

*Prepared for Korea's Global Leadership:  
Accomplishments and Challenges*  
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# **Korea on the Global Stage: A Poster Child for Aid and Development Grows Up**

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# Aid and Development Debate



**“Our generation’s challenge is to help the poorest of the poor to escape the misery of extreme poverty so that they may begin their own ascent up the ladder of economic development.” – Jeffrey Sachs(2005), *The End of Poverty: Economic Possibilities for Our Time***

**“Aid cannot achieve the end of poverty. Only homegrown development based on the dynamism of individuals and firms in free markets can do that.” – William Easterly(2006), *The White Man’s Burden: Why the West’s efforts to aid the rest have done so much ill and so little good***

**“The notion that aid can alleviate systemic poverty, and has done so, is a myth. Millions in Africa are poorer today because of aid; misery and poverty have not ended but have increased.... With aid’s help, corruption fosters corruption, nations quickly descend into a vicious cycle of aid. Foreign aid props up corrupt governments—providing them with freely usable cash. These corrupt governments interfere with the rule of law, the establishment of transparent civil institutions and the protection of civil liberties, making both domestic and foreign investment in poor countries unattractive.” – Dambisa Moyo(2009), *Dead Aid: Why Aid is Not Working and How there is a Better Way for Africa***

# “Progress” in Global Agenda



## More Aid

ODA/GNI = 0.7%  
[Pearson Report  
(1969): Target 1975]

## Better Aid

Paris Principles (2005)  
Accra Agenda (2008)

## Beyond Aid

Busan Principles (2011)

## Aid Effectiveness

- Reduce transaction cost in aid delivery and management
- Target development impact (results)

What is the objective  
of effectiveness?

Is effectiveness  
possible without  
capacity development?

