KOREA AS AN EMERGING DONOR

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Korea as an Emerging Donor

· Date: Wednesday, June 16, 2010
· Time: 09:30~12:00 Roundtable
       12:00~13:00 Lunch
· Location: Main Conference Room (4F), AIPS
· Panelists: Hwang Won-Gyu (Gangneung-Wonju National University)
             Kim Eun Mee (Ewha Womans University)
             Neantro Saavedra-Rivano (University of Tsukuba)
             Barbara Stallings (Brown University)
· Moderator: Hahm Chaibong (AIPS)
Executive Summary

When South Korea joined the Development Assistance Committee of the OECD on January 1, 2010, this marked the first time a former aid recipient became a member of this select group of the world’s leading economies and aid donors. One of the poorest countries in the world and heavily dependent on foreign aid in the early 1960s, South Korea’s impressive success in economic development since then is of strong interest to developing countries of today seeking to replicate such success. As Korea seeks to share its development expertise with developing nations as part of its development assistance program, it must decide how this program can best serve the needs of the recipient countries as well as its own national interest. In order to examine the multifaceted issues surrounding Korea’s rise as an aid donor and, in particular, the future direction of Korea’s Official Development Assistance program, AIPS convened a Roundtable on June 16, 2010, where experts both foreign and Korean shared their thoughts.

Hwang Won-Gyu of Gangneung-Wonju National University started the session with a historical overview of Korea’s transformation from an aid recipient to a donor. Hwang then outlined current challenges facing Korea’s ODA program – such as funding, organization, personnel, and aid effectiveness – in light of global ODA trends shaped in large part by major donor nations and multilateral organizations such as the United Nations, the OECD, the IMF and the World Bank. Arguing that Korea is not quite ready to teach its development expertise to other countries despite a positive Korean public perception of ODA, Hwang suggested a need to set a national agenda for development assistance.

Kim Eun Mee of Ewha Womans University next presented her thoughts on a Korean model of development cooperation. After a brief analysis of Korea’s economic development from an institutional perspective that spelled out the roles played by developmental state, authoritarian state, and local as well as foreign capital, Kim discussed the applicability of the Korean development experience to foreign countries. Pointing out changes in the global political economy since the 1960s, such as the end of the Cold War and the apparent triumph of capitalist democracy as the preferred model for human society, Kim posited that aspects of the Korean success in development were historically contingent and thus more debate was necessary to determine which aspects of the Korean experience may be directly relevant for today’s developing countries.

Following Kim, Neantro Saavedra-Rivano from the University of Tsukuba began by noting current trends in development assistance such as the increasing importance of the role of the public in donor countries and a new assertiveness shown by recipient countries. Saavedra-Rivano then focused on the Japanese experience in development assistance, including recent trends such as changes in destination of aid flows. Commenting on the decrease in Japanese ODA since its heyday in the 1990s and the increasing political need to justify the ODA program to muster public support, Saavedra-Rivano offered lessons for Korean ODA, suggesting in particular that Korea will also face similar political pressures as its ODA grows.

Last, Barbara Stallings from Brown University highlighted Vietnam’s experience as an aid recipient and raised
questions for the future direction of Korean ODA. Noting the dramatic rise in capital flows to Vietnam – including ODA, foreign direct investment and remittances home by Vietnamese working overseas –, Stallings pointed out that Asian donors, including Korea, have eclipsed Western donors in importance. Regarding the differences between Asian and Western donors in their approaches to aid – as reflected, for example, in sector and geographical distribution of aid as well as any conditions attached to aid –, Stallings proposed possible reasons including differences in their aid objective, such as economic development vs. poverty reduction. Stallings ended with remarks on how Korea might develop its development assistance program as the nation weighs the advantages and disadvantages of existing ODA models – both Asian and Western – and attempts to formulate its own approach.
Hwang Won-Gyu (Gangneung-Wonju National University)

I was invited to this panel as the President of the Korean Association of International Development and Cooperation, which is a relatively new academic group but is growing rapidly. My presentation is entitled “The Way Forward: Korea’s ODA in the New Age of Development Cooperation.” Here, I would like to emphasize that we are facing a new age, a turning point, or a paradigm shift in development cooperation. I will briefly browse through Korea’s ODA history and touch upon the paradigm shift in the new age. I will then move on to the challenges we face and ways to move forward.

