

# Korea's Economy 2010

Korea's Economic Prospects and Challenges

Korea's Economic Stability and Resilience in Time of Crisis

The Republic of Korea and the North Pacific Economy: After the Great Panic of 2008

Housing Policy, Mortgage Markets, and Housing Outcomes in Korea

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U.S.-Korea Economic Relations: A (Historical) View From Seoul

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The Rocky Road for Modernizing the North Korean Economy

How Available are DPRK Statistics?

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## U.S. – KOREA ECONOMIC RELATIONS: A WASHINGTON PERSPECTIVE

By Deena Magnall

At the historic June 2009 Summit, President Barack Obama and President Lee Myung-bak agreed on a shared role for the United States and the Republic of Korea (ROK) in global development and committed to cooperate closely to alleviate the pressing challenges faced by developing nations. In the Summit's Joint Vision Statement, the United States and Korea pledged to "enhance coordination on peacekeeping, post-conflict stabilization and development assistance . . . [and] also strengthen coordination in multilateral mechanisms aimed at global economic recovery such as the G-20." Development cooperation between the U.S. and Korea presents a new opportunity to collaborate in furthering mutual objectives of poverty reduction and sustainable development in vulnerable, high-priority regions. The U.S. alliance with South Korea is among the most successful and dynamic bilateral relationships in modern history. This new dimension would complement other vital areas of the bilateral alliance and serve to deepen further the growing relationship between the two countries.

### From Recipient to Donor

Korea's own development story is one of swift transformation and nearly unparalleled success. Emerging from a devastated postwar economy, Korea achieved spectacular economic growth and grew to be the 14th-largest economy in the world in less than two generations. In the early 1960s, Korea's economic conditions ranked among the poorest countries in the world. In fact, in 1962 its gross national income (GNI) per capita was less than the average for sub-Saharan Africa. Korea's population at the time was growing rapidly, at a rate of 3 percent per year, with rampant

unemployment throughout the country. During this time, Korea relied heavily on foreign aid, receiving over 6 percent of its GNI in 1960. During the early 1960s, Korea began an aggressive program of economic policy reform. These policies aimed to open up the formerly insular economy to trade, primarily through a strategy of rapid export growth. From 1960 to the mid-1990s, per capita income in Korea grew approximately ten-fold. In fact, Korea's real income per capita growth for any ten-year period during this time outpaced British real per capita income growth during the entire nineteenth century.<sup>1</sup>

Korea's development success has partly been attributed to its effective use of foreign aid. From 1945 to the late 1990s, Korea received aid totaling nearly \$13 billion. Korea has used this success to transform itself from a recipient of aid to a donor country. Today Korea is keen to become a significant contributor in the international development aid community and share its firsthand experience as an aid recipient with other developing countries. In 1996, Korea joined the Organization for Economic Cooperation and Development (OECD), and in November 2009 it was unanimously voted to become the newest member of the OECD Development Assistance Committee (DAC). As shown in *Figure 1*, the volume of Korea's official development assistance (ODA) has increased substantially since the late 1990s.<sup>2</sup> Korea's total aid volume amounted to nearly \$4.8 billion during the ten-year period from 1998 to 2008. In 2008, Korea's aid reached \$802 million, or 0.09 percent of its GNI, an increase of 15 percent from 2007. Furthermore, these figures do not include Korean assistance to the northern half of the peninsula—estimated to be \$558

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1. Ann Krueger, "A Remarkable Prospect: Opportunities and Challenges for the Modern Global Economy" (McKenna Lecture, Claremont McKenna College, Claremont, California, 2 May 2006).

2. This excludes Korea's aid in 2005, which saw an unusually large spike due to increased assistance to Iraq and Afghanistan as well as Inter-American Development Bank subscriptions.

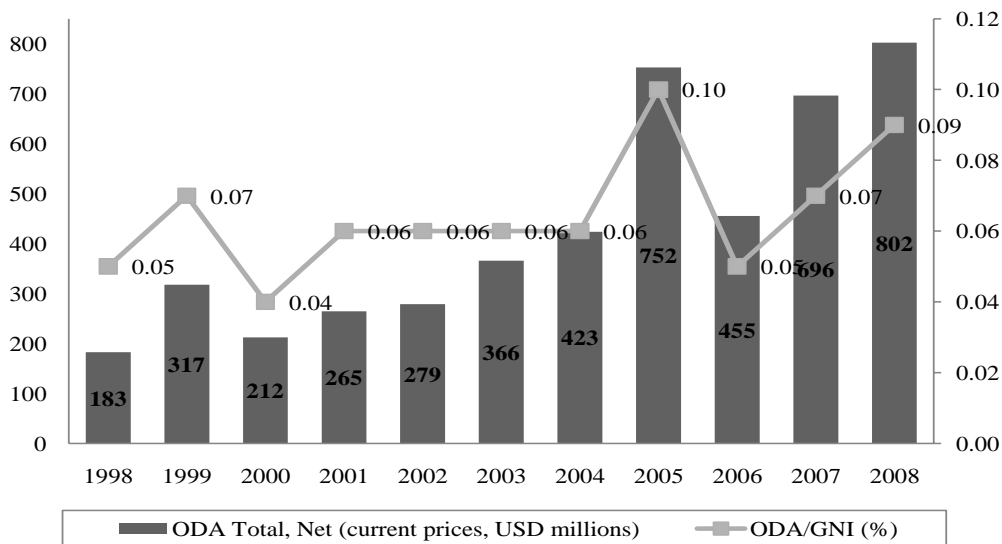
million in 2007—which is not officially reported to the DAC and, as such, is not recorded officially as ODA.<sup>3</sup>