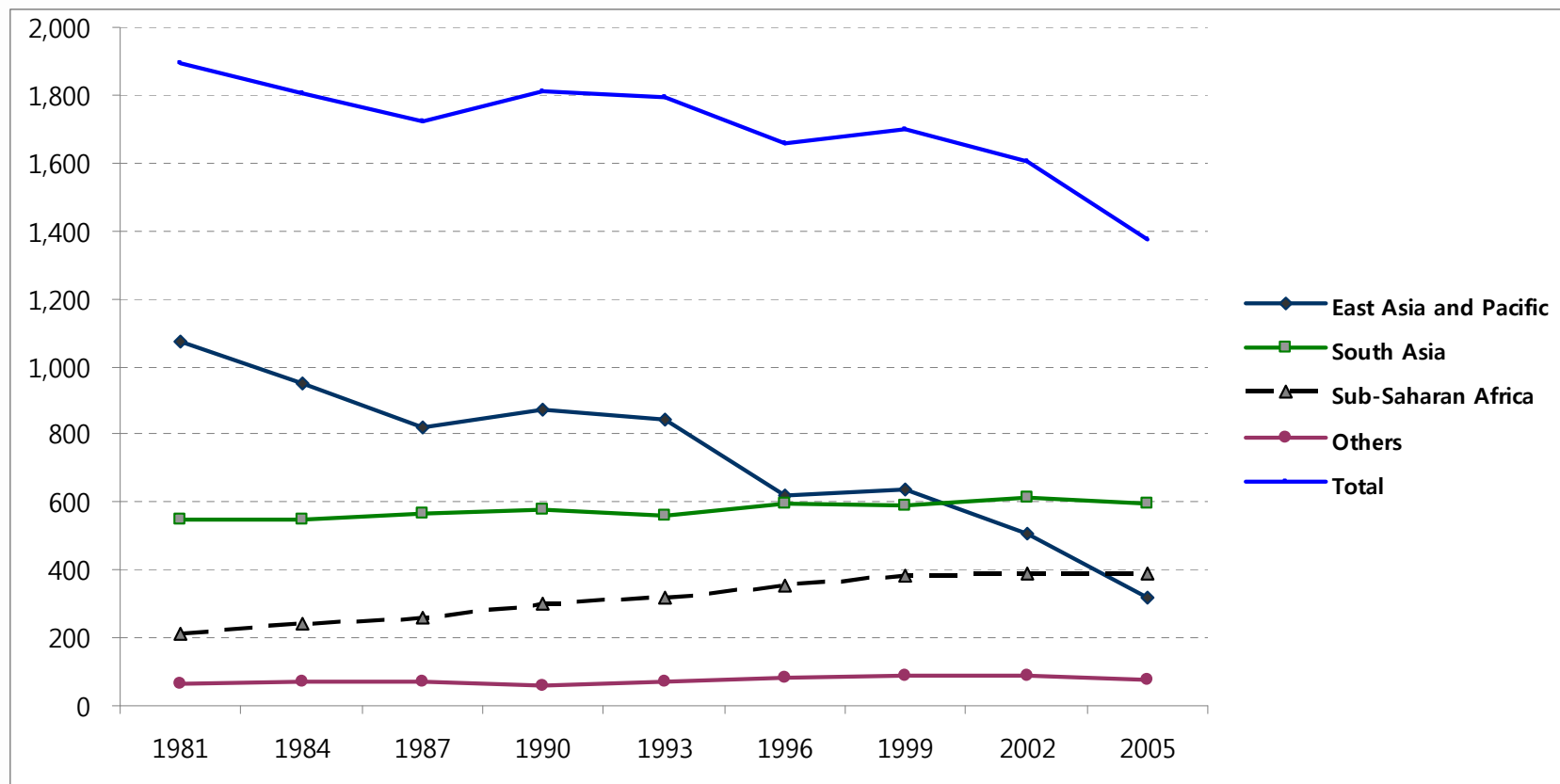
## Development Effectiveness

State Effectiveness  
(Effective Institutions and Policies)

Next: Effective Effectiveness???

# Real Progress on the Ground: Poverty Reduction **KDI**

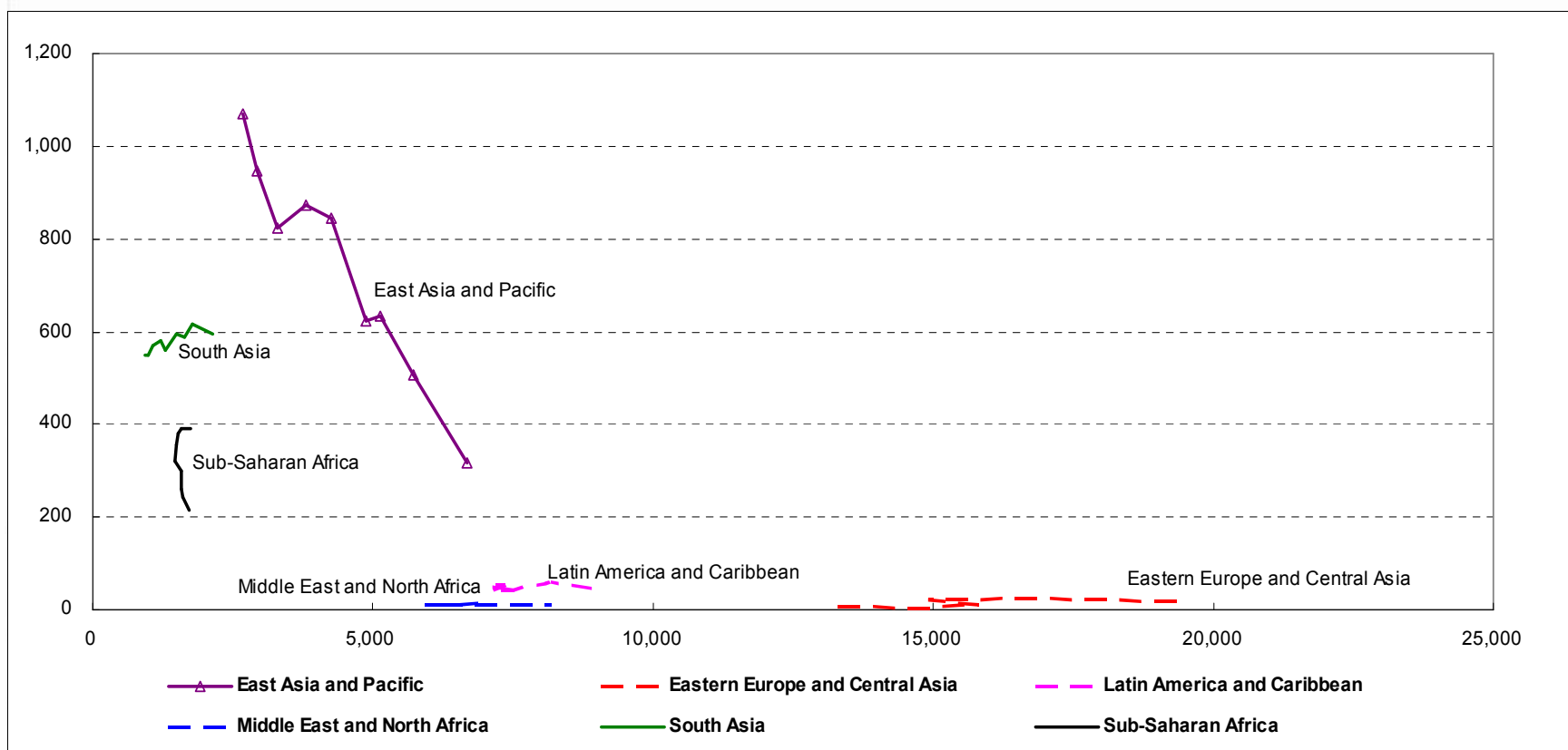
Regional breakdown of number of poor (millions) for the international poverty line of \$1.25 a day (PPP, 2005 constant international dollars), 1981-2005



