

Dilemmas facing an emerging donor: Challenges and changes in South Korea's ODA

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Abstract

South Korea's official development assistance (ODA) has been increasing rapidly and will continue to do so (KOICA, 2006; Lumsdain and Schopf, 2007). Korea is one of the few countries which have successfully transitioned from a recipient to a donor in the last two decades. It is expected that Korea will become a member of DAC (development assistance committee), OECD. Korea's ODA policy, along with its growth in quantity, is at a crossroad for the enhancement of its quality. Discussions and debates are on-going regarding the reforms in Korea's ODA activities. This paper examines some issues which must be discussed prior to ODA reforms in Korea. It first reviews the present and past of Korea's ODA. In doing so, we identify problems and issues of Korea's ODA. They include low ODA/GNI ratio, a high percentage of concessional loans compared to grants, a high portion of tied aid, regional bias, and a relatively large number of recipients. The paper argues that those problems are caused by lack of consensus on some fundamental issues like the objective of ODA, positioning of Korea's ODA as an emerging donor and the nature of aid to North Korea. We also argue that a shift of ODA policy is required to promote the reform based on a thorough reflection on the objectives of ODA that aim for alleviation of poverty and sustainable development in developing countries, not so much as for serving as an economic tool (e.g. energy and resources) of a donor country.

Key Words: official development assistance (ODA), Korea, development, contributory diplomacy, emerging donor

1. Introduction

Recent efforts of donor coordination for the enhancement of aid effectiveness seem ever more challenging as new players are emerging in the landscape of international aid. Among the new players, non-DAC (development assistance committee) bilateral donors, namely ‘emerging donors’, are attracting special attention as their recent activities have brought in many changes to the rules of the game and expectations of the recipient countries.

South Korea is currently the biggest non-DAC OECD ‘emerging donor’ where her official development assistance (ODA) has been increasing rapidly and will continue to do so (KOICA, 2006; Lumsdain and Schopf, 2007). As one of the few countries which have successfully turned into a donor from a recipient, it is also expected that Korea will become a member of DAC, OECD in 2010¹. Korea’s ODA policy, along with its growth in quantity, is at a crossroad for the enhancement of its quality. Discussions and debates are on-going regarding the reforms in Korea’s ODA activities.

This paper examines some issues which must be discussed prior to ODA reforms in Korea. It first reviews the present and past of Korea’s ODA. In doing so, we identify problems and issues of Korea’s ODA. They include low ODA/GNI ratio, a high percentage of concessional loans compared to grants, a high portion of tied aid, regional bias, and a relatively large number of recipients. The paper argues that those problems are caused by the lack of consensus on fundamental issues like the objective of ODA, positioning of Korea’s ODA as an emerging donor and the nature of aid to North Korea. We also argue that a shift of ODA policy is required to promote the reform based on a thorough reflection on the objectives of ODA that aim for alleviation of poverty and sustainable development in developing countries, as opposed to ODA serving as a tool for economic diplomacy (e.g. energy and resources) for the donor country.

The rest of the paper is organized as follows. In section two, we examine existing studies on emerging donors in general and Korea in specific, followed by a chronological review of Korea’s ODA in the next section. In section four, problems and issues of Korea’s ODA are identified, while the fundamental challenges and dilemmas are discussed in section five. Finally the paper concludes with some arguments and recommendations regarding the current administration’s ODA policies.

¹ Following the announcement in 2006, the Korean government officially submitted applications for joining the DAC in Jan 2009. The DAC review team visited Korea to finalize details for the preparations. Korea’s full membership in DAC is expected to be confirmed in Dec 2009 and officially announced in May 2010.

2. Literature review: Emerging donors

Despite recent upsurge of interest in emerging donors and their impact to international development communities, it is by no means a new concept or a new phenomenon. As Manning (2006) points out, issues surrounding the rivalry between DAC member countries and non-DAC countries are traced back to late 1960s to 80s when former Russia-pact countries and Arab countries played a significant role in international aid. It is only since early 1990s that DAC members have maintained over 95% share of the total global aid.

