KDI

Trade-off or take-off?
Korea's Transition in Development Aid

Key Success Factors and Lessons Learned

25 Nov. 2021

Joonghae Suh

Executive Director, Economic Information and Education Center
Korea Development Institute

Ⅰ. Overall Trend

Ⅱ. Highlights

Ⅲ. Key Success Factors

Ⅳ. Lessons Learned

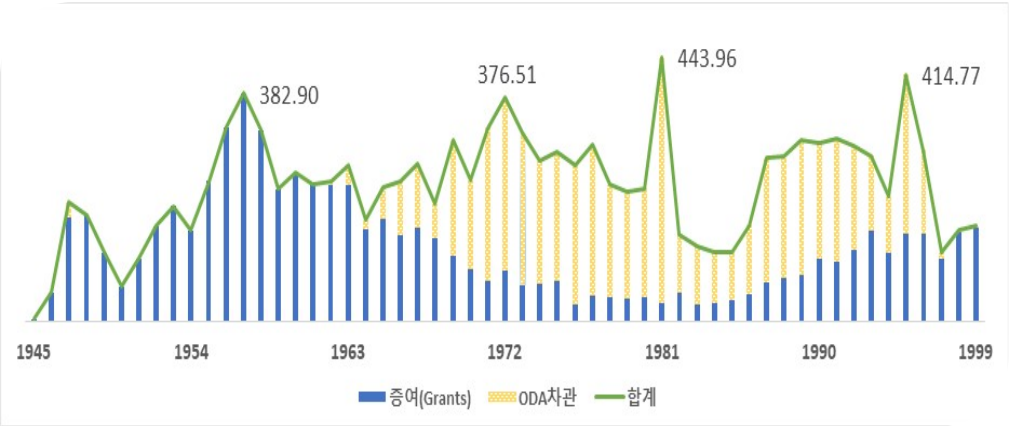
1 . Overall Trend

Post-Liberation National Challenges: Building Socio-Economic Foundations

Macroeconomic stability, control of hyper-inflation	Restoring production base, Earning for foreign exchanges, Energy development
Restoring social order	Reconstruction of nationwide socio-economic system

"ODA played **de facto indispensable** role for reconstructing Korea's socio-economic systems."