Korean ODA: A History

As you are aware, Korea was one of the poorest economies in the world and certainly the poorest in East Asia. I read a newspaper article published in November 1954 that stated that Korea received ODA from Cambodia. However, we now give a lot of money to Cambodia to help the country grow. This is an amazing turnaround for Korea, transforming from one of the poorest economies to one of the strongest industrial powers in the world. In terms of its ODA history, Korea started as a recipient immediately after its independence in 1945 and continued in this status until the 1980s, during which period we received huge amounts of money from the United States, Japan and multilateral agencies. In the 1950s, almost 99 percent of ODA was in the form of grants-in-aid. But after the first economic development plan in 1962, we received more loans than grants-in-aid, and with time, the grants-in-aid disappeared so that, by the late 1970s, almost all ODA was in the form of commercial loans. ODA was a form of concession loans, and we received financial flow from private circles in the form of commercial loans.

In the 1950s, the money we received was used to help the poor in a basic human-needs approach, and we also relied heavily on ODA financial disbursement to finance our budget deficit. At one point in the 1950s and even in the early 1960s, we relied on ODA disbursement for more than half of our budget deficit.

In the 1960s, we started to invest our ODA money in infrastructure and industrial facilities. This was quite different from the prevailing use of ODA in other countries, especially in Africa. We became officially independent from grants-in-aid in the late 1960s and, technically, we became independent from ODA in 1999. The major donors were: IBRD, USAID, OEICF (JBIC), ADB and UNDP.

There were three stages in Korea’s role as a donor. The first was an embryonic stage between the 1960s and the early 1980s. The first project was financed by the UNDP to teach and train people in developing countries. These were not purely Korean projects. For example, the Korea Development Institute (KDI) launched a purely Korean technical cooperation program called the International Development Exchange Program. I was a founding member of the IDEP in 1982. That was one of the first instances in which Korea transferred its development experiences to other countries.
During the second stage in 1987, we established the Economic Development Cooperation Fund under the Economic Planning Board, which was later transferred to the EXIM Bank. In 1999, we established a loan agency called Korea International Cooperation Agency (KOICA), which has handled grants-in-aid.

We are now at the third stage as a donor country. In 2010, we became a member of the OECD Development Assistance Committee. We have entered a mature stage, and the world is looking at Korea and its new role in international society. We face many tasks that are different from those of traditional donors.

Korean ODA Today

It is estimated that the total gross ODA Korea disbursed in 2009 was about 850 million dollars, which exceeded 0.1 percent of Gross National Income. As for the governance architecture of ODA in Korea, we established in 2009 a supreme decision-making body under the Prime Minister’s office called the Committee for International Development Cooperation. We have a unique ODA governance structure in this country. Normally, concessional loans are handled by the EXIM Bank under the supervision of the Ministry of Strategy and Finance, and grants are handled by KOICA under the supervision of the Ministry of Foreign Affairs and Trade. As a result, there is competition and rivalry between the two, which makes it difficult for academic associations like KAIDEC to take a neutral stance. NGOs also need the skills to maneuver between the two rival ministries. Therefore, we need discussions about reorganizing our governance architecture.

As for Korean ODA in 2009, bilateral ODA accounted for 71 percent and multilateral ODA for 29 percent. This is not a problem. The problem is the proportion between grants and loans. Grants only took up 63 percent, which is a lot lower than the figure for the advanced countries, in particular the Nordic countries.

According to IMF data, ODA itself represents only seven percent of the total financial flow from Korea to developing countries. The largest share comes from private sources in the form of FDI and others. Other official flows like export credit and investment loans also take up a significant portion of financial flow from Korea to developing countries. This is typical for countries around the world. ODA is not significant in terms of total financial flow from one country to developing countries.

The major recipient countries for Korean ODA are in Asia, especially in Southeast Asia. This is due to our geographical proximity, historical context, as well as the potential for economic cooperation in the future. But we are also expanding our disbursements to other regions of the world like Latin America and Africa, with Africa now receiving more than twenty percent of the total ODA.

In terms of the field or sector where we disburse our ODA, much emphasis has been on building social infrastructure, such as health and education, and economic infrastructure such as dams and roads.
Global ODA Trends

Now I would like to move on to current trends in ODA and the discussions that are going on. In 2000, we declared the millennium development goals, and we have devised plans to achieve these goals by 2015. Primary attention is given to achieving millennium development goals under the initiatives of the United Nations. Since 2002, the international community has become serious in enhancing aid effectiveness.

Beginning in the 1960s until the 1990s, Western countries devoted an enormous amount of money to African and Asian countries. However, the situation has remained stagnant. There was a so-called aid fatigue in donor countries as well as desperation and disappointment in recipient countries. A perception gap existed between the two, and this became a significant issue. Consequently, scholars raised questions about the effectiveness of foreign aid. These questions have become key discussion topics among NGOs, civil society organizations, ODA circles, governments, and academia.

