA/GNP ratio as that of Japan in 1970, then the resulting size of Korea's ODA for 1989 would be approximately equivalent to 0.2 percent of the year's GNP. The EPB officials argued that since the actual ODA/GNP ratio in 1989 was far below the 0.2 percent level, it was appropriate to raise the 0.2 percent as the target for 1996, the last year of the Seventh Five-Year Economic and Social Development Plan. Thus the ODA figure in 1996 is anticipated to be about \$0.85 billion.

The 0.2 percent target by 1996 is reiterated in the EPB's draft program for the internationalization of the Korean economy during the period of the Seventh Five-Year Economic and Social Development Plan (EPB 1990b:106). But the question of how to achieve the target is not clearly dealt with. According to the EPB plan, the size of the ODA in terms of nominal U. S. dollars will increase approximately tenfold in six years, i. e., from 1991 to 1996. Since contributions to multilateral institutions are not expected to increase as quickly, most of the aid increase must be achieved through bilateral ODA. However, neither the MOF nor KOICA have prepared any concrete medium-term plan that coincides with the EPB target.

In order to have the volume of Korean ODA increase continuously in the 1990s, it is necessary to have public support for the policy direction because it is primarily the taxes paid by the public that finances foreign aid. Important issues regarding foreign aid should be discussed in the National Assembly and in the mass media.

In most donor countries, levels of public support for the general concept of development assistance is high. But the opinion polls in several industrial countries suggest that aid ranks lower than other more immediate

concerns in the public's priorities. Expressions of support for aid are greater when the appeal is phrased in terms of humanitarian concern or the alleviation of world poverty and hunger (Burki and Ayres 1986). In order to foster a positive public attitude toward aid and achieve a dramatic increase in aid, the Korean government should carry out well-conceived programs to educate the public about the importance of aid. In this education, the benefit that aid can bring to Korea, directly and indirectly, should be emphasized.

Despite the need to increase aid dramatically, Korean policymakers do not have to seek a 'proper' aid volume for Korea in order to rationalize the aid expansion policy. There is no economic variable that can determine the proper aid level for a country. The aid performances of individual DAC countries over the years do not exhibit close links between the rate of growth of GNP and the rate of growth of aid. Differences between the per capita income of countries cannot explain the degree of diversity in aid performance. For example, France and the Netherlands have ODA/GNP ratios exceeding 0.7 percent but have per capita incomes which are below the DAC average; on the other hand, the United States and Switzerland which have high per capita incomes are at the bottom of the aid-giving list (OECD 1985: 130–31). There is also considerable variation in the percentage of central government budgets devoted to aid; these shares range from 3 percent or more in the case of Sweden and Switzerland to less than 0.4 percent in Austria and Ireland for 1988–1989 (OECD 1990: 189).

Contrary to what many Koreans believe, joining the OECD does not mean that Korea's aid level should sharply rise. At present there are five OECD countries which are not members of DAC. The total ODA from these five countries in 1989 was only \$0.4 billion (OECD 1990: 156). Further, becoming a DAC member does not mean that Korea's ODA/GNP ratio should be raised to the DAC average of 0.33 percent. In 1989, the ratio was less than 0.2 percent for the United States and Ireland, 0.22 percent for New Zealand, and 0.23 percent for Austria (OECD 1990: 140).

Considering the current support for Korean aid on the part of the political leaders and the public, which is based on humanitarian concerns and an understanding for the need to contribute to international economic stability, raising Korea's ODA level to 0.2 percent of GNP in five years seems

very difficult to achieve. A target level of 0.15 percent would be more realistic, yet ambitious. If the 0.2 percent level is achieved before the year 2000, Korea's ODA policy would be praised as a model case.

### **The Types and Country Allocation of Aid**

As the size of aid grows, a larger proportion of Korean aid will be channeled through bilateral programs. During 1988–1990, 70 percent of Korean ODA was multilateral aid. In the case of DAC countries, only 30 percent was channeled through multilateral institutions. The high proportion of multilateral aid in Korea is not a result of policy intention, but is due to the small size of bilateral aid. Since most of the aid increase are expected in bilateral loans and technical assistance, the proportion of bilateral aid will continue to grow in the future.

