



# HOW KOREA CAN PUNCH ABOVE ITS WEIGHT ON DEVELOPMENT

*By Lawrence MacDonald*

## **Abstract**

Korea has made an excellent start on becoming a global leader on development and poverty reduction, drawing on its remarkable experience in moving from destitution to affluence in a single generation. Korea's leadership during the Seoul Summit in putting development on the G-20 agenda, in hosting the Busan high-level conference on aid effectiveness, and establishing the Global Green Growth Institute have attracted favorable international attention. But Korea's development-related policies lag far behind its rhetoric and other high-income countries. Korea can address these shortcomings by participating in international development organizations, improving development-related policies in areas where there is little domestic political resistance; and setting aside part of Korea's modest aid budget as an aid innovation fund. None of these measures would require an increase in Korea's foreign aid spending. They are smart, low-cost moves that build on Korea's tradition of punching above its weight in the global arena.

The Republic of Korea has thrust itself onto the international stage as a would-be leader on global development, achieving much in terms of international recognition. But Korea's aid program and its policies towards developing countries often fall short, even of the relatively low standards set by the established donor countries. Korea can do much better, establishing itself as a true global leader, if it takes advantage of its status as a newcomer to champion promising new approaches, just as Korean firms became household names around the world by leapfrogging over analog technology to lead the way in the digital communications revolution.

Korea has clearly signaled its ambition to be a leader on global development. Drawing on Korea's unusual experience in making the transition from poverty to affluence in a single generation, the Korean government pushed to include development issues on the G-20 agenda when it hosted the 2010 Seoul Summit, establishing an intergovernmental development working group that continues to operate, and launching a multi-year action plan. In 2011 Korea hosted the Fourth High Level Forum on Aid Effectiveness, in Busan, drawing hundreds of aid experts and official government representatives from around the world.

Korea has supported the creation of the Seoul-based Global Green Growth Institute (GGGI), a new international organization that provides advice on sustainable growth to developing countries. And Korea has joined the Development Assistance Committee (DAC) of the Paris-based Organization for Economic Cooperation and Development (OECD), the Western-dominated aid donors club.

Two men born in Korea are individually prominent in the international fight against poverty. UN General Secretary Ban Ki-moon frequently recalls the poverty of his childhood in Korea, when his family lacked electricity and he studied by kerosene light, in explaining his push to provide developing countries with sustainable energy for all. Jim Kim, an American medical anthropologist born in Korea, has recently been selected as the president of the World Bank. While Kim's selection is not a reflection of a Korean government initiative, the two high level positions further emphasize Korea's sudden new prominence in global development issues.

For all this, however, South Korea is very much a newcomer to global discussions on international development, and its aid program and non-aid policies towards developing countries rank at or near the bottom when compared to those of other high-income countries. This is not surprising, given that Korea has moved so quickly from being an aid recipient to an aid donor. Nonetheless, a frank recognition of Korea's substantial shortcomings in this regard is crucial if these are to be overcome.

I am a great admirer of the Korean people and of the effectiveness and resilience of Republic of Korea government institutions, having worked in Seoul as a reporter for AFP for two years in 1987 and 1988, a period that included the stormy transition to democracy and the hosting of the Olympics.

Although I had lived and worked in several Asian countries by the time I was posted to Seoul, I was deeply impressed by the determination of Koreans to excel internationally in fields as diverse as business, culture, and sports. I believe that Korea's push to be a leader in development is part of this drive for excellence and international prestige, and that it can achieve similar success. By drawing on traits that have been a source of national strength for Korea—openness to innovation and an eagerness to learn from experience—Korea can become a true world leader in the global fight against poverty and inequality. First, however, it is necessary to recognize where Korea currently falls short.

Korea's aid budget, at approximately \$1.3 billion per year in 2011, is small not only in absolute terms but also as a share of GDP. Of the twenty-two countries ranked in the Commitment to Development Index (CDI) published annually by the Center for Global Development (CGD), Korea ranked last for aid volume in 2010, giving just 0.09 percent of its GDP (by comparison, some European donors are close to the 0.7 percent goal promoted by many development advocates).

In 2010, more than half of Korea's aid (51 percent) was tied, that is, recipient countries were required to use it to hire Korean firms or buy Korean products, a stipulation that reduces the effective purchasing power of aid since recipients are unable to seek out the best value for money; here again Korea ranks last of the twenty-two countries in the CDI. Korea also scores poorly on two other aid quality measures in the CDI: selectivity (it gives a lot of its aid to less-poor and worse-governed countries) and project proliferation (it funds a large number of small projects, raising transaction costs for recipients).