ODA to Korea: Overall Trend

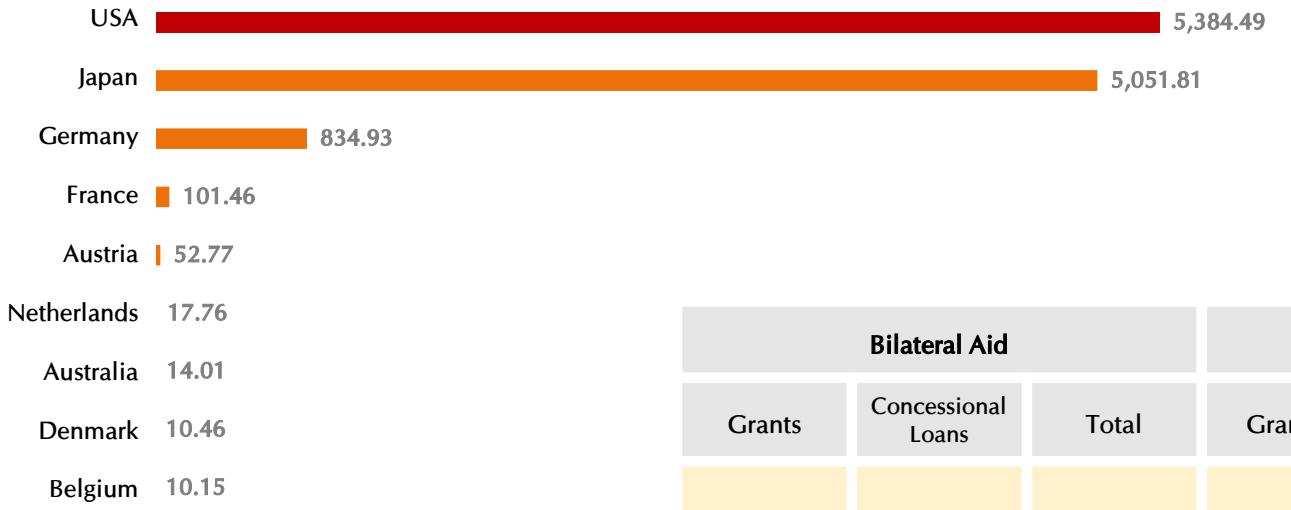


(USD million, %)

	1945~1960	1961~1975	1976~1990	1991~1999	Total
Grants	2,940.06 (99.2)	2,006.60 (50.9)	743.73 (21.2)	1,201.14 (54)	6,891.53 (54.6)
Concessional Loans	24.88 (0.8)	1,934.84 (49.1)	2,757.57 (78.8)	1,023.71 (46)	5,741 (45.4)
Total	2,964.94 (100)	3,941.44 (100)	3,501.3 (100)	2,224.85 (100)	12,632.53 (100)

Source: Bank of Korea, OECD DAC etc.

ODA to Korea: Overall Trend(1945-1999)



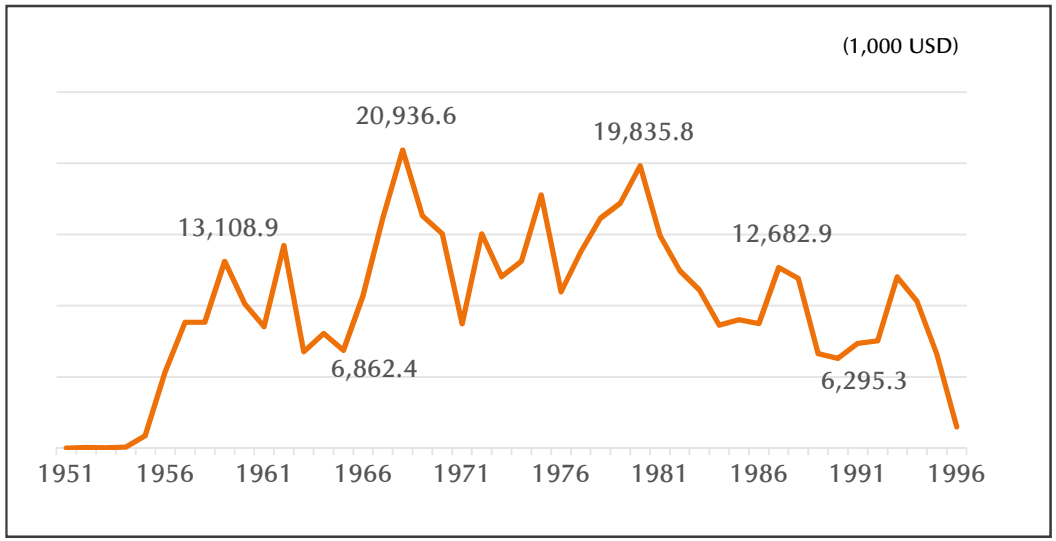
(USD million, %)

Bilateral Aid			Multilateral Aid			Total
Grants	Concessional Loans	Total	Grants	Concessional Loans	Total	
6,076.71 (52.05)	5,598.41 (47.95)	11,675.11 (100)	814.93 (85.11)	142.59 (14.89)	957.52 (100)	12,632.53