Source: Chen & Ravallion (2008)

# Real Progress on the Ground: Poverty Reduction **KDI**

Regional breakdown of the number of poor (millions) for the international poverty line of \$1.25 a day vs. Per capita GDP (PPP, 2005 constant international dollars), 1981-2005



Source: Chen & Ravallion (2008) and WDI

# Asian Approaches to Development Cooperation

- ◆ **Development “cooperation” rather than “aid”**
  - No permanent donor / recipient in a long sweep of history
  - Mutual benefit rather than charity (and lecturing)
- ◆ **Own experience of self-sustaining growth and development**
  - Progressive local capacity expansion beyond basic human needs (BHNs): human resource development, industrial upgrading, infrastructure, and international trade
  - Developmental state: responsive and responsible governance (cf. Asian values debate: Kim Dae-jung vs. Lee Kuan Yew)
- ◆ **Focus on experience exchange and knowledge sharing**
  - Development experience and knowledge as a critical ingredient of cooperation programs
  - \*Demand from developing countries for practical knowledge and Asian countries' credibility from the track record of successful development and lack of imperialistic aggression

## Two Trends in Global Poverty:

### The Poor in Middle-Income Countries and Fragile States



#### Share of the World's Poor by Country Category

1990		
	LICs	MICs
Fragile	13	1
Stable	80	6

2010		
	LICs	MICs
Fragile	23.7	17.1
Stable	10.4	48.8

**Source:** Andy Sumner (2010), “Global Poverty and the New Bottom Billion: What if Three-Quarters of the World’s Poor Live in Middle-Income Countries?”, Working Paper No. 349 (Brighton: Institute of Development Studies).

Geoffrey Gertz and Laurence Chandy (2011), “Two Trends in Global Poverty” (Washington, DC: Brookings), p.3.



# Alternative Development Paradigms

## ◆ Endowment Perspective: Framework Approach (Liberalization)

- Economies with “appropriate endowments” (cultural values, institutions, “investment climate”) grow. Those lacking such endowments do not.
  - Examples: Protestant ethic, common law, and colonial legacies
- The state should focus on getting the institutional framework right and then get out of the way. Release market forces and let individuals play the game.