In 2002, the international community reached a consensus about setting a goal to spend 0.7 percent of GDP on foreign aid by 2015. This was a bold and ambitious suggestion at the time. In line with such declaration, under the initiative of the World Bank and OECD, the first High Level Forum on Aid Effectiveness was held in Rome in 2003. Starting then, the international community promised to hold a series of forums biannually. The second session was held in Paris in 2005. At the G8 meeting held in the United Kingdom, multilateral debt relief initiative was adopted, and the poorest countries benefited from reduction of their huge debt. That was a turning point and helped many developing countries recover from the secular recession.

In 2008, Ghana hosted the third HLF meeting, which adopted the Accra Action Agenda that deepened implementation of the Paris Declaration. The Doha Declaration was also adopted. What is important here is that Seoul will be hosting the fourth HLF meeting next year, during which we expect to handle the issue of development effectiveness. So far, we have been addressing the issue of basic human needs, survival, or the millennium development goals oriented around survival or equality problems. But the Seoul Declaration will contain more advanced and aggressive approaches to how we can accelerate development in developing countries. It will be an extremely important meeting, and Korea must cooperate with the international community in order to find solutions.

In the HLF-2 meeting in Paris, we conceptualized the way we can guarantee aid effectiveness by constructing concepts such as ownership alignment. Ownership refers to the receiving country’s participation. We need to raise the participation of receiving countries. Alignment means harmonization with receiving countries’ development plan. We shouldn’t make the mistake of giving money for one purpose...
and having the receiving country use it for another purpose. We need to align the two purposes. Harmonization problems also exist in donor countries as well. It is a big problem in my country because so much fragmentation prevails like the one between KOICA and EXIM Bank. There are many government agencies getting involved in ODA, and many NGOs and religious groups do the same without mutual consultation. There are great inefficiencies in my country. That is probably the same in every country, but Korea is particularly severe.

We are pushing to raise the ODA-GNI proportion to reach the set target by 2015, but we seem to be way behind. With the global financial crisis in 2008, it is difficult to expect to reach that point. We promised to reach 0.25 percent by 2015, but no one, including government officials and scholars, expects to realize this goal by that time. However, the proportion is gradually increasing.

We have been obsessed with the importance of ODA, but the reality of the financial flows to developing countries is that FDI or remittances home from nationals working overseas account for large shares of these flows. ODA takes up a small amount. In particular, the United Nations’ disbursements to developing countries are scant, which means the UN’s role is smaller than we have come to expect.

**Challenges for Korean ODA**

Let me move on to the challenges and the ways we can move forward. We have many challenges ahead of us because these are new issues. We only have twenty years of experience in the field of development cooperation, but there is a positive perception in Korean society because we have made marvelous achievements in economic development. Many scholars think that we are more than ready to teach and give to developing countries. But knowing is one thing, and teaching is another. Very few people in my country accept that such a perception gap exists. But in my view, the perception gap is huge, and we are not quite ready. We have much to improve in order to become an authentic donor.

We have committed a lot of money to rapidly increasing the budget, but we are inexperienced and not yet ready. At the time of joining the OECD DAC, we agreed that donors must spend 0.25 percent of GNI by 2015 compared to 0.7 percent. Still, 0.25 percent seems to be a difficult target to obtain. We have to make all our efforts to meet the commitment.

The second task is to realign and harmonize the aid process. As I mentioned earlier, there is a rivalry between the institutions like KOICA and EXIM Bank, and the two ministries at the top fighting each other. Moreover, NGOs, scholars and business consultants do not share the same goals. It is a huge inefficiency in my country. Also, many agencies do their own ODA projects without long-term planning or cooperation with other countries. This remains one of the greatest tasks we must tackle in the future.

It was only last year that we set up the coordination body under the Prime Minister’s office. All developed countries have experienced mistakes and errors. Last year, Japan harmonized its aid process. In my country, the Ministry of Strategy and Finance, which used to be a super ministry during the time of rapid
economic development, is responsible for financing, budgeting, and planning. In other words, it is still a super ministry.

The Ministry still keeps the function of budgeting. It is difficult to persuade them to transfer their functions to the Ministry of Foreign Affairs and Trade. But we have to ask whether the Ministry of Foreign Affairs and Trade is the best organization to handle ODA. If I were asked this question, I may answer “no,” because government agencies in Korea are meant to work for the welfare of Korean nationals. ODA is for foreign peoples, so the government officials that handle ODA should have a different philosophy and mentality. For the next administration, we must propose an independent government agency to handle ODA.