Source: BOK, OECD DAC

Technical Aid to Korea

Overall Trends



Composition by Sector

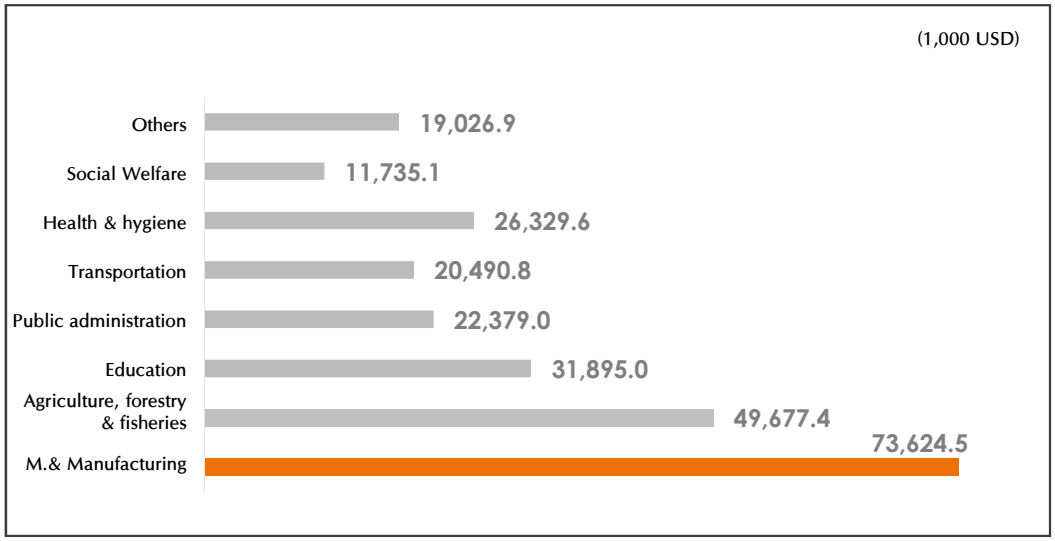
(1,000 USD)

	1950~1960	1961~1970	1971~1980	1981~1990	1991~1996	Total
Expert Invitation	8,637.1	32,193.7	31,271	27,431	3,955.3	103,488.1 (6,684)
Dispatch of trainees	7,472.2	19,062	37,660.6	41,295.1	14,202.6	119,691.5 (26,507)
Reception of service technology	27,323.3	37,829.1	14,740.3	2,938.8	-	82,831.5
Reception of materials & equipment	3,907.5	34,486.7	60,947.5	30,755.8	27,170.8	157,268.3
Total	47,340.1	123,571.5	144,619.4	102,420.7	45,328.7	463,280.3 (33,191)