Emerging donors are categorized into four distinct groups based on the membership of OECD and EU (Kragelund, 2008). Group I (OECD/EU members) consists of four countries: the Czech Republic, Hungary, Poland and the Slovak Republic. They generally conform to DAC and EC guidelines and are willing to increase aid to reach the ODA/GNI ratio of 0.33, an EU recommendation by 2015. Group II (OECD/non-EU members) consists of diverse countries such as Iceland, Mexico, South Korea and Turkey where the last two are quickly scaling up their ODA volume to reach \$1 billion in coming 2~3 years while trying to include more modalities in the portfolio. Group III (EU/non-OECD members) consists of more recent donors such as Cyprus, Latvia, Bulgaria, Estonia, Lithuania, Malta, Romania and Slovenia. Other than Slovenia with the volume of \$40 million, the rest of the countries in the group remain as small donors with less than \$10 million disbursement per annum, most of which is channeled through the multilateral system. Finally, Group IV (non-OECD/non-EU members) constitutes the rest of the non-DAC donors embracing Arab donors such as Israel, Kuwait, Saudi Arabia; Latin American donors like Brazil, Venezuela, and Cuba; Asian donors such as China, India, Taiwan and Thailand; and Russia and South Africa. These countries place their own political and economic agenda over MDGs, and maintain their own definition and internal guidelines of delivering aid. Among these countries, China and India receive much attention from academics and practitioners of the international aid community due to their impacts on the principles and practices of aid as well as increasing economic and political influence in some regions like Africa (Manning, 2006). For example, Mohan and Power (2008) examines political implications of Chinese aid in Africa focusing on class and racial dynamics, democratization, civil society and aid effectiveness. Mohan and Tan-Mullins (2008) also discusses social, economic and political aspects of the increasing Chinese Diasporas in Africa and local responses.

Although there have been many attempts to estimate the volume of emerging donors' ODA, it is not clearly known as official figures from some non-OECD donors are either not announced or incompatible with the international guidelines. Kharas (2007) estimates the total volume of new bilateral donors amounted to about eight billion USD in 2005 while Kragelund (2008) argues that China alone provided aid ranging from 731 million to 8.1 billion USD in 2005 depending on how you define aid.

Emerging donors pose new challenges to the international aid community. First, there are growing concerns on the increase of transaction costs due to aid fragmentation (Munro, 2005; Acharya et al., 2006, Kragelund, 2006). Second, the majority of the emerging donors share the experience as a recipient and some of them believe that they have their own recipe for development, which may be different from that of the international community. Therefore the level of conformity to the international guidelines in both delivery and contents of aid is lowered. This often causes conflicts as in the case of China (Woods, 2008). Third, a tripartite development cooperation model of traditional donor-emerging donor-recipient country has appeared as an alternative working model to bring in coordinated efforts between the two donor groups (CUTS, 2005). However we have yet to see how it will work. Emerging donors often have different agenda in their aid programme and they are not always willing to cooperate with existing – often dominating in terms of resources and ideological values – players.

Despite the recent surge of research on emerging donors such as China, there is little research on Korea. Only Lumsdaine and Schopf (2007) examines the rise of Korea as a donor. Considering the increasing size and the rate of the increase in Korea's ODA activities, further research is required, for example, in relation to the three challenges discussed above, which can be summarized as harmonization with the traditional donors.