## ◆ Bootstrapping Perspective: Ingredients Approach (Capacity Development)

- Initiating growth does not require state-of-the-art institutions. The challenge is not so much to get growth to start by adopting big-bang reforms, as it is to sustain it by devising search networks to detect and mitigate constraints as they emerge.
- The state should facilitate growth by supplying the missing ingredients, which are often characterized by externalities. Retain ownership and progressively develop local capacity.
- The reinforcement of successful experiments through the feedback mechanism of performance-based rewards can lead to dramatic changes over time.
- While a regime that facilitates resource mobilization can be effective in a catch-up phase of development, an institutional platform that fosters autonomy, diversity, and experiment is critical to sustained productivity-led growth.

\* Note: Differences in the two development paradigms largely reflect differences in assumptions about the relative magnitudes of innovation and coordination externalities on the one hand and negative government externalities on the other.

# Policy Challenges for Development

- A country must address innovation and coordination externalities while minimizing negative government externalities such as corruption.
- It should also establish fiscal discipline and prudential regulation and flexibly adjust prices to mitigate the impact of shocks.
- Last but not least, it should commit to human development and social cohesion if it is to reduce the risks of growth-killing conflicts.

**The key is for a country to retain ownership of its development and progressively expand its capacity to add value and manage risks even as it actively learns from, and engages with, the outside world.**

**This is a much more comprehensive and difficult set of challenges than the Washing Consensus package of liberalization, privatization, and stabilization.**