Multilateral aid is generally said to be less political and therefore more developmental in its orientation than bilateral aid. At the same time, multilateral aid means that control over Korean aid resources is exercised by the multilateral institutions and not by the Korean authorities. Thus, if the multilateral organizations or the countries that control these organizations do not direct aid resources to greater development advantage than what the Korean authorities could, then multilateral aid loses its relative advantage.

As mentioned above, however, Korea lacks a sufficient supply of competent aid staff and experiences with bilateral aid; therefore in some cases, aid resources would be better utilized when they are channeled through multilateral institutions than through Korean aid agencies. In particular, Korea's contribution to UN agencies like the UNDP should be increased sharply. Korea's contribution to UN agencies in 1989 was less than \$10 million and the amount allocated to the UNDP was \$620,000.<sup>36)</sup> However, with membership in the United Nations in September 1991, Korea is expected to increase its multilateral aid through UN agencies.

The UNDP is the largest source of multilateral grant aid with ongoing

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36) The total in Table 4.14 includes contributions to non-UN institutions such as GATT and APO.

programs in over 130 developing countries including North Korea. In 1989, annual disbursements by the UNDP were over \$900 million (Browne 1990:241). Some 80 percent of UNDP resources are earmarked for the least developed countries and the sectors which receive the largest concentration of UNDP assistance are agriculture (including forestry and fisheries), development management, and industry. Therefore increasing Korea's contribution to UNDP is consistent with the policy goals of increasing aid to poorer countries.

If the Korean government wishes to designate the use of the Korean contribution, establishing a trust fund in the UNDP can be a reasonable policy option.<sup>37)</sup> The trust fund is a type of multi-bilateral aid and would be suitable for a country like Korea which is to become a major donor country but is not yet fully capable of managing aid projects efficiently in developing countries.<sup>38)</sup>

One of the problems with the Korean bilateral aid program is that a large number of countries receive very small amounts of aid. As Table 4.4 showed, grant aid of a little over \$11 million was allocated among 94 countries in 1990. Technical assistance has also been small in volume but large in terms of the number of recipients. In 1989, Korea received trainees from more than 100 countries. With a budget of only \$0.3 million, the Ministry of Science and Technology dispatched 66 experts to 21 countries.

Korean bilateral aid should be more concentrated with fewer countries receiving it; in this way, the aid would contribute more significantly to the development of the poor countries. Reducing the number of recipients is important for increasing the efficiency and effectiveness of the Korean aid program. Concentrating aid in fewer countries will also reduce the cost of aid administration. Further, a significant development effect of Korean aid in recipient countries would promote closer cooperation between Korea and the recipient in economic or political areas. The number of grant aid or technical assistance recipients should gradually be reduced to

37) A trust fund agreement with UNIDO was concluded in 1989. The fund size is \$300 thousand a year.

38) By utilizing the trust fund, Korean officials do not have to worry about the loss of Korea's identity in the eyes of recipients.

about 1/2 or 1/3 the present size.

In the past, bilateral aid was allocated in such a way that every country that requested aid from Korea received some assistance. Diplomatic consideration of the confrontational situation with North Korea was a major factor determining the allocation of the aid. Since grant aid to almost 100 countries was planned and administered by only two MFA officials, it was impossible to stress the efficiency or effectiveness of the aid program (MFA 1990:61). Today, however, KOICA selects those developing countries that will receive the grant aid or technical assistance and decides how much aid is to be allocated to the countries.

As mentioned in earlier, Rha and Song (1989) and H. Kim (1990) presented important factors that should be used in determining the allocation of bilateral aid. Emphasis was given to those variables that exhibit a degree of close economic ties with Korea and the growth potential of the developing countries.