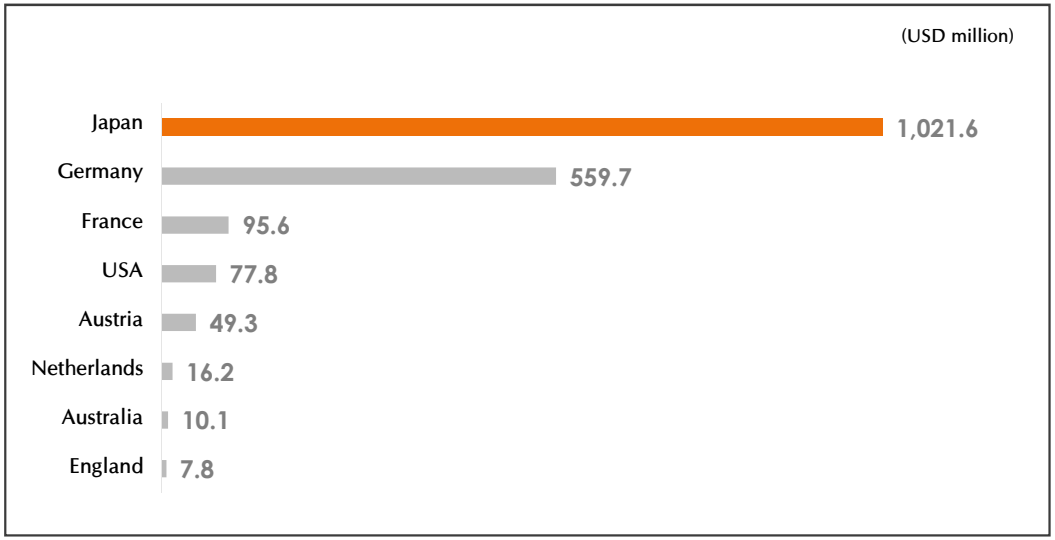
Source: SCIENCE AND TECHNOLOGY YEARBOOK

Technical Aid to Korea

by sector, 1950~1977

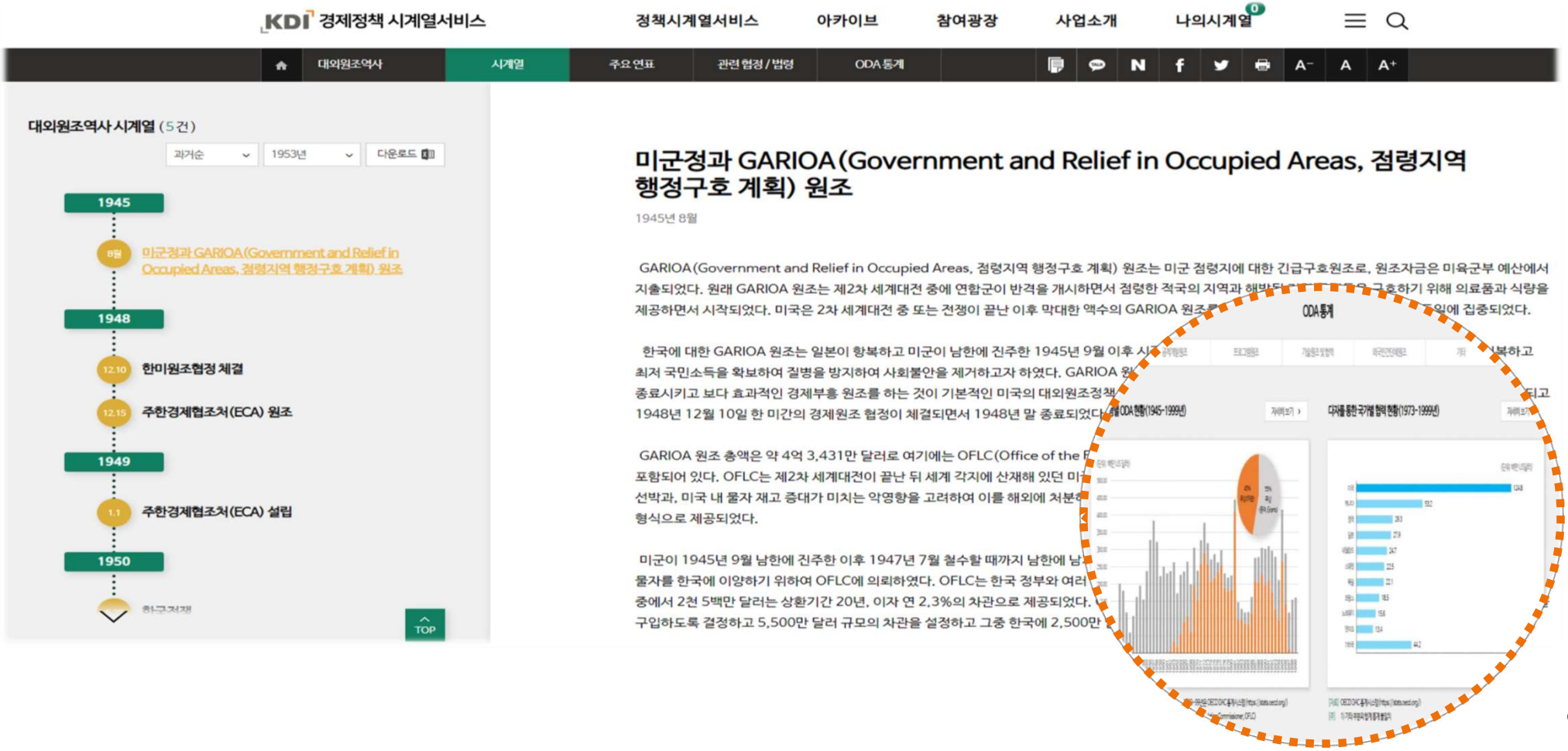