A more detailed measure of aid quality, CGD's Quality of Official Development Assistance (QuODA), sheds further light on the Republic of Korea aid programs. QuODA measures aid quality across four dimensions: maximizing efficiency (rewards donors who channel aid to poor, well-governed countries, minimize administrative costs, support global public goods, and untie aid); fostering institutions (rewards donors who help to build the recipient government's capacity); reducing burden (rewards coordination with other donors and penalizes large numbers of small projects); and transparency and learning (rewards donors for promptly releasing information and for encouraging recipient country evaluation and learning).

A comparison of Korea's performance on QuODA with that of Japan and the United States (see <http://www.cgdev.org/>

Figure 1

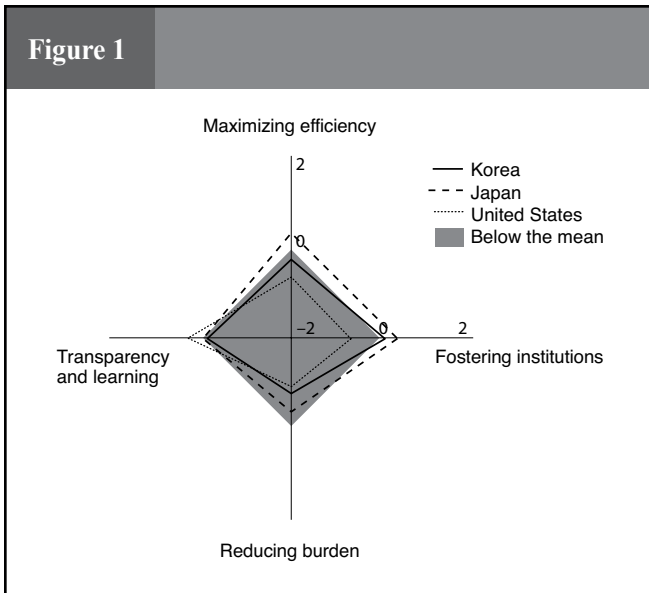
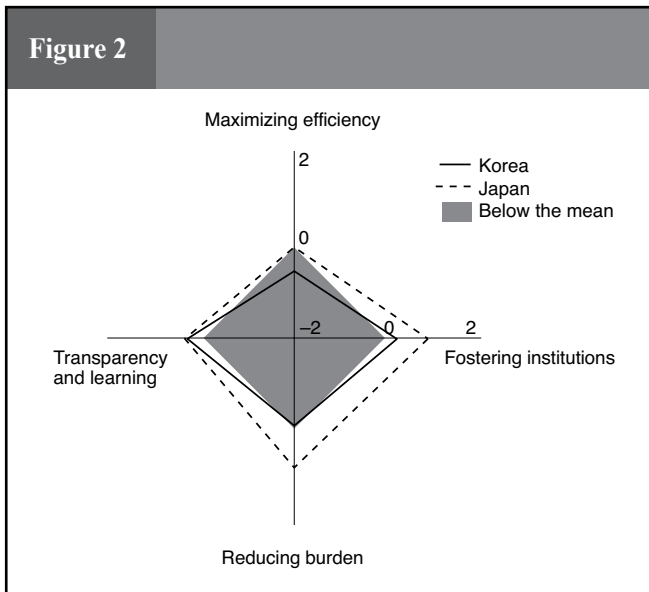


Figure 2



section/topics/aid\_effectiveness/quoda?p=i&d=20,21,19) shows that Japan scores better than Korea in all four dimensions. However, Korea scores better than the United States in three: maximizing efficiency, fostering institutions, and reducing burden. The United States does significantly better than Korea in one dimension: transparency and learning.

Drilling deeper into QuODA, it's possible to compare the scores of individual aid agencies (see [http://www.cgdev.org/section/topics/aid\\_effectiveness/quoda?p=ia&d=123,156](http://www.cgdev.org/section/topics/aid_effectiveness/quoda?p=ia&d=123,156)). The Japan International Cooperation Agency (JICA) outperforms the Korea International Cooperation Agency (KOICA) in all four dimensions. KOICA and the United States Agency for International Development (USAID) score about the same.

Korea's aid score on the CDI and its rankings on QuODA provide a simple set of diagnostics, benchmarked against

other donor countries, that can guide Korea's efforts to improve its foreign assistance programs. Raising the amount of aid Korea provides need not be a priority. In fact, there is a lively debate within the development community about whether or not aid actually helps development. Instead, Korean policymakers should concentrate on improving aid quality, steps that would improve Korea's ranking on the aid component of the CDI and on QuODA. Untying a larger share of Korea's aid would be one important step; improving aid allocation, so that a large share goes to poor, well-governed countries is another. Allocating a larger share of Korea's aid to activities that support global public goods, such as the fight against climate change, would help to improve Korea's QuODA score for maximizing efficiency.