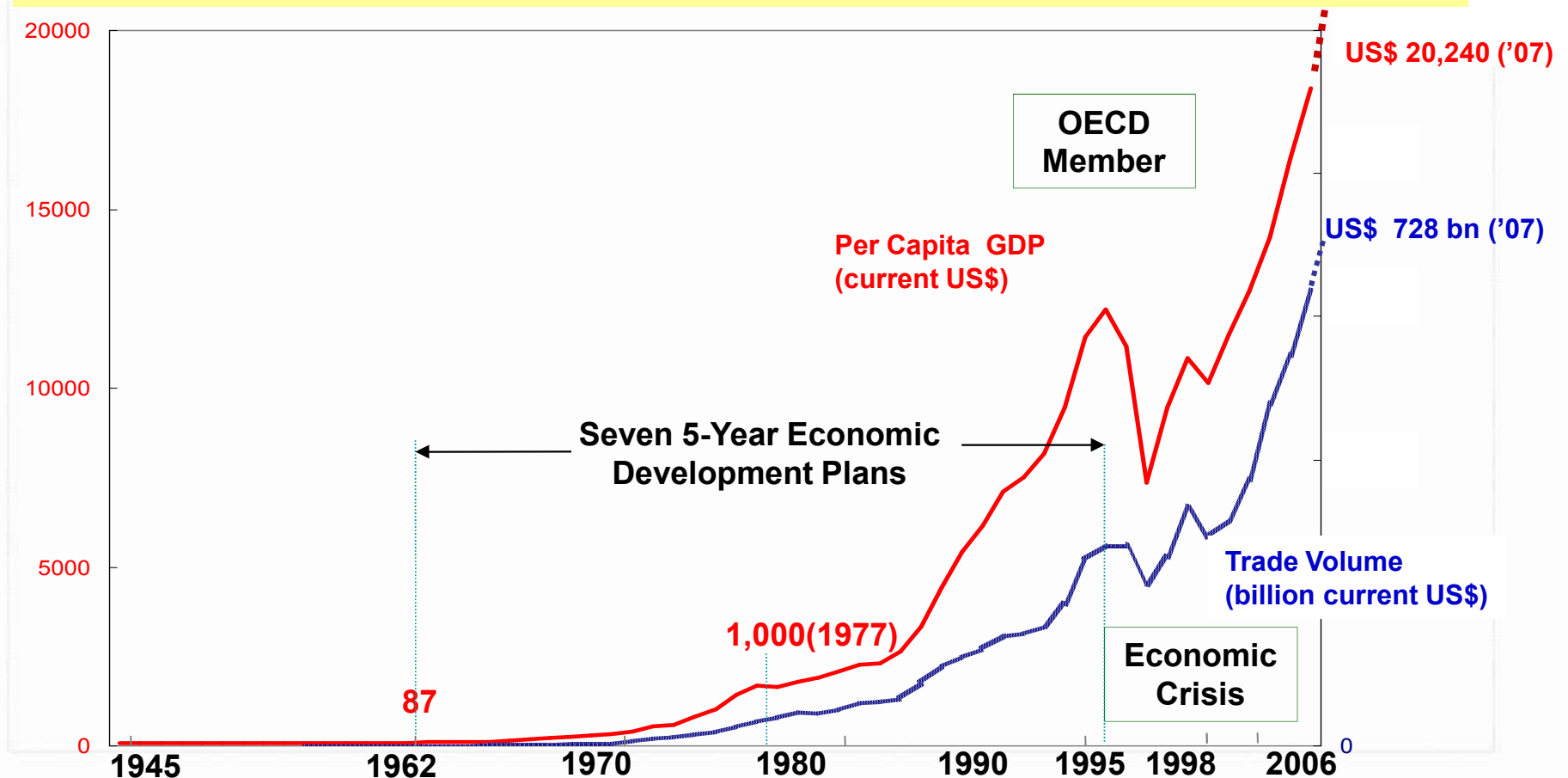
# Policy Challenges for Development

	Policy Challenges
<b>Raising Underlying Growth</b>	<b>Financing and Investing for Development</b>
	<b>International Trade</b>
	<b>Industrial Upgrading</b>
	<b>Infrastructure</b>
	<b>Human Resource Development</b>
<b>Mitigating Downturns</b>	<b>Macroeconomic Stability</b>
	<b>Prudential Regulation</b>
	<b>Social Cohesion</b>
<b>Strengthening Overarching Factors</b>	<b>Institutions and Governance</b>
	<b>Access to Knowledge</b>

# Korea's Place in Development Debate: “The Face of Hope”

“...because Korea grew so rapidly for so long, any big idea had to encompass Korea before it could become conventional wisdom.” (Lindauer & Pritchett 2002)

- ✓ Valuable as a counter-example to ideology-based theory
- ✓ Limited as a paradigm unless other similar examples can be found



# Korea's Transition to a Successful Aid Recipient

## ◆ Korea as a hopeless aid recipient

- ◆ "...American development agencies found Korea a nightmare, an albatross, a 'rat-hole,' a bottomless pit..." (Woo 1991: 46)

## ◆ Escape from mendicant mentality

- ◆ Deploring that Korea had to depend on U.S. aid for 52 percent of the supplemental budget in 1961, Park (1963: 28) noted: "Though nominally independent, the real worth of the Republic of Korea, from the statistical point of view, was only 48%.... It showed, dramatically, that our government would have to instantly close down if the U.S. aid were withheld or withdrawn."
- ◆ Park (1963: 172-173) added: "From 1956 to 1962, we have received, on the average, some 280 million dollars of economic aid each year and some 220 million in military aid. In addition, we have run a current account deficit of 50 million dollars. In other words, excluding our military sector, 330 million dollars should be earned annually to keep the Korean economy on a self-sufficient footing." In 1962, Korea's total exports were only 54.8 million dollars.

# Foreign Capital Inflow for Korea, 1945-92: Exit from Aid



(unit: current million dollars, percent)

	1945-61	1962-65	1966-72	1973-78	1979-85	1986-92
Public Loans	5 (0.1)	62 (7.1)	1,130 (26.4)	3,431 (30.6)	10,105 (28.9)	4,688 (15.4)
Commercial Loans		71 (8.0)	1,950 (45.6)	5,858 (52.2)	7,937 (22.7)	5,206 (17.1)
FDI		13 (1.5)	227 (5.3)	704 (6.3)	1,157 (3.3)	5,684 (18.7)
Bank Loans			205 (4.8)	1,007 (9.0)	11,892 (34.1)	4,318 (14.2)
Bonds (Fin. Inst.)				219 (1.9)	2,989 (8.6)	5,978 (19.7)
Bonds (Firms)				-	834 (2.4)	4,515 (14.9)
US & UN Aid	3,117 (99.9)	739 (83.4)	552 (13.0)	-	-	-
Reparation Grants			211 (4.8)	-	-	-
Total	3,121	886	4,275	11,219	34,914	30,289

Source: Ministry of Finance and Korea Development Bank (1993), *Foreign Capital and the Korean Economic Development: A Thirty-Year History* (in Korean), pp.616, 618, 621.