3. From recipient to donor: Korea's ODA in the last two decades

KOREA AS A RECIPIENT

Between 1945 and the early 1990s, Korea received a total assistance of 12.7 billion USD from the international community². In the early years immediately after the Korean War (1950- 1953), aid to South Korea followed patterns reminiscent to the international political divide under the Cold War. The Korean Peninsula, which had become divided into the pro-US South and pro-communist North

² <http://www.odakorea.go.kr/eng/introduction/history.php>

along the 38th parallel latitude after the World War II, became the epicenter of the cold war rivalry between the United States and the Soviet Union. During the period between 1953 and 1961 the Korean economy subsisted on foreign assistance, especially from the US. Much of this ODA aid was given in the form of grants. Korea used the foreign aid to curb postwar inflation, secure financial stability and make investments in new industrial facilities. Until the end of the decade, foreign aid, mostly in the form of grants, made up most of the country's capital, which contributed to the rapid economic growth at the average annual rate of 4.9% between 1954 and 1960.

After 1957, grants decreased and were increasingly replaced by loans. Until 1980s, almost half of the public loans were allocated to SOCs in line with the Second Five Year Economic Plan and the Heavy and Chemical Industrialization (HCI) drive of the 1970s. The loans were put into economic restructuring in the 1990s as Korea's industrialization upgraded. In the meantime, most of commercial loans flowed into such fields as construction, chemical fertilizer, cement, metal and refined oil which the government strategically selected for economic development. Table 1 below gives a 15-year breakdown of Korea's ODA inflows between 1945 and 1999.

Table 1. Summary of ODA granted to Korea from 1945 to 1999

Year	1945-1960	1961-1975	1976-1990	1991-1999	Total
Grants	2,939.8	1,999.0	750.4	1,202.4	6,891.7
Grants to ODA	99.7%	37.0%	6.5%	9.1%	20.8%
Loans	8.5	3,407.8	10,800.1	12,019.5	26,235.8
Loans to ODA	0.3%	63.0%	93.5%	90.9%	79.2%
Total ODA	2,948.3	5,406.8	11,550.5	13,221.9	33,127.5

Source: OECD-DAC, Bank of Korea and Ministry of Finance and Economy (Rep. of Korea)

In 1995 Korea graduated from the World Bank's lending list and became a member of the OECD donor countries the year after. Although Korea did receive an emergency financial aid package from international development banks during the Asian financial crisis in 1997, it managed to overcome the crisis and in 2000 made its way out of the OECD-DAC list of aid recipients. As such, Korea was finally able to make a transition from one of the world poorest, aid-receiving countries to an emerging donor country. Korea is now set to join the OECD's Development Assistance Committee (DAC) in 2010.

KOREA AS A DONOR

Korea has emerged as the unrivalled leading donor, in absolute amounts, among non-DAC OECD countries (OECD, 2008).³ Korea's rapid economic development had the effect of eliciting eagerness in sharing its development experiences. In 1977, the Ministry of Foreign Affairs and Trade in Korea (MOFAT) started providing some developing countries in the form of technical cooperation. Forums of academics and policy makers to transfer Korea's economic development experiences to developing countries were also initiated by the Korea Development Institute⁴. On the 1st of June 1987 the Economic Development Cooperation Fund (EDCF) was established in the Korea Export Import Bank under the authority of the Ministry of Strategy and Finance to help developing countries spur economic development through a form of concessional loans. The fund was further envisioned as a conduit for establishing favorable economic relations between Korea and other countries. Established with an initial contribution of 30 billion Korean won from the government, the cumulative total of EDCF loan commitments had reached over one billion USD by 1996 and yearly disbursements by 1998 were over 100 million USD. An accumulated total of EDCF fund reached 1.65 billion USD in 2004⁵.

Table 2. Korea's net ODA disbursements (2001 – 2007)

ODA assistance per year (million USD)							
Categories	2001	2002	2003	2004	2005	2006	2007
Total ODA	264.7	278.8	365.9	423.3	752.3	455.3	699.1
I. Bilateral	174.5	206.8	245.2	330.8	463.3	376.1	493.5
I.1 Grant	53.0	66.7	145.5	212.1	318.0	259.0	361.3
Of which, KOICA	47.0	58.6	121.8	174.6	201.9	193.1	270.9
I.2 Loans	118.6	140.1	99.7	118.7	145.3	117.1	132.2
II. Multilateral	93.1	72.0	120.7	82.6	289.0	79.2	205.6
ODA/GNI	0.06	0.06	0.06	0.06	0.10	0.05	0.07