But the single most important thing Korea can do is to leverage its small aid budget by becoming a champion of innovation and learning.

How? Korea should announce that it is setting aside a substantial share (say 20 percent) of its aid budget as an international "Aid Innovation Fund" that would be used to experiment with new approaches to foreign assistance. Innovations to be funded could be selected on a competitive basis, and the results monitored and evaluated by an independent entity, with the costs of the evaluation and dissemination of the results also covered by the fund.

Such a fund would meet an important global need. There are many promising new proposals for improving aid delivery, but because existing funding is committed to ongoing projects and approaches, very few new ideas are systematically tested and evaluated. As a new donor, Korea is much less bound than other donors to traditional approaches, and has greater flexibility to experiment and share the results.

CGD's proposal for Cash on Delivery (COD) aid is an example of one such innovation. Instead of the traditional approach of conditioning aid on specific policies, negotiated action plans, and the purchase of inputs (such as the purchase of textbooks or the construction of schools), funders would agree to pay for improvements in a specific area of progress, such as increases in the number of students who complete primary school and take a competency test. In theory, COD aid could be applied to any goal for which a verifiable incremental measure of progress can be identified and which is agreeable to a funder and recipient.

The ideas of COD aid have been under discussion for several years, and both donor and recipient countries have expressed interest and support. Pilot programs are now getting underway in Ethiopia and Tanzania. But launching the pilots has been a complex and time-consuming process, since available foreign assistance funds are typically committed several years

in advance. Funding an innovative idea thus requires withdrawing support from an existing program, a slow and difficult process even if the program is not performing as well as initially hoped.

COD aid is but one of dozens of new approaches to aid and poverty reduction that should be tested and evaluated. What are the best techniques for increasing girls' enrollment and middle-school graduation rates? What strategies work for reducing maternal and infant mortality? What programs are effective in getting kids vaccinated? What works for promoting small and medium-sized industries? How can young people who have been uprooted from their communities by war and civil unrest—including being forced to serve as child soldiers—be reintegrated into their communities when the fighting ends?

Improved impact evaluation techniques, including randomized controlled trials (RCTs), make it possible to test new approaches to determine which work best in what settings. The International Initiative for Impact Evaluation (3IE), established in 2007 and currently based in India, serves as a funder and clearinghouse for such studies. The Abdul Lateef Jameel Poverty Action Lab (J-PAL) is one of a handful of organizations that specializes in carrying out such studies and promulgating the results.

As a first step towards establishing its own aid innovation fund, Korea should become a member of the 3IE. This could be done by a variety of Korean government organizations, with KOICA as the most logical lead entity. By becoming a member, Korea would align itself—and have increased opportunities for interaction—with many of the most forward-thinking and highly regarded funders of foreign assistance, groups such as the Bill and Melinda Gates Foundation, the William and Flora Hewlett Foundation, and the aid agencies for Australia, the UK, Norway, Sweden and the United States. A 3IE membership would give Korean officials and policy-makers an opportunity to learn more about approaches to impact evaluation and promising innovations that could be worthy of Korean funding.

One possible model for a Korean aid innovation fund could be USAID's new Development Innovation Ventures (DIV) created in 2010 to fund new development initiatives with a strong emphasis on rigorous evaluation, learning and dissemination. It offers grants covering conceptual, pilot and scale-up phases. So far it has awarded twenty grants, including an inexpensive balloon tamponade to stop post-partum bleeding, a messaging campaign to reduce road accidents in Kenya, and grain storage bags to eliminate losses from insects and mold in Afghanistan. The office accepts applications on a rolling basis and applicants do not have to be from the United States.

Looking beyond aid, Korea should seek ways to improve non-aid policies that affect poor people in developing countries. Here the non-aid components of the CDI can provide a valuable guide. Each of the six non-aid components of the index has multiple indicators. Some, such as restrictions on migration, may be politically very difficult to change. Others, such as regulations concerning foreign investment, may encounter little opposition and indeed be welcomed by key constituencies who recognize an opportunity to do well by doing good. A summary of Korea's ranking on the CDI is available on the CGD Website.<sup>1</sup> Highlights in the most recent CDI include:

**Trade:** Korea has a score of 2.8, on a scale where 5 is the median, ranking 21st out of the 22 countries in the Index. Strengths include low agricultural subsidies (ranking 3rd). Weaknesses include high tariffs on agricultural commodities, and high barriers against textiles and apparel. As Korea moves increasingly into high-technology manufactured exports, these high tariffs on goods produced by developing countries could be gradually eased.