Note: This source does not provide data on aid after the 1966-72 period. Public loans include concessional loans, but this source does not provide a detailed breakdown. Nor does it separate the grant element in concessional loans that meet the definition of ODA (i.e., loans with a grant element of 25 percent or more).

# Use of External Financing: Focus on Infrastructure, Industrial, and Human Resource Development



Project	\$ mil.	%
<b>Agriculture</b>	39	7.8
<b>Fishery</b>	27	5.4
<b>Manufacturing</b>	278	55.6
Construction of POSCO	119	23.9
Purchase of raw materials	133	26.5
Promotion of SMEs	22	4.5
<b>Science and Technology</b>	20	4.0
Equipment for practical training for schools	6	1.2
Equipment/facilities at KIST	3	0.6
<b>Infrastructure</b>	90	18.0
Soyang River Multi-Purpose Dam	22	4.4
Gyeongbu (Seoul-Busan) Expressway	7	1.4
Improvement of Railway System	20	4.2
Yongdong Thermal Power Plant	2	0.4
Expansion of Waterworks	4	0.8
Namhae Bridge	2	0.4
Rehabilitation of Han River Bridge	1	0.2
Electric Power Transmission Lines	4	0.7
Expansion of out-of-town Telephone Lines	4	0.8
<b>Total (Reparation funds for grants and public loans)</b>	<b>500</b>	<b>100.0</b>

Instead of simply subsidizing consumption, Korea allocated funds to facilitate self-sustaining growth, which in turn would support human development.

Korea adopted a proactive science and technology policy in the mid-1960s.

Korea used reparation funds to develop projects that were opposed by international lenders (e.g., POSCO and Seoul-Busan Expressway).

# Lessons from Korea for Aid and Development Effectiveness

## ◆ When and how did Korea become a successful aid recipient?

- ◆ Certainly not in the 1950s, when Korea tried to maximize aid revenues.
- ◆ Korea became a successful aid recipient only after it started its export-oriented industrialization to reduce its dependence on aid.