The Korean government seeks to continue this trend and has pledged to increase its aid volume to 0.15 percent of its GNI by 2012 and 0.25 percent by 2015—the target year set in the United Nations Millennium Development Goals (MDGs). Although Korea has taken significant steps toward achieving its funding targets for 2015 and 2025 (doubling its aid from 2006 to 2009), there are significant challenges in committing to increase aid so sharply in such a short time frame. In 2009, Korea reported an ODA volume of \$883 million, which is approximately 0.1 percent of its GNI. This present ODA level is below the average ODA/GNI percentage of 3 percent of other DAC member nations and the target ratio of the United Nations by 2015 of 0.7 percent. However, these ambitious targets reflect the commitment of the Korean government to become a major donor in the international develop-

ment community and to “pay back” to the development aid system that played such a large role in its own development process. Innovative initiatives like the Korean “air ticket solidarity levy” can help address some of these challenges. Under this policy, every passenger departing from Korea pays 1,000 Korean *won* (roughly \$1) to support disease eradication efforts in developing countries, an effort that is expected to raise \$20 million annually.

In addition to enhancing its aid volume, Korea is also making efforts to reduce its proportion of tied aid in its ODA allocations.<sup>4</sup> Korea’s ODA has historically been highly tied, with an estimated 98 percent of its aid tied or partially tied in 2006. With its recent entry into the OECD-DAC, however, Korea has pledged to continue making advancements toward reducing its tied aid, as outlined in its *Roadmap to Untying*. Two days after joining the DAC, the Korean government announced that it plans to untie 75 percent of its aid volume by 2015.

**Figure 1: Total ROK ODA Volume, 1998-2008**



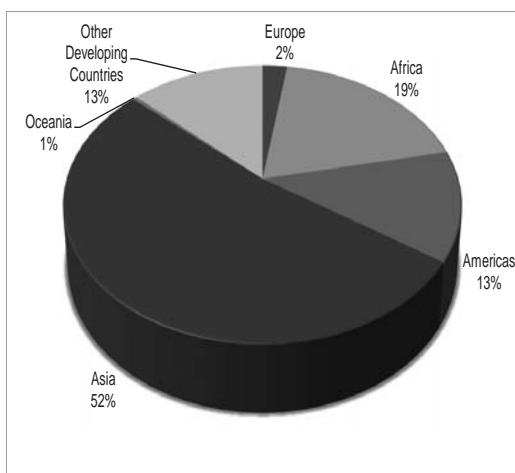
Source: OECD International Development Statistics Database

3. “Development Cooperation of the Republic of Korea,” OECD DAC Special Review, Paris, 8 August 2008.

4. Untied aid is defined by the OECD-DAC as “official development assistance for which the associated goods and services may be fully and freely procured in substantially all countries.”

In 2008, Korean net ODA volume comprised 67 percent bilateral aid and 33 percent multilateral aid. The majority of Korea's recent foreign aid has taken the form of bilateral assistance to Asia, representing 52 percent in 2008. Following closely on China's November 2009 announcement to double its concessional loan program to Africa (a total of \$10 billion over the next three years), Korea has recently increased bilateral assistance to the region through "Korea's Initiative for Africa's Development" and the second Korea-Africa Forum in Seoul, where Korea committed to double its aid to Africa by 2012. In the realm of technical cooperation, Korea also pledged in its "Framework for Korea-Africa Development Cooperation 2009–2012" to accept 5,000 trainees from Africa and to send more than 1,000 Korean volunteers to the continent between 2009 and 2012. Although aid to the African continent is unarguably much needed, Korea's development community may wish to be careful to ensure that its efforts in the region are well directed rather than guided by a desire to keep pace with China's activities in the region and to gain greater access to the continent's natural resources.