The most important variable in the selection of the recipient countries, however, should be the need for the aid or the poverty of the recipient country which is primarily measured by its per capita income. Other variables such as the recipient country's population, the amount of aid received from other donors, and political or cultural linkage with Korea should be considered as well. But Korea's commercial interest should not be a significant variable, at least for the allocation of grant and technical aid. If commercial interests are perceived in a wider and longer-term perspective, aid serves domestic commercial interests through the growth and stability of the world economy even if the more direct benefits are not immediately pursued.

For the allocation of EDCF loans, more emphasis on the recipient's growth potential or the recipient's economic ties with Korea can be justified because the loans must be repaid and the EDCF projects usually require much larger aid amounts than do other aid projects. Familiarity of the aid officials with the loan projects is essential in EDCF management. In the first phase of Korea's soft loan expansion, joint financing with multilateral organizations such as the IBRD would be a good idea considering Korea's lack of experience and manpower, as well as the relatively small size of the fund.

### **Raising the Quality of Aid**

Unlike the DAC countries, Korea's bilateral grant aid has all been commodity grants, except for a small amount of cash grants for emergency relief. In the future, the share of cash grants should be increased rapidly. This can be done by limiting the growth of commodity grants and by increasing cash grants in won or in convertible currencies. By doing this, the real value of Korean aid to the recipients will be increased. Eventually grants in convertible currencies should comprise the major portion of Korean grant aid.

There is a popular argument that since Korea is still a developing country and does not enjoy a balance-of-payments surplus, Korea's bilateral aid should be tied aid. But this argument implicitly assumes that resource transfers to foreign countries cost much less if they do not take the form of direct outflow of foreign exchanges. This assumption is plainly wrong. Transfers in the form of goods and in the form of foreign exchange have the same cost as long as the goods and the foreign exchange have the same value in the world market. For example, by giving a motor vehicle to a developing country, Korea loses the opportunity of exporting the vehicle in the world market or the opportunity of utilizing those resources for the production of an import-substituting good. Therefore the benefit of tying the grant aid is much smaller than many people believe. The small size of the Korean grant aid itself makes the benefit of aid-tying to the Korean economy negligible. Thus the policy of keeping the provision of machinery and equipment as a form of Korean grant aid does not serve any meaningful purpose.

Technical assistance is expected to be emphasized in Korea's ODA program. Yet only about 10 percent of Korea's ODA is given in technical assistance. Many Korean aid officials believe that since Korea is regarded as a model case of successful economic development, Korea's technical assistance to developing countries will be more relevant and therefore more valuable to the recipients than assistance from developed countries. But the main problem with Korean technical assistance is that there are not enough specialists, consultants, and advisers who can carry out the essential aid functions such as teaching, advising, training, and studying in

developing countries. The current system of ad hoc aid operation on a request basis should be transformed into planned project aid in selected countries. However, the recruiting and training of Korean experts to be dispatched to developing countries should be placed on the top of the ODA's budget allocation list.

Korea's bilateral aid has mostly taken the form of nonproject aid, i. e., Korea's grant aid and technical assistance were provided as general support for the recipient countries' overall development objectives rather than as support for particular sectors or investment activities. By increasing project aid, Korea should be able to allocate more aid resources in particular sectors and for particular objectives that would raise the effectiveness of Korea's aid. For instance, Korean aid officials can make sure that the aid goes to the poor as intended or to any other intended beneficiary instead of going to the wealthy or some corrupt politicians. Another advantage of project aid is that it usually results in specific outputs to which donors can attach their own labels.

For Korea to be able to increase project aid, however, more competent administrators and more funds to cover the higher administration costs are required than are now available. More aid will be provided in packages since projects usually require both capital and technical assistance. Feasibility studies and preparations and evaluations of projects will require a lot of resources.

Priority projects with the largest development effects will be different depending on the economic conditions of the recipients. But the focus of Korean aid in the LLDCs should be on the alleviation of poverty in rural areas and the development of human resources which are essential for sustained growth in developing countries. Without reducing extreme poverty in many developing countries, there is little hope for sustainable development. Health, nutrition, housing, family planning, and other social services are essential for improving living conditions in these countries, and Korea, with its resources and experiences, can make important contributions in these areas. The experience of Korea's successful development demonstrates the crucial importance of quality education and technical and vocational training for economic development. Korea should study the aid types that will be best suited for the needs of

developing countries and the resource supplies of Korea in the field of education and training.