Source: International Development Statistics Online DB, OECD, Korea Exim-bank

In 1991, the Korea International Cooperation Agency (KOICA) was established with the principle objective to manage the disbursement of grant aid and technical cooperation under the authority of the Ministry of Foreign Affairs and Trade. KOICA disbursed a total of 271 million USD in 2007

³ See the OECD's Net Official Development Assistance in 2008 - <http://www.oecd.org/dataoecd/48/34/42459170.pdf>. Other Non-DAC OECD member countries are Mexico, Poland, Czech Republic, Hungary and Slovakia Republic.

⁴ <http://www.odakorea.go.kr/eng/introduction/history.php>

⁵ http://www.koreaexim.go.kr/en/edcf/m01/s02_01.jsp

with a regional focus in Asia (32.7%) and a sectoral focus on governance (18.8%) and education (16.9%).

In 2007, Korea's total ODA comprising soft loans and grants amounted to 699 million USD while it reached 797 million USD in 2008 with the annual growth rate of 14%. These figures are significant since in absolute amount it exceeds the volume of three DAC member countries' ODA – Portugal, Luxembourg and Greece.

South Korea's ODA is currently undergoing a major reform in preparation of acquiring a membership into the Development Assistance Committee of the OECD in 2010. First of all, an ODA bill is being reviewed in the National Assembly to establish a single legal and institutional framework to guide and coordinate all ODA activities. Currently, Korea's ODA is largely divided into concessional loans and grants where the former is executed through the EDCF by the Korea Export Import Bank while the latter is mainly executed by KOICA. There are still around 30 other government ministries or agencies involved in execution of grant aid other than the KOICA (OECD, 2008), which causes ineffectiveness in aid execution. Secondly, despite the economic downturn, the Korean government announced to keep its commitment to increase the ODA/GNI ratio to 0.25% by 2015 from the current 0.07% (Ko and Lee, 2008). Thirdly, the government also announced to make efforts to improve the capabilities of aid planning, delivery and evaluation based on DAC guidelines to address some issues explained in detail in the next section.

4. Problems and issues in Korea's ODA

As presented in the previous section, Korea has turned into a donor country from a recipient. In particular, for the last few years, Korea's ODA has increased rapidly and will continue to do so in coming years. Korea's ODA practices have some characteristics, some of which are problematic and thereby bound to raise criticism from the international aid community. They are discussed in this section.

RELATIVELY LOW ODA/GNI RATIO

Although Korea has recently increased its ODA and this increase will continue, the ODA/GNI ratio is among the lowest for OECD members. Korea's ODA disbursement reached 0.07% of GNI in 2007 when while the average for DAC members reached 0.28%. Even compared with new donors in non-DAC OECD members, Korea is still at the low end of the list as shown in Table 3.

Table 3: Net Official Development Assistance in 2007 for Non-DAC OECD donors

Country	ODA (Million USD)	ODA/GNI Ratio (%)
Iceland	48	0.27
Czech R.	179	0.11
Slovakia R.	67	0.10
Poland	363	0.09
Turkey	602	0.09
Hungary	103	0.08
Korea	699	0.07

Source: OECD (<http://www.oecd.org/dataoecd/48/34/42459170.pdf>)

Portugal, which is a DAC member with a similar level of GNI per capita as Korea (USD 18,950), contributes about 0.27 of its GNI to ODA, a ratio almost four times greater than that of Korea.⁶

HIGH PERCENTAGE OF CONCESSIONAL LOANS

Korea's grant ratio (the portion of grant aid out of the total bilateral aid), 68.2% as of 2007, is higher than that of DAC members, 88.3% (Table 4). Of all the DAC members, only Japan has a lower grant ratio (51.3%) than Korea. Countries such as Netherlands, Canada, Austria, New Zealand and Greece all provide 100% of aid on a grant basis (OECD, 2007).