The third task is enhancing aid effectiveness in development. We have much to say about development in my country. The first is cooperation with donor community not only at the government level but also at the NGO level. Korean NGO workers from the field don’t attend discussion sessions or donor obligation meetings, including those with KOICA. We have to learn to cooperate with the donor community. We have many things to teach other countries, but much of our knowledge is passive. We know things in a vague form. We always emphasize in the field that Koreans at a certain age have hands-on experience. But what is hands-on experience? I have accompanied many senior government officials claiming to be masterminds of the Korean economic development, but they have nothing to show. They are too proud. It is difficult to conceptualize these things, so those are the tasks we must tackle in the future.

Lastly, we should be more proactive in setting a national agenda for development assistance. If we complete all these tasks, Korea will become a real beacon of hope for developing countries.

**Kim Eun Mee (Ewha Womans University)**

Since Dr. Hwang has presented a comprehensive picture of where Korea’s ODA stands in the global ODA architecture, let me proceed directly to my presentation. As Korea has made the grand gesture that we want to share our development experience with the rest of the developing world, I want to focus on how Korea’s development model, the model that we used for our own development, can be transferred as a development cooperation model. There are some questions, and I put the word model in quotations because I’m not really sure if there’s one model for Korean development.

**Korean Economic Development**

First, let me present what I think is an important model for Korea’s economic development from the 1960s
to the 1980s. There are many other scholars who have spent a great deal of time talking about Korea’s economic development. My presentation is based on the institutional perspective, which I find to be most plausible. Here, we talk about some of the key institutions that enabled South Korea’s economic development, and I focus on the developmental state, the authoritarian state, local capital and foreign capital. Let me go over these very briefly and move on to transferring this model.

In the developmental state, as Professor Hwang mentioned, the Economic Planning Board was the super ministry with the coordinating function, budgeting, and planning. But the Ministry of Finance and the Ministry of Commerce and Industry acted as the legs and arms to implement what the EPB had envisioned in terms of its economic development plans. So these were the key institutions of the developmental state.

I then talk about the authoritarian state because in South Korea, the authoritarian state was also key to realizing economic development. However, this is a point where I see a lot of problems transferring the Korean experience to other developing countries because it was part and parcel of the developmental state that the police, the intelligence agency, and the military were often used to carry out the developmental agenda. The tax agency, in particular, was sometimes used arbitrarily to punish businesses that did not conform to the government’s development policies. Although I want these organs of repression to be considered intellectually separate from the developmental state, one needs to recognize that they came together in the Korean developmental experience.

The third key institution is local capital, in particular, in the initial stage of South Korea’s phenomenal economic development. We cannot forget the role of the large business groups that used to be family owned, similar to the pre-World War II Japanese zaibatsu. These were powerful agents within the private sector, and they worked hand-in-hand with the Korean government in the heavy and chemical industrialization drive, which began in the 1970s against the advice of foreign advisors. In fact, the foreign advisors advised against engaging in exports in the mid-1960s. The local capital – in particular, the large capital – worked with the developmental state in bringing about Korea’s success in exports since the early 1970s. The chaebol grew, and the state grew as well because of their collaboration.

As for foreign capital, there are different types of foreign capital. In particular, we have to recognize that ODA grants and concessional loans played a very important role in Korea’s economic development. Korea received 212.8 billion dollars from 1945 to about 1995. From the 1970s onward, there were commercial loans, but in the earlier period, ODA was instrumental in Korea’s economic development.

I won’t go through all the policy instruments or distinct features. My aim is just to highlight how the Korean mode of development differs from other developing countries or other more developed countries.

A Korean Model for Development Cooperation

As Professor Hwang has already covered the history of South Korea as a donor of ODA, I would now like to
talk about how Korea is trying to draw on its own development experience for a development cooperation model.

First, I think we have to understand the global political economic context from the early 1960s to the 1980s, when Korea was going through its rapid industrialization, in comparison to what developing countries are now going through. There was the global Cold War when Korea was going through its economic development, which meant that there was a lot of military aid provided to allies of the Superpowers. If you were in the U.S. group of allies, you were given assistance, and if you were a part of the Soviet alliance, you were given assistance as well. Korea was a key strategic ally of the United States. Hence, a lot of military and economic aid was provided to Korea. This was the geopolitical context in the 1960s and 1970s when we were going through our early industrialization.