country, 1960~1999

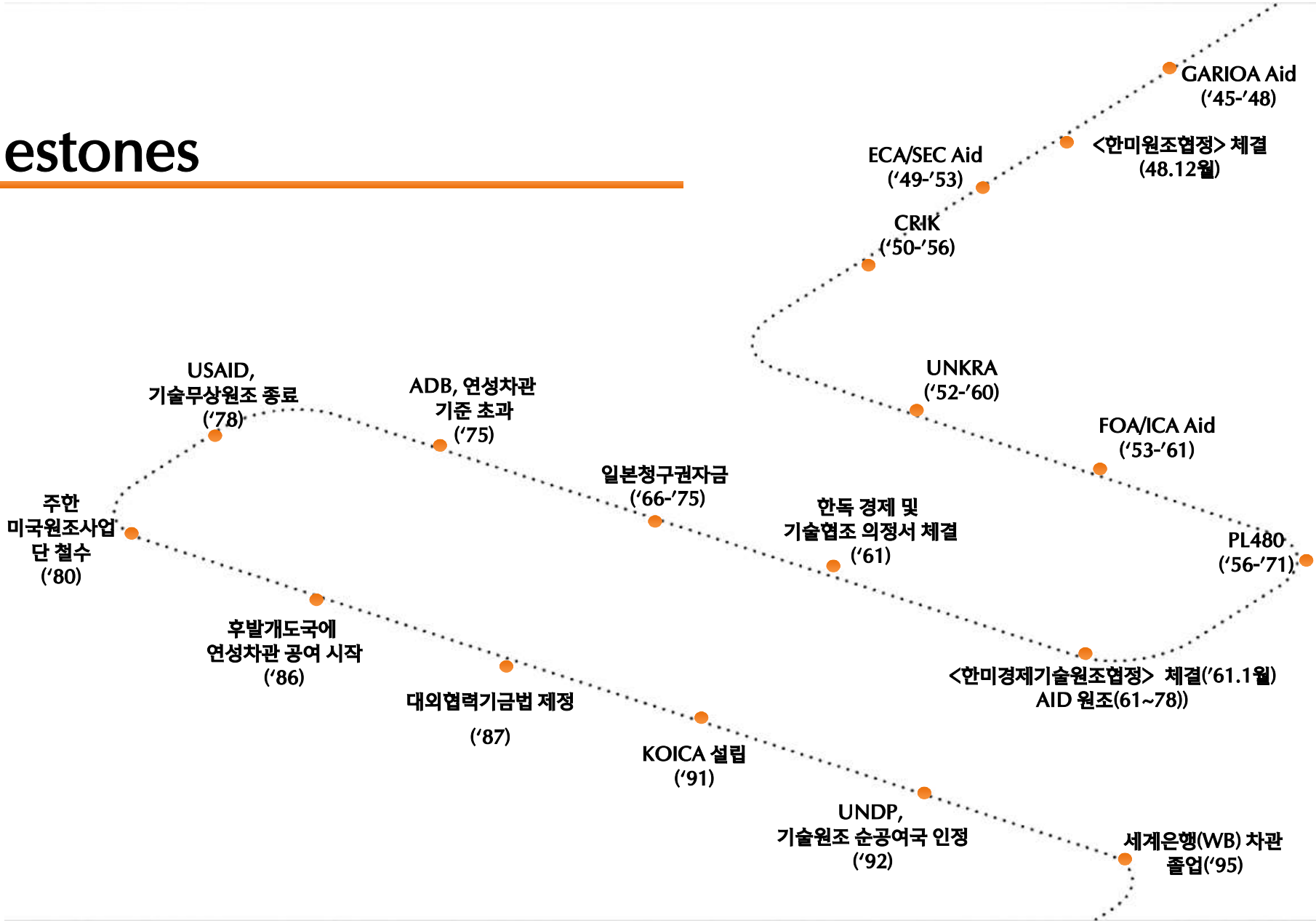


Source: OECD DAC

Historical DataBase (http://epts.kdi.re.kr/)