Table 4: Grants as a percentage of Bilateral ODA, Korea and DAC members

	2001	2002	2003	2004	2005	2006	2007
Overall							
Korea	29.3	30.5	56.2	61.0	65.9	64.5	68.2
DAC	81.5	83.4	84.7	86.0	90.0	89.8	88.3
To LDCs							
Korea	80.4	39.2	60.5	50.4	33.7	39.3	52.4
DAC	96.7	97.1	94.7	93.6	96.2	98.2	98.4

Note: Gross disbursement basis

Source: OECD. <http://stats.oecd.org/index.aspx>

These figures are strikingly contrasting when it comes to the aid for the least developed countries (LDCs). Despite international efforts to lower debt burdens of LDCs, Korea provided new concessional loans to LDCs especially in 2005 and 2006. Although Korea's preference of loans over grants is attributed to a consideration that loans will lead to greater fiscal prudence than grants, it does not conform to the international guidelines. This high use of concessional loans particularly for Least Developed Countries (LDCs) has been cited as likely to dampen international efforts for debt reduction among LDCs. In fact, for Korea, the poorer the country, the greater predisposition to use

⁶ For a full check on the ODA/GNI ratios for OECD member countries refer to the OECD-
<http://www.oecd.org/dataoecd/48/34/42459170.pdf>

concessional loans rather than grants.⁷

HIGH PROPORTION OF TIED AID

In recent years, the OECD has been trying to reduce the percentage of tied assistance among its members to enhance recipient ownership as well as effectiveness and efficiency of aid. Especially for LDCs, the DAC has recommended a strong commitment for untying through *Recommendation on Untying Official Development Assistance to the Least Developed Countries* which entered into force on the 1st January 2002 (OECD, 2008).

Although Korea's portion of untied aid is increasing, it's still much lower than that of most DAC countries (Table 5). A high proportion of tied aid is criticized in that tied aid not only hurts the aid value and effectiveness, but also neglects the ownership of recipients, only promoting donor-side interests.

Table 5: Untied Aid as a Percentage of Bilateral Aid

	2001	2002	2003	2004	2005	2006	2007
DAC Total	79.9	85.3	91.8	91.3	92.3	89.0	84.6
UK	93.9	100.0	100.0	100.0	100.0	100.0	100.0
Japan	81.8	82.8	96.1	94.4	89.7	95.6	95.1
Netherland	91.2	88.6	82.0	86.8	96.2	100.0	81.1
USA	N/A	N/A	N/A	N/A	N/A	63.5	68.5
Portugal	57.7	33.0	93.7	99.2	60.7	61.3	58.0
Greece	17.3	13.9	93.8	23.0	73.6	39.1	42.3
Korea	1.5	1.6	2.5	4.2	2.6	1.9	24.7

Source: OECD DAC Statistics

REGIONAL BIAS IN ODA

Although the share of assistance to Asia has gradually declined from 72.6% in 2001, to 61.2% in 2007, Korea still allocated disproportionately large amount of its ODA to Asian countries as Table 6 shows. Considering that DAC member countries' aid to Africa accounts for 30~35% of the total bilateral aid, it is expected for Korea to commit more aid to Africa on which international efforts to achieve the MDG are focused.

⁷ OECD DAC Special Review. Development Cooperation of the Republic of Korea. 2008. p. 14.

Table 6. Regional Distribution of Korea's ODA (2001-2007)

(% of total net ODA)

	2001	2002	2003	2004	2005	2006	2007
Asia	72.6	78.3	78.5	78.2	80.9	60.5	61.2
Africa	2.6	2.7	7.7	8.5	8.4	12.7	14.3
Latin America	8.1	4.3	4.6	4.5	4.3	6.9	11.2
Eastern Europe	8.0	9.2	1.2	2.1	0.7	8.3	3.4
Oceania	2.4	0.6	2.0	0.1	0.1	0.3	0.8
Unspecified	6.4	5.0	6.0	6.5	5.5	11.3	9.2
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: OECD DAC Statistics

Looking at the country level, assistance is concentrated on only a handful of countries, which are directly bound up with Korea in political and economic stakes (Table 7). This is why the big recipients in Asia - Sri Lanka, Indonesia, and Philippines - are relatively wealthier countries where Korea's business interests are comparatively greater than the poorer countries.