On the other hand, if you look at the less developed countries or the least developed countries in the 21st century, we are in the post-Cold War period. In the wake of the Cold War, reconstruction was needed in the post-Communist bloc countries, and money was going to these countries rather than to the least developed countries in sub-Saharan Africa. Hence, the Rome Declaration and the Monterrey Consensus came about because there was a real concern that aid for sub-Saharan Africa and other developing countries was being reduced.

The other issue in the post-Cold War period is the lack of discussion about democracy being the most preferred form of government. In the past, there were ideological rivalries, but I think there is now a broad consensus about democratic government as the preferred mode of government. There are disagreements in reality, but at least no country can easily say in public that they will go for a different type of government in this era.

As for the global economic environment, Korea was one of the very few countries in the mid-1960s that were willing to export manufactured goods at low price. The other country was Japan. If you go to the U.S. now, the things sold in bulk are either made in China or some other countries that are willing to sell cheap products. But in the mid-1960s, it was Japan soon followed by Korea.

When Korea was entering export markets, there were relatively few competitors, but also the U.S. market was much more open to goods from developing countries like Korea and Japan. But trade protectionism was strong in Korea. Although Korea was much engaged in exports, in terms of imports, we had a very strict protectionist policy. However, developing countries now find themselves in a different economic environment. We have the WTO, enforcing open trade and many countries are trying to use the export-oriented model.

Finally, global and regional financial crises are occurring more often. The most recent, which is still unfolding, is the global financial crisis that started in the U.S. in 2008. This crisis has affected many different
countries and, in particular, the least developed countries. The LDCs are triply worse off because: 1) the donor countries are less likely to honor their promises for aid when they are also facing economic hardship; 2) these countries are especially vulnerable because they are aid-dependent; and 3) they are not able to export their products because their export markets are no longer able to buy their products. The LDCs face a much harsher and more difficult global economic environment than faced by Korea during the 1960s.

When I spoke earlier about the domestic political context for Korea’s developmental experience, I mentioned the authoritarian state. Theoretically, I want to separate the authoritarian state from the developmental state as they need not go together all the time. However, in the Korean case, they did go hand-in-hand. When you are trying to export the Korean model of development, what do you do about the military base of authoritarianism that was a key part of Korea’s developmental experience? There were severe restrictions on civil liberties in Korea during the authoritarian era, and scholars, including myself, have argued that we achieved economic development and democratization but only at a great cost in terms of human rights. It is easy to say that democracy will come once you obtain economic development. But the human suffering involved in the process is not something we can simply ignore. These are real issues we need to think about when we talk about using Korea’s development experience as a basis for a development cooperation model that we can export to developing countries.

Given the post-Cold War context, the less developed countries will have less tolerance for non-democratic political systems. Global and local demands for democracy are much greater than before. However, these countries also face governance crises, high levels of corruption, and budget dependency on aid, so they are in a difficult position.

To conclude, is there an alternative to the Washington Consensus that apparently failed? Is the developmental state a model for development cooperation? We hear about the Paris model or the Beijing model and also conflicting evaluations of Chinese ODA. On the one hand, DAC members are scornful of the Chinese, saying they are mucking up the waters and doing aid in a different way than the traditional donors have been doing. On the other hand, we hear positive stories from the recipient countries: when the traditional donors neglected us, the Chinese were there to help us, and so on. In addition to hearing these conflicting evaluations, we don’t have much data about Chinese ODA, which is another problem.

Is the developmental state an alternative? I would like to see more debate on the Korean developmental model. There are aspects of the Korean development experience that we would want other countries to avoid. When talking about aspects of the Korean experience that offer lessons for other countries, maybe we can focus on state intervention, industrial policy, performance-based incentive structure and the such as starting points for discussion.
Neantro Saavedra-Rivano (University of Tsukuba)

I have had an extensive professional career in Japan. So, that perhaps gives me some authority to talk about the Japanese experience.

**ODA: Public Perception**

Some of the things I would like to say were already presented by Dr. Hwang, but perhaps the emphasis is a bit different. I want to bring in some other aspects of ODA. Very often, I am not very happy about many discussions of ODA that sound too technocratic. For instance, plans can be accomplished only if they are well executed. The role of the general public is very important. In a sense, that has impressed me the most about the Japanese experience. Japan has politically awakened in recent years. The effect of that on ODA is perhaps one of the biggest lessons for Korea.