Milestones


GARIOA Aid
('45-'48)
<한미원조협정> 체결
(48.12월)
ECA/SEC Aid
('49-'53)
CRIK
('50-'56)
UNKRA
('52-'60)
FOA/ICA Aid
('53-'61)
PL480
('56-'71)
<한미경제기술원조협정> 체결('61.1월)
AID 원조(61~78))
한독 경제 및
기술협조 의정서 체결
('61)
일본청구권자금
('66-'75)
ADB, 연성차관
기준 초과
('75)
USAID,
기술무상원조 종료
('78)
주한
미국원조사업
단 철수
('80)
후발개도국에
연성차관 공여 시작
('86)
대외협력기금법 제정
('87)
KOICA 설립
('91)
UNDP,
기술원조 순공여국 인정
('92)
세계은행(WB) 차관
졸업('95)

(e.g.) Project Status Report, 1961

- Monitoring & Advices:

  [ICA/FOA Korean Aid Programs]

  - ✓ Monitoring: Record of business progress by company (by plant)
  - ✓ Advices: Diagnose problems and show improvements in factory operation

II . Highlights

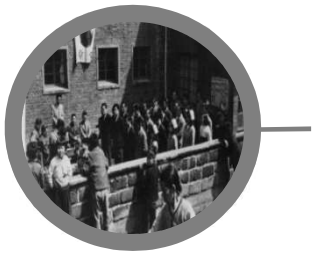
Korea's transition - summary

1945-1950s
One of the poorest countries

- Emergency relief after liberation and Korean War
- Focus on stabilization and reconstruction, mostly material resources and food aid
- High aid dependence, e.g., more than half of government budget

1960s
Government-led industrialization

- Focus on growth and investment
- Introduce Concessional loans over Grant
- Promotion of project aid for SOC facility construction and industry development



1970-1980s
High-growth: Korean Miracle

- Converted to a restructuring loan to promote large-scale development projects and the development of heavy and chemical industries
- Decrease in aid, increase Non-Concessional loans
- Diversification of donor countries and donors outside the United States

1990s
From recipient to donor

- World Bank Loan Repayment completed (1995)
- Joined as the 26th member of the OECD (1996)
- Graduated from DAC's recipient-list (1999)

PL480 (Food Aid Program)

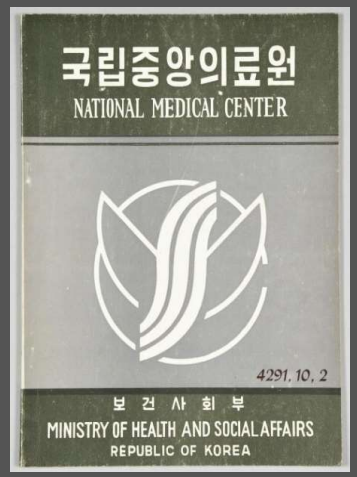
Initiation

- Agreement signed under Article 1 of PL480(1955)

Outcome

- Contributed to economic and social stabilization as the channel for foreign capital inducement in the 1950s

National Medical Center



Initiation

- Agreed to establish a general hospital through a 5-party agreement with the Korean government and UNKRA(United Nations Korean Reconstruction Agency)(1956)

Outcome

- Opened in 1958, managed by Scandinavian three countries until 1968, when transferred to the Korean government. The most advanced, general hospital in Korean during early years.
- A pivotal role in the public health system

KIST(Korea Institute of Science and Technology)

Initiation

- At the Korea-US summit in 1965, agreed to establish a research institute for **industrial development** in Korea.