Since the volume of Korean grant aid and technical assistance to any country would be small compared to those of major donor countries, large projects in industry, energy or transportation do not match with Korea's supply capacity. These projects, with their commercial interests to aid donors, would be better left for the consideration of the EDCF program.

### **Special Emphasis on Environment and Population**

Until recently the dominant view in most developing countries was that environmental issues were problems of primary interest to industrial countries that had caused the problems in the first place. Today, however, considerable public attention in developing countries is being drawn to such global environmental issues as the ozone layer depletion and earth warming. Cooperation between developed and developing countries resulted in the adoption of the Montreal Protocol on Substances that Deplete the Ozone Layer, which became effective on January 1, 1989.<sup>39)</sup> Korea has signed the Protocol in February 1992.

It is essential that all countries actively participate in confronting global environmental issues. One characteristic of the international environmental problems is reciprocal externality (Dasgupta and Mäler 1991: 119); that is, individual countries, whether developed or developing, contribute to environmental damages and also suffer from them. Emissions of greenhouse gases are an example.

The buildup of greenhouse gases is largely related to the use of fossil fuels, which now account for 80 percent of the world's energy consumption. But the cutting and burning of tropical forests also add substantially to the buildup of carbon dioxide. Population pressures, poverty, and inadequate land tenure systems all contribute to environ-

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39) The Protocol requires participating nations to freeze the production of CFCs (chlorofluorocarbons) at 1986 levels until 1993 and to reduce production by 50 percent by 1998. The Protocol allows developing countries a 10-year grace period during which they can increase CFC and halon consumption to meet their basic domestic needs.

mental degradation including the cutting and burning of forests, which is to a large extent due to the ever-increasing need for fuelwood. Poverty also pushes towards overgrazing and overfarming, thus leading to desertification and soil depletion. Ultimately, such overuse contributes to famine (as in Ethiopia) and devastating floods (as in Bangladesh and Sudan). Therefore the causes of environmental degradation are inseparable from development problems.

Since it is evident that continuing environmental deterioration will threaten the achievement of sustainable economic development and an improved quality of life for all, it is essential that Korea, like other donor countries, actively participate in helping developing countries deal with past damage and encourage them to take environmentally desirable actions. In particular, Korea should integrate into its development assistance the following three components of an environment policy as the DAC members have done: (1) specific projects and programs for upgrading and rehabilitating the environment; (2) environmental assessment procedures for "traditional" development aid projects or programs; and (3) measures to strengthen the capability of developing countries to deal with environmental issues (OECD 1989:113).

As a first step toward implementation of an environment policy in development assistance, KOICA may recruit an environment adviser or establish an environment section to assist aid officials. As a next step, Korea's rural development aid may include projects assisting in afforestation and soil conservation. Establishment of a new environmental institution or the strengthening of existing institutions and the training of journalists, government officials, teachers, and industrial managers in environmental questions are also areas in which Korea will be able to contribute efficiently.

Continued rapid population growth in many developing countries is threatening to overtake their hopes of achieving sustainable development and alleviating poverty. It is expected that the population in developing countries will grow by at least 850 million people during the 1990s (OECD 1989:110). For developing countries as a whole, the projected average population growth rate in the 1990s is expected to be lowered only slightly to 1.9 percent from 2.1 percent during 1973

– 1980.<sup>40)</sup> The implications of this rapid population growth in developing countries for the world include environmental damage and increasing pressures for migration.

Developing countries need high-quality family planning services. They need administrative and managerial capacities to plan effective population programs. As stated earlier, Korea was very successful in population control and now can help developing countries design and implement an effective family planning program. Contraceptive supplies and local production, training of medical and paramedical personnel, and management training are some areas where Korean contributions can be appreciated.

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40) World Bank (1990:159). The most recent UN estimate of the average growth rate is 2.0 percent for 1988 – 2000 (OECD 1989:103).

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