Official development assistance, as you know, became more and more popular at the end of the colonial period in the 1950s and the 1960s. We have two extreme interpretations of what ODA is. One is the view of ODA as a generous act by nations that are more developed toward those that are in the process of developing. It is altruistic behavior. The other is not necessarily sinister but sees ODA as a continuation of colonial policies, in effect, an effort to preserve relations or influence by new means, in a more civilized period of human history.

Between these extremes, there are many other interpretations, and these two are not necessarily in conflict with each other. The truth has components, perhaps, of both of them. It is important to keep in mind these interpretations because they are present in public discourse and academic discussions. ODA comes in two forms: bilateral and multilateral. Bilateral is much more consistent with the second interpretation. Multilateral is more consistent with the first interpretation, a way in which governance would have an effect on the development of developing countries.

What I want to mention next is the emergence of the Development Assistance Committee. It needs to have its mandate renewed at the end of this year. DAC came to be seen as an influential institution coordinating how ODA takes place. I already mentioned the importance of the conceptual environment in which ODA takes place. The very concept of ODA carries with it the idea that there is a hierarchy of nations. As I mentioned before, these two extreme interpretations stimulate the debate between these ideas of altruism and self-interest. We know well that this kind of debate exists in other areas of social sciences — not only economics — within nations, for example. We have government policies of assistance toward the poor or charity work, and, as we all know, within nations, it is hard for governments to justify such debate or to sustain policies that are altruistic. Why should we expect it to be any different in the international arena? Actually, whenever tax payers have an opportunity to express their opinions, they are usually not in favor of ODA.

Whenever tax payers have an opportunity to express their opinions, they are usually not in favor of ODA.
My interpretation is that they usually believe the words of their governments when the governments say they are trying to do something good. However, the governments do not stress what the countries will get in return, and the public just does not like it. The public thinks there are things we could do with those resources – we could help our poor for instance – or I could pay less taxes. However, although the public of a particular country will believe that its country is using its money to do good, when it looks at other countries, especially countries that are rivals of its own, it takes the other interpretation, believing that those countries have more sinister ideas in mind. The public believes that its ODA is different from their ODAs. This kind of paradox exists when people are embracing both interpretations at the same time.

**Trends in Development Assistance**

There have been interesting trends about development assistance. Notice that I didn’t say ODA but development assistance, because the first interesting trend is the increasing role that non-official donors are playing. Some estimates say it is more important than the official donors. We have all these foundations, some of which are quite important. Non-DACs are appearing. Actually, I realized that South Korea entered DAC just about the same time this building was opened earlier this year. But before that, it had been more than 15 years without a new member joining the DAC. Greece joined before 2000, and Portugal quit and then rejoined together with Spain in 1991. The DAC is in a sense losing space, despite the fact that Korea has just joined. However, when one looks at the whole picture, other official actors have come in, China of course and even Chile has become a donor as a non-DAC as it joined the OECD this year. The fact is that we have plenty of official development assistance taking place, just not via DAC.

Another interesting trend is a new assertiveness shown by recipient countries. Recipient countries are becoming more important, transmitting the idea that development assistance is not something that is given without something in return. There are many institutions that have adopted the name of development cooperation rather than development assistance, which would fit better. There have been plenty of talks about the reasons for this, and aid effectiveness will be the focus of the Seoul meeting next year.

**Japanese ODA: Lessons for Korea**

As for Japan, Japan is not so different from Korea. After the Second World War, Japan was almost destroyed in terms of physical infrastructure. It had to rebuild itself, initially receiving loans and support from the World Bank. Japan also benefited from aid from the United States for several years. It went from a
recipient country to a donor and then, with the growth of its economy, Japan became an important donor to
the point where its ODA was the largest in the world. However, since the end of the bubble economy in 1991,
this diminished, and now Japanese ODA is much less important. I can observe this from being in charge – I
was fully in charge until March and now I am partly in charge – of the Master’s program that receives
students from the developing world with scholarship provided by the Japanese government. In the past few
years, Japan has successively cut those scholarship programs first in Africa and, during the past year, in Latin
America. It has closed those programs from the African Development Bank and later the Inter-American
Development Bank. When talking to the officials at the Japanese Ministry of Finance that supervise those
programs, they made clear to me that, nowadays, they need to explain better to the public about why
particular programs exist, but Japanese bureaucrats are not that good. What they are doing is eliminating
some of the programs that they find difficult to explain. That is my interpretation.