Table 7. Korea's Top 10 Partner countries in ODA (2007)

Country	net ODA (mn USD)	% of Total Bilateral Aid	GNI per Capita Atlas (US \$)	UN Country Classification
Iraq	53.6	10.9	N/A	Lower middle income
Cambodia	35.3	7.2	540	LDC
Sri Lanka	33.3	6.7	1,540	Lower middle income
Indonesia	28.8	5.8	1,650	Lower middle income
Philippines	28.2	5.7	1,620	Lower middle income
Vietnam	24.7	5.0	790	Low income
Laos	17.9	3.6	630	LDC
Angola	17.4	3.5	2,540	Lower middle income
Mongolia	12.9	2.6	1,290	Lower middle income
Peru	10.2	2.1	3,410	Lower middle income
Top 10	262.2	53.1		
Other 117 Countries	168.9	34.2		
Non classified	62.4	12.6		
TOTAL	493.5	100.0		

Source: Korea Exim bank, World Bank

Just as Asian bound ODA is targeted at those countries with greater economic opportunities, ODA to Africa is concentrated on oil producing North African and Sub-Saharan countries such as Angola, Egypt, Morocco and Algeria (OECD, 2007). This representation of Korea's ODA recipient countries questions the aim for Korea's aid and its level of commitment for poverty alleviation in LDCs.

LARGE NUMBER OF RECIPIENTS

Despite a relatively small volume of bilateral ODA with 493 million USD, Korea provides aid to 126 countries (Table 8). Compared to the DAC members, only US, Germany, France, UK, Japan and Canada provide assistance to a larger number of countries with a significantly higher volume per

recipient than that of Korea. On average, DAC members provide assistance to 110 countries with the average ODA volume of 19.9 million USD per recipient. Korea's ODA volume per recipient is 3.7 million USD, which is about one fifth of DAC's average. Even compared with Turkey, another non-DAC OECD donor, Korea deals with too many countries with a smaller amount of money. While Turkey spends 545 million USD for bilateral ODA on 103 countries, Korea spends 493 million USD on 126 countries.

The large number of recipients for Korea's ODA leads to less assistance per country, which in turn affects the overall effectiveness of aid. While the percentage of the countries receiving less than 1 million USD is 56.3% for Korea, it is 39.2% for DAC countries. The more there are recipient countries, the larger transaction costs accrue. By concentrating on a fewer number of recipients, Korea would be able to achieve higher effectiveness in delivering its aid to a selected, though smaller, number of recipients.

Table 8. Average ODA volume per recipient by donor (2007)

Countries		net bilateral ODA (mn USD)	No. of Recipients*	Avg ODA volume per recipient* (mn USD)	% of recipients below ODA volume of 1mn USD* (%)
DAC	United States	18,901	137	68.1	13.1
	Germany	7,950	129	43.9	17.1
	France	6,258	140	47.3	15.7
	United Kingdom	5,602	128	37.7	35.9
	Japan	5,778	144	56.3	11.8
	Netherlands	4,644	98	25.4	32.7
	Spain	3,339	112	22.3	22.3
	Sweden	2,932	111	13.7	27.0
	Canada	3,152	146	13.9	21.9
	Italy	1,270	108	13.3	38.9
	Norway	2,883	108	16.2	25.9
	Australia	2,268	83	21.3	43.4
	Denmark	1,651	93	14.6	36.6
	Belgium	1,240	105	8.1	42.9
	Austria	1,324	117	10.3	61.5
	Switzerland	1,269	119	6.0	29.4
	Ireland	824	93	6.6	40.9
	Finland	584	103	3.6	59.2
	Greece	249	124	1.4	82.3
	Portugal	270	57	4.1	77.2
Luxembourg	253	88	2.4	60.2	
New Zealand	247	84	2.0	65.5	
	DAC Average	3,313	110	19.9	39.2
Non-DAC	Turkey	545	103	5.1	68.0
	Korea	493	126	3.7	56.3