Outcome

- Currently Korea's leading comprehensive, basic science research institute
- Ranked 6th in the world as an innovative laboratory (2017)

POSCO(Pohang Iron & Steel Co.,Ltd)

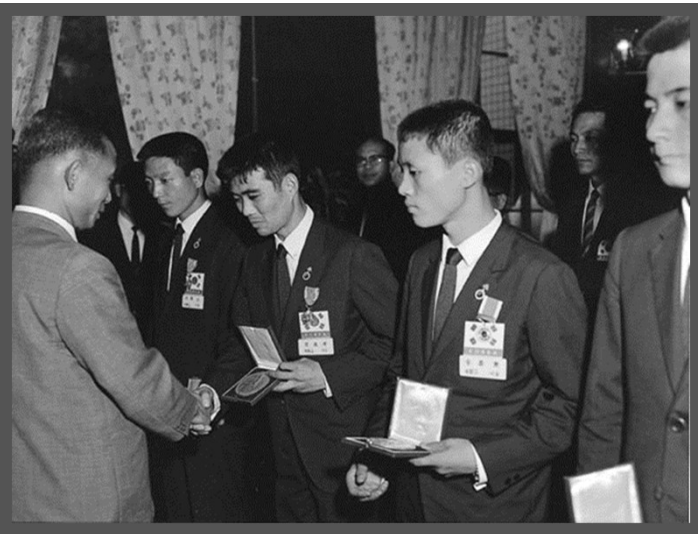

Initiation

- Signed the Korea-Japan Basic Agreement for POSCO Construction Funding (1969)

Outcome

- Ranked 1st in the 'World's Most Competitive Steel Company' for 12 consecutive years(2021)

Kumoh Technical High School



금오공고 1회와 경기고 72회 졸업생 비교

단위 : 명(%)

구분	금오공고 1회	경기고 72회
공무원	35(10.7)	21(3.5)
금융업	12(3.7)	31(5.1)
기술직	67(20.6)	–
기업경영	88(27.0)	96(15.8)
대학교수	11(3.4)	153(25.2)
종교인	4(1.2)	5(0.8)
법조인	2(0.6)	34(5.6)
언론인	3(0.9)	8(1.3)
연구직	12(3.7)	27(4.5)
의료직	2(0.6)	72(11.9)
자영업	29(8.9)	–
정보 없음	61(18.7)	159(26.2)
총계	326(100.0)	606(100.0)

지료: '중화학공업화 초기 숙련공의 생애사 연구'

Initiation

- Established as a school to nurture professional technical manpower (1972)
- As a means for developing defense industry and HCI-drive

Outcome

- Cultivating and supplying excellent industrial technical manpower
- Korea win the Skill Olympiad in 1977, where Kumoh students/graduates comprised the majority.

Seoul-Busan Express Highway

Initiation

- Total investment 42.9 billion won(ADB loans, PAC(property and claims) funds, etc.)
- Completed in July 7, 1970 (11 months shorter than planned)

Outcome

- Decisive role for industrial development, such as shortening transportation time and promoting regional development

Cheonggyecheon Sewage Treatment Plant



Initiation

- Completion in 1976 after AID loan agreement (USD 3.5M)

Outcome

- As the first sewage treatment plant in Korea, it will be preserved as Historic Remains (scheduled in 2023).