Figure 2: Korea's Bilateral ODA by Region



Source: OECD International Development Statistics Database

The Korean aid structure directs a significant portion of its ODA volume toward its concessional loan program. In 2008, concessional loans comprised 32 percent of its bilateral ODA, with grants making up 68 percent, a proportion that is much higher than that of most other DAC members. With the exception of three DAC donors, all DAC members have portfolios comprised nearly entirely of grants. In 2008, loans made up 40 percent of Korea's bilateral assistance allocated to the least developed countries (LDCs), while lower middle income countries (LMICs) received 38 percent of its aid in the form of loans. The OECD suggested in its 2008 Special Review of Korea that Korea should be mindful of debt sustainability issues in its development assistance, particularly with respect to the lowest-income countries.<sup>5</sup>

### Korean Development Aid Framework

Coordination within the Korean development aid system remains a challenge. Korea currently does not have an overarching legal framework to govern its aid system, nor an overall development strategy to lead its development cooperation activities. Korea's development assistance is managed by two major actors. The Ministry of Foreign Affairs and Trade (MOFAT) heads Korea's grant aid program, which is implemented by the Korea International Cooperation Agency (KOICA). Korea's concessional loan portfolio is administered by the Ministry of Strategy and Finance and is implemented by the Korea Exim-bank's Economic Development and Cooperation Fund (EDCF). In addition to these two institutions, 30 other government institutions are involved in implementing the remaining grant aid and technical cooperation programs.

As each of the development entities implements separate assistance operations for each recipient country, the Korean aid system creates inefficiencies. The OECD-DAC recommended in its special review that the Korean government create a "single entity with sole authority over development cooperation objectives, policy and strategy."<sup>6</sup> The OECD argues that

5. The DAC "Recommendation on Terms and Conditions of Aid" directs that DAC members should "endeavor fully to maintain or achieve as soon as possible an average grant element in their ODA commitments of at least 86 percent" and that those countries whose ODA/GNI ratios are "significantly below the DAC average will not be considered as having met this terms target."

6. "Development Cooperation of the Republic of Korea."

this unified strategy would diminish the inefficiencies and redundant efforts that reduce the coherence and impact of Korea's development policies.

## A Global Korea

In line with its efforts to realize its "Global Korea" vision, the Korean government is striving to reach international prominence commensurate with its economic standing in the global community. Thanks to its active participation in prior G-20 summits, Korea was chosen to chair the G-20 Summit in Seoul in November 2010, a first for a non-G-8 economy. In addition to its recent accession to the OECD-DAC, Korea will host the Fourth High Level Forum on Aid Effectiveness in 2011, where participating countries will gather to assess current progress on global efforts to make aid more effective in reducing poverty and boosting income growth. Korea will also be a participant in the UN's MDGs summit to be held in September 2010. Korea's participation and leadership in these various fora will provide Korea and other emerging donors the opportunity to engage on the global stage in setting agendas and decision-making processes on development cooperation. In particular, Korea's own remarkable development trajectory of transition from recipient to donor country gives Korea valuable insights into how best to achieve global objectives in development assistance. Korea's efforts to increase development coordination with other donor countries will also improve the aid effectiveness and efficiencies of its own development aid system.

Another historic milestone was reached on 31 December 2009 with the closing of the United Nations Development Programme (UNDP) ROK office after nearly 50 years of operations. UNDP played a critical role in rebuilding the postwar Korean economy through the provision of various technical and development assistance programs, which exceeded nearly \$100 million since the 1960s. Prior to its closure, the UNDP ROK office worked on many of its programs in tandem with the Korean government's aid cooperation efforts, centering on knowledge transfer of Korea's development experiences to other developing countries. In its place, a new UNDP Policy Center for Global Development Partnership will be established in 2010, focusing on sharing Korea's development experiences with developing countries to promote the UN MDGs.

## A New Avenue for U.S.-ROK Cooperation

Korea's growing prominence as an emerging donor in the development community offers a promising opportunity for U.S.-ROK engagement. Increased coordination and collaboration between the two countries on global development fronts would facilitate improved efficiencies of aid efforts of both countries and initiate greater progress toward achieving the MDGs. Through such a partnership, both countries could complement their development assistance efforts in a number of areas such as food security, education, agriculture, and global health. Expanding cooperation between U.S. and Korean nongovernmental organizations (NGOs) and private voluntary organizations (PVOs) could also improve the delivery of development services and strengthen linkages between these sectors to promote best practices and enhance their technical capacity as development actors.

Korea's understanding of the efforts needed to transform a country, not just economically but also in terms of the dramatic cultural and social shifts needed to accommodate such rapid growth and modernization, places the country in a singular position to contribute to improving the effectiveness of the development assistance dialogue. Combining Korea's knowledge with the long experience of the United States as a donor country in development assistance would allow both countries to strategically coordinate efforts and enhance the potential impact of mutual priorities in development aid and global poverty reduction.

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