**Environment:** Korea scores 2.8 and ranks 22nd. Weaknesses include high tropical wood imports, low gas taxes, high carbon emissions per capita, and high fishing subsidies. Each of these is politically sensitive and thus likely to be difficult to change. Nonetheless, Korea has made green growth a national priority, one that would require addressing each of these policy areas. Raising gas taxes could be a good place to start, since it could either increase revenue or make it possible to cut taxes in other areas.

**Security:** Korea has a score of 1.7 and ranks 22nd. Strengths include no arms exports to poor and undemocratic governments (rank: 1). Weaknesses include small financial contributions to international peacekeeping operations, an area Korea might choose to address for other reasons, including the international prestige that can come from participating in such operations.

**Investment:** Rich-country investment in poorer countries can transfer technologies, upgrade management and create jobs. The CDI includes a checklist of policies that support healthy investment in developing countries. Korea does relatively well, with a score of 5.9 and a rank of 8. Strengths include providing insurance against political risk for both domestic and foreign firms; and not imposing restrictions on Korean pension fund investments in emerging markets

**Migration:** The movement of people from poor to rich countries provides unskilled immigrants with jobs, income and knowledge. Korea scores well in its openness to foreign students from developing countries, ranking 2nd. But the small number of unskilled immigrants from developing countries is weighted more heavily and puts Korea at the bottom of the list.

**Technology:** The CDI captures a country's contribution to the creation and dissemination of new technologies by measuring government support for R&D and penalizing strong intellectual property rights regimes that limit the dissemination of new technologies to poor countries. Korea does quite well on these measures, scoring 6.6 to earn a rank of 2nd, Korea's highest rank on any of the seven CDI components, due in part to a large tax subsidy rate for business R&D.

This is a daunting list, a reminder of just how far Korea has to go to become a true champion of development. On the other hand, Korea's overall average score of 3.1 on the CDI represents an increase of a full point compared to 2008, and Korea is only 0.6 points behind its traditional regional rival, Japan, which has been a developed country and aid donor for decades longer.

Scores on the CDI tend to change slowly, since the underlying policies that they reflect are themselves slow to change. Nonetheless, over time a country's ranking does shift, and occasionally a big policy change can lead to a large jump—or sudden back sliding. It would be entirely in keeping with the Republic of Korea's tradition of exceptional achievement for the government to decide that it wants to be the country that has made the most rapid progress on the CDI and to implement a few key reforms that move it out of last place, trumping Japan.

A good first step to learning more—and providing comment on the design of the index itself—would be for Korea to join the CDI Consortium, a club of countries ranked in the CDI that meets annually to share ideas about how to improve the rich world's support for development.

Would Korea join a club in which it is currently ranked at the bottom of the list? I would not be surprised, since this is very much in keeping with the Korean drive to learn and excel.

My colleague David Roodman, the architect of the CDI, recalled in a blog post the reaction he received when presenting Korean officials with their country's standing in the index, soon after Korea joined the OECD-DAC.

In conclusion, Korea has made an excellent start on becoming a true global leader on development and poverty reduction, drawing on its remarkable experience in moving from destitution to affluence in a single generation. Korea's leadership during the Seoul Summit in putting development on the G-20 agenda, in hosting the Busan high-level conference on aid effectiveness, and establishing the GGGI have attracted favorable international attention.

But Korea's own policies, in foreign assistance and in non-aid policies that impact development, lag far behind its rhetoric and even the relatively low standards of other high-income countries. Fortunately, there are several steps that

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Before releasing the CDI last year my colleague Cindy Prieto and I visited the Korean embassy here in Washington to brief officials. We were impressed with their constructive attitude, which blended respect for the CDI and hope that Korea would improve as it took its place among donors. We congratulate South Korea on its new status and wish it the best as it accepts the attendant responsibilities.

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Korea can take rather easily to begin to address these shortcomings. These include joining international entities such as the 3IE and the CDI Consortium; improving development-related policies (and thus Korea's CDI score) in areas where there is little domestic political resistance; and setting aside a percentage of Korea's modest aid budget as an aid innovation fund. Strikingly, none of these measures would require an increase in Korea's foreign aid spending. Instead they are smart moves that are very much within the country's tradition of punching above its weight in the global arena.

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<sup>1</sup> [http://www.cgdev.org/doc/CDI/2009/country\\_reports/South\\_Korea\\_2009.pdf](http://www.cgdev.org/doc/CDI/2009/country_reports/South_Korea_2009.pdf).