III. Key Success Factors

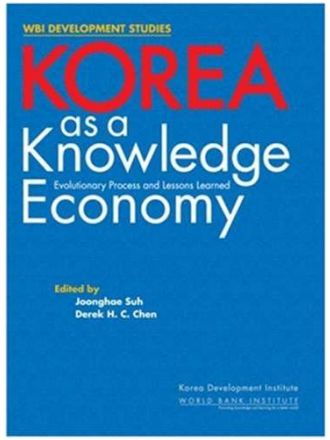
The Korean Model

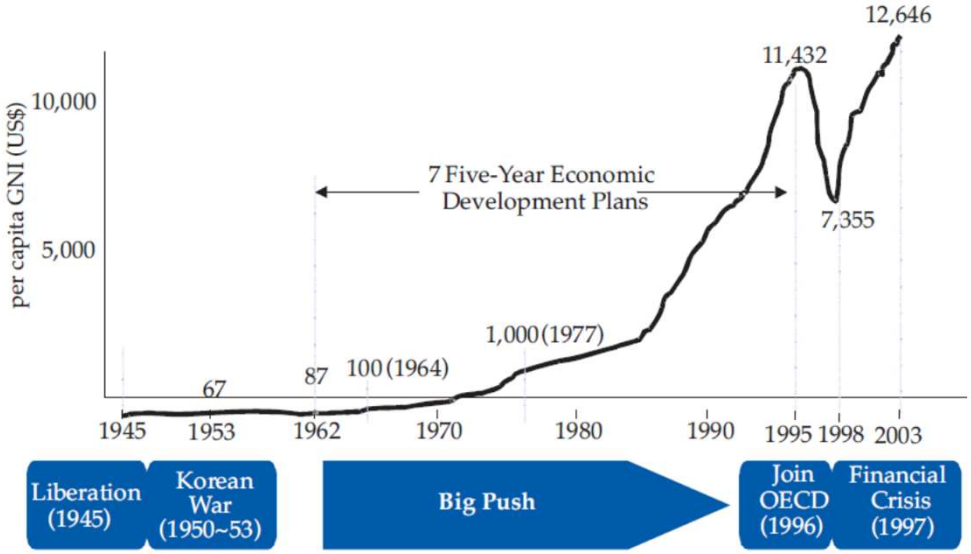
- Political Leadership
  - Developmental State: Creating opportunities
  - Long-term investment for S&T, HRD, social-economic infrastructure
- Business Entrepreneurship
  - Consummator of industrial policies: Exporting means competition
  - Learning from teachers, then excelling
- Public-Private Partnership
  - Development planning and coordination
  - Risk-sharing as incentive

➢ Practical, Step-wise Approach

☞ Co-development of industry, human capital, and technology

☞ Effective use of limited resources: Decisive role of foreign aid, particularly in early years





Key Success Factors

Urgency to build independent nation	• Imperative to build newly-born independent nation's self-defense and sustainable society/economy • Urgent need to secure resources and means for development: for example, coping with chronic shortage of foreign capital
Aids in the 1950s	• Inevitable post-war efforts: devote to (re)construction of socio-economic infrastructure • Limited effects, sometimes trade-offs, due to myopic perspective of social/economic development
"Seed" for industrialization	• Paving the path for industrial economy: highways, facilities and plants for HCI (heavy-chemical industry) drive • Human capital development for sustainable economy and technological learning and upgrading for competitive economy

Key Success Factors

Effective management and policy consultation

- Targeting goals, performance-based monitoring, long-term planning and coordination, and partnership with businesses
- Mutual dialogue and regular policy consultation with major donors including US, Japan, Germany, and France, and international organizations (WB, IMF, ADB, etc.)
-

Flexible, practical responses

- Responding to domestic/international environments, seeking desirable changes from a long-term perspective
- Ensuring sufficient performance in overall aspects such as project effectiveness and continuity

Trust built in international community

- Almost complete compliance with repayment without delinquency or debt reconciliation
  * One case of payment re-scheduling of IDA loan to IBRD loan ('67)

IV. Lessons Learned

Lessons Learned

Development cooperation as an effective means for nation-building

Partnership: Outside support and domestic will to achieve performances

Long-term investment for human capital and technology development

Thank You

suh@kdi.re.kr

KDI