Note: * Using gross ODA data excluding regional and non-classified recipients

Source: Author's calculation based on OECD DAC Statistics

5. Dilemmas facing South Korea

The problems and issues of Korea's ODA mentioned in the previous section are being discussed and addressed by policy makers in Korea. The government has committed to increasing the volume of ODA, and is reviewing the current aid policies and delivery mechanisms. However, the consensus is yet to be made among policy makers in the administration, politicians in the National Assembly, practitioners in NGOs and others. The followings are the key dilemmas for which the consensus is not reached easily.

THE OBJECTIVE OF AID: HUMANITARIANISM OR NATIONAL INTEREST?

Though outstanding in its rapid economic development, Korea is still struggling to become a strong global player in the economic sense of countries like Japan. Thus while Korean policy makers appreciate the need for pursuing humanitarian objectives in ODA disbursement⁸, competition in global business and energy security in recent years has driven Korea to seek ways of furthering its national interests through aid. Furthermore, Korea's dependence on the U.S. for security issues (e.g. threats from the North Korea) also puts strong coalition with the United States before other considerations. For this reason, there was a significant increase in reconstruction relief for Afghanistan and Iraq during the last few years. As such, national-interest is given a priority when aid destinations are selected and the aid mode is somewhat designed (e.g. tied soft loans to ensure business opportunities for Korean companies).

The emergence of China as a powerful player in access to, and extraction of, energy and resources is a key factor in reinforcing the use of aid for commercial interest not only in Korea but also across the donor community. China's growing ability to affect the actions of state actors largely stems from its role as a major provider of foreign aid, trade and investment (Lum et al., 2008). Since 2000, China has been using aid as a tool for soft power to influence through persuasion rather than coercion (Kurlantzick, 2006). At a time when Chinese aid to almost all regions is growing rapidly, some countries in competition with China feel pressured to counter the Chinese offensive. The Korean government has even coined an unambiguous expression of 'resource diplomacy' to diplomatically cope with resource competition in Africa and other places like CIS countries. Korea is under domestic pressure to use its aid more 'strategically' to achieve as much influence as it can in access to resource, trade and investment deals. Considering the Japanese experience,⁹ the pressure to use

⁸ For instance as indicated by KOICA's ODA policy for Africa

⁹ To see the global and domestic pressures that fomented the change in the ODA policy of Japan in the early 2000s. See Kazuo (2004) and Kawai et al. (2001)

ODA more strategically increases when there is an economic hardship at home or fierce competition abroad. For Korea, this explains why a larger amount of aid does not go to the poorest countries, but to relatively richer oil-producing countries with which a quid pro quo deal is more likely.

DEVELOPMENT ASSISTANCE FOR NORTH KOREA

Assistance towards North Korea is another tricky issue for South Korea. Currently South Korea's constitution recognizes her territory as "the Korean Peninsula and its adjacent islands" which includes North Korea, and thus any economic or humanitarian assistance towards North Korea is not officially recorded as ODA nor reported to the DAC.

It is estimated that the volume of South Korea's assistance to the North that could be counted as ODA was 558 million USD in 2007 (OECD, 2008). According to a letter sent from the Korean government to the DAC Chair on 17 July 2008, the total of 558 million USD delivered to North Korea consists of: project aid (123 million USD), technical co-operation (5 million USD), developmental food aid (131 million USD), humanitarian aid (70 million USD), administrative costs (2 million USD), and loans by the government (227 million USD). Should we include assistance to North Korea into official ODA statistics for 2007, the ODA/GNI ratio becomes 0.13% instead of 0.07%.