What has happened in Japan for the past decade or so is that the population has become more politically
aware. They do not easily accept what the politicians say. They want more explanations. As politicians
and bureaucrats are not used to that, the first reaction is to start cutting, and ODA has suffered as a result.
As I said before, the government always conveyed to the public the idea that Japanese ODA was good for
developing countries and that this is good global citizenship and so on. But this is not sufficient. They should
have explained what Japan was getting in return in terms of, for instance, national security. If we look at
ODA figures in general, we can see that ODA started to increase again after 2001. This is connected with the
governments’ awareness of the need for security. But the Public is not told. Japan has not done it. As a result,
they are cutting, although not drastically, their ODA.

In terms of regional focus, traditionally, Japanese ODA has been dispensed to Asian countries. But
recently, and this is more of a response to China than to September 11, there has been an increase of ODA
going to Africa. Similar to China, Japan has also created, though not fully-structured, what is called TICAD,
Tokyo International Conference on African Development.

Professor Hwang already mentioned JICA, the most interesting new institutional development in Japan,
which I think is interesting for Korea. It was created in October of 2008. The new JICA emerged from the old
JICA with concessional loans offered by the Japan Bank for International Cooperation. JICA became able to
issue bonds for its operations. It makes a lot of sense to combine these operations because usually loans or
grants are combined with technical assistance, and it is useful to have these projects supervised by the same
agency. I was just talking to a colleague of mine who is a senior advisor to JICA, and he told me they are
excited that the experience seems to be good. There is also the fact that the President of JICA, Mrs. Ogata,
has a background in the U.N. High Commission for Refugees and was one of the authors of the report on human security. She brings this kind of background and concept to Japanese ODA. Support for ODA is important
and needs to be maintained. For Korea, because of the Monterrey Consensus, Korea will need to justify it politically.

My final comment is that public acceptance of ODA has to increase as a result of political awareness
of the Japanese public. We do have stagnation of the Japanese ODA. This is specific to Japan, but Japanese ODA has always faced some constraints. In Latin America, Japanese ODA has always been careful not to conflict with the United States policy in the region. In Asia, not so much. Japan faces constraints in Asia coming from the past. I don’t think this holds any particular lesson for Korea as Korea has a clean history.

**Barbara Stallings (Brown University)**

I’m going to do something both similar to and different from the other presentations. Everyone else has been talking about ODA from top down, the hierarchy that Neantro mentioned. I’m going to talk about ODA from the point of view of a recipient country. But I’ll be talking about all the same topics that you have heard already in the three previous presentations.

What I’m going to try to do in fifteen minutes is first to say a few things about the characteristics of Vietnam that provide the background for what I want to say about ODA in Vietnam. Then I’m going to give you a quantitative view of what ODA has meant and means to Vietnam and say some things from a qualitative perspective about the same topic. Then, as everyone else has, I will talk about some possible lessons for Korea from the recipient point of view of Vietnam.

**Vietnam and ODA**

Vietnam is a medium sized country with about 85 million people – that is nearly twice the size of South Korea. It has a relatively high literacy rate, which is important in terms of what one can do in Vietnam as a recipient and I think why it’s attractive to many countries as a recipient. I think we can think of modern Vietnamese history as having started in 1975 when Vietnam won the Vietnam War. It reunified the country, the North and the South. At that point, it was not only seen that Vietnam would proceed under the domination of the communist party of Vietnam but also function as a centrally planned economy. There was a close relationship with the Soviet Union in this period and this went on for a decade or so. With the economy not being successful and made worse by two wars, the Vietnamese invasion of Cambodia and the Chinese invasion of Vietnam, things were not going too well and, by the mid to late 1980s, Vietnam could be categorized as one of the poorest countries in the world.

However, a rather remarkable thing took place under the leadership of the communist party of Vietnam. Similar to what we saw in 1978 and 1979 in China, Vietnam decided that it would turn to a market economy. In Vietnam, this was known as the Đổi Mới reform. The results were quite spectacular. Vietnam, in the last two decades, has been growing at about 7.5 percent on average per year, investment has risen to Asian
levels of 30–40% of GDP, exports have wiped out some industries in other parts of the world, and poverty has been substantially reduced. I think most people would say that, in economic terms, this reform has been extremely successful.

One of the key aspects of this dramatic success was a very high level of foreign capital coming into Vietnam. It arrived in large amounts and by various channels that you’ve already heard about, such as ODA, FDI – investment by multinational corporations around the world – and remittances from Vietnamese workers, many of whom fled as a result of the wars and now have been sending money back to Vietnam.

Capital flows coming into Vietnam have been really extraordinary. If you look at ODA and FDI as a percentage of GDP, the figure is still extremely high. Five percent is internationally considered very high. Those two flows together go up as high as thirteen percent. If you add remittances, we’re talking about over twenty percent of Vietnam’s GDP being represented by capital inflows. Good or bad, this is an extraordinary process.

Who was providing this money? The answer tends to be the same regardless of which flow we’re talking about, and that is Asian countries. In terms of ODA, Asian countries plus the ADB, which is basically controlled by the Asian countries, provide about half of all ODA being committed to Vietnam. We’ll get back to that in a moment. Western countries have provided less than one fifth, and the World Bank provided less than one third. The dominant players in ODA for Vietnam are Asian. The foreign investors are from Asia by an even larger share. 60 percent of ODA over the past two decades have come from Asian sources. Asia has a particular way of distributing its ODA, which is complementary to its FDI.

As for ODA from Korea, there is a difference between the commitment figures and the disbursement figures. In the case of commitments, Korea is the fourth highest donor. In the case of disbursements, it’s the eleventh highest. This is actually good. It’s good because the reason this happened is that Korea’s ODA is increasing so rapidly that the commitments, which mean expected ODA in 2009, are far larger than the actual disbursements in 2008. We’ll see what happens when we add the 2009 figures.

Here’s the FDI picture. Korea is the third largest investor in Vietnam by volume. But second largest by number of projects. This likely means there are a lot of smaller firms from Korea, which are making smaller investments as opposed to large investments. Here, we see that the Korean private sector was interested in Vietnam well before the ODA push began toward that country. This is important in a number of ways.

**Asian ODA and Western ODA**

Finally, one of the most interesting things about Asian ODA in general, and you can see it in a very dramatic way for Korea, is the very different sector distribution of ODA in the case of the Asian countries compared to the Western countries. Japan, Korea, and ADB – the three Asian donors – allocate nearly three quarters of their ODA to investment in economic infrastructure and production facilities for building up the economy of Vietnam. For the Western donors and the World Bank, that percentage is only about a third. The Western donors are putting most of their money into social projects – about 45 percent going to social projects
whereas less than a third for the Asian donors. This other category is interesting. Western donors value their involvements in things like budget support, the environment, human rights, and supporting the NGOs whereas Asian donors do not as much.

Ultimately, it seems that one way to think about the aim of money going into Vietnam is to develop Vietnam into an important part of the production network in Asia. Vietnam has a lot of natural resources, an 85 million people market, and a pretty high-skilled population with low salary levels.

The Western donors, by contrast, have a different philosophy. People in Vietnam have told me there is quite a bit of conflict between the Asian donors, on the one hand, and the Europeans and the World Bank, on the other. The U.S. does its own thing as usual. The Western donors want to give ODA to the poorest recipients, especially in Africa, and concentrate on poverty reduction projects and not on building roads, dams, and factories. They think that private investors will provide capital to middle-income countries and support productive projects that will lead to growth. So, in this Western model, the public and private sectors should operate on parallel tracks but through a division of labor.

All donors now say they want to foster ownership among recipients in terms of aid and development. Vietnam is known as being especially aggressive in terms of wanting to take control of the ODA coming into that country. They want to have an active voice in deciding where this money will go. They do not want to have any conditions imposed upon them. The Asians are much more willing to go along with this approach of few conditions and, of course, China is the one that excels itself in requiring no conditions at all. The West is still trying to impose conditions in terms of democracy, human rights, and all these things that Vietnam doesn’t really want to hear about.

** Lessons for Korean ODA

Finally, a few ideas about possible lessons for Korea. It’s important that there are various competing models out there for promoting development. As opposed to following along with the Asian trend, perhaps Korea needs some time to think about the advantages and disadvantages of different approaches to aid. Where should Korea geographically allocate its aid? Should it be mostly in Asia or should it be spread around or should it be, as the West does, heavily toward Africa? How should this be thought of? What kind of projects should be financed? Should Korea continue to do what it has been doing until now and basically finance production facilities? What about the complicated, opaque relationship with the public and private sectors? Is tied aid basically aid to help the private sector in Korea as well as the private sector in Vietnam or whatever the recipient country? As for the popular idea that recipients don’t want conditions, there are good and bad things about this, which needs to be thought through as well. Korea is being pressed implicitly and explicitly from different sides in the development debate. The Japanese see themselves as tutors to Korea in terms of how ODA should be
given. The West would clearly like to capture Korea for their views and, presumably through the DAC, are putting pressure on Korea to rethink some of these issues. Thus, Korea as a new donor has the opportunity and the need to think these things through on its own and not necessarily be influenced by others.

The views expressed in this publication do not necessarily reflect the views of the Asan Institute for Policy Studies.
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