There has been a great deal of criticism by the current administration on the two previous administrations' aid to North Korea that much of the assistance might have been used for other purposes (Lumsdaine and Schopf, 2007). However, despite the recent gridlock between the two Koreas due to the second nuclear testing and a series of missile launches by the North, the current administration of South Korea is still committed in strengthening economic ties with North Korea. Any sudden change of political stability in the North which may ease the tension between the two could result in significantly increased flows of economic and social development finance from South to North. In this scenario, the Korean government will find it very challenging and tough to keep the commitments to the promised substantial increase of ODA for other developing countries.

BALANCE BETWEEN HARMONIZATION & DIFFERENTIATION

Every donor country wants visibility. This largely comes from a domestic public demand to "fly the flag" or "show face" through its aid assistance (Kawai et al., 2001). There are currently over 30

donors per recipient country¹⁰, which leads to a strong competition among donors for recognition. However, international guidelines for aid effectiveness, such as the Paris Declaration (PD) and Accra Agenda for Action (AAA), recommend stronger coordination between donors and the use of multilateral approaches. Therefore, it is a key concern for all new donors to maintain visibility in an increasingly harmonized system (Manning, 2006).

Part of Korea's hope (like any other donor) is not only to contribute to poverty reduction but also to expand her appeal through aid initiatives by asserting her unique contribution. Multilateralism diminishes the use of aid as a tool for soft power to make a unique mark and thus Korea's dogged bilateralism. Such fears are reminiscent of the Japanese experiences with ODA in the early 2000s when it was felt that pooling together in a multilateral set up would further diminish Japan's already low visibility (Kawai et al., 2001).

There are also some criticisms from Korean academia regarding the limitations of Paris Declaration. Park (2009) argues that while the principles are necessary and important, they are too complicated with full of ambiguous jargons, involve too much transaction costs for coordination, and may not be flexible enough to adjust to the needs and circumstances of each individual recipient. Moreover, she argues that aid delivery effectiveness through a highly institutionalized system may not necessarily guarantee the development effectiveness.

Different nations may have different ideals which they may want to expand, spread and share – such as the US *Transformational Development* which focuses on change of governance and institutions, or Japan's particular concern for environmental causes. Korea has shown particular keenness in rural development through experimentation with its unique rural development program, Saemaul undong. Korea's "Knowledge Sharing Program", a technical cooperation program initiated in 2004 to assist a selected number of developing partner countries in the area of policy formulation and implementation, is another good example of increasing the visibility of aid through unique donor experience. How to implement the Korean model of development, and whether it is appropriate to export its model to a developing country of different social, economic and cultural background may be the question to be answered.

¹⁰ http://www.un.org/ecosoc/newfunct/Roundtable_1.pdf

6. Conclusion

Through such initiatives as the Emerging Donor Initiatives (EDI), new donors are playing an increasingly important role in development cooperation. Korea has now emerged as an influential Non-DAC OECD donor. For example, the amount of Korea's ODA is now greater than that of three DAC member countries (Portugal, Greece and Luxembourg), which shows the significance of new donors. However, unlike traditional donors, Korea is still in the midst of searching for a solid philosophy on which to anchor its ODA objectives and policies. As such, Korea is caught-up between the need to conform to multilateral harmonization in aid delivery for MDGs and its desire to realise its own "strategic" objectives by increasing its visibility.

This lack of philosophy causes problems in executing ODA in Korea: high percentage of concessional loans, high proportion of tied aid, regional bias and others. The need to pursue unilateral "strategic" objectives exacerbates Korea's disposition towards bilateral assistance with loans and tied aid, rather than towards multilateral assistance with grants. To solve these problems, Korea needs to define a philosophy for her ODA. Such a philosophy should consistently embrace multilateralism while at the same time rationalising the need for "independence" as a new donor.

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