## ◆ Any lessons for ownership?

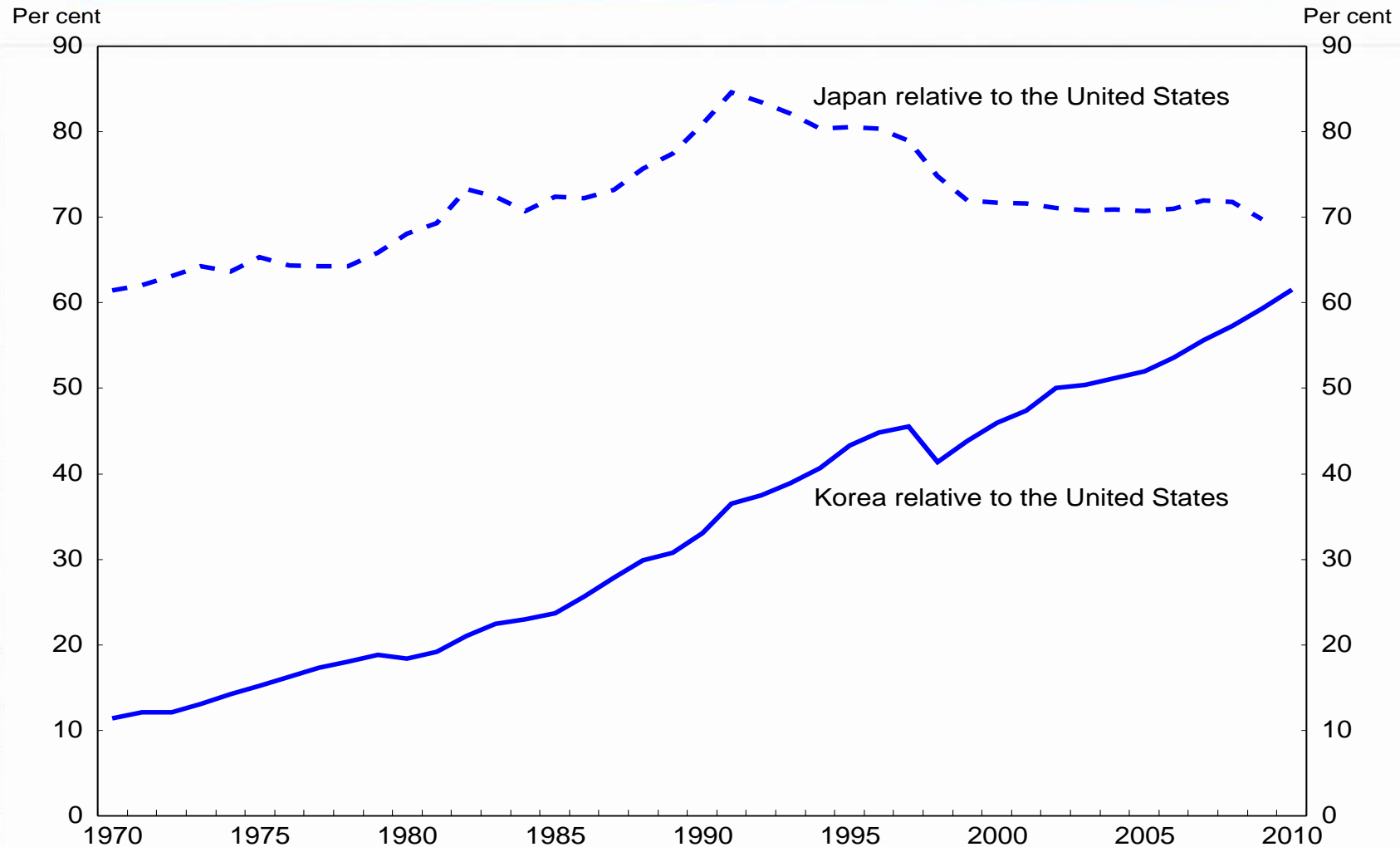
- ◆ It is just not realistic for an aid-dependent country to claim ownership.
- ◆ The choice of inbound foreign capital (grants, concessional loans, non-concessional loans, foreign direct investment) affects the degree of ownership that a country can exercise.

## ◆ Any lessons for governance?

- ◆ Regardless of regime type, it is important to establish a system of governance characterized by responsiveness, competence, and accountability.
- ◆ While a regime that facilitates resource mobilization can be effective in a catch-up phase of development, an institutional platform that fosters autonomy, diversity, and experiment is critical to sustained productivity-led growth.



# Any problem after democratization?



Note: Based on 2009 purchasing power parity exchange rates.

Source: OECD Economic Outlook database.

# Korea's Development Cooperation Program: A Dual History



“Recipient”		“Donor”	
1945-48	• US Military Government: GARIOA and EROA	1963	• Used USAID funding to invite trainees from other developing countries
1950-53	• Korean War		
1950s	• UNKRA: Post-War Reconstruction Aid	1982	• KDI's International Development Exchange Program (IDEP): Knowledge Sharing
1945-60	• 70% of Grant Aid provided during this period	1987	• Economic Development Cooperation Fund (EDCF): Concessional Loans
1945-95	• Total: \$12.78 Billion -Bilateral: \$11.8 billion (92.4%) -Multilateral: \$968.3 million (7.6%)	1991	• Korea International Cooperation Agency (KOICA): Grant Aid
	• Major Donors -US: \$5,540 million (43.3%) -Japan: \$5,050 million (39.5%) -UN: \$615 million (4.8%)	1995	• Graduated from Recipient Status: World Bank loans paid off (excluding post-1997 crisis loans)
		2010	• OECD/DAC member • G20 Seoul Development Consensus for Shared Growth
		2011	• Busan HLF4 (Nov. 29-Dec. 1)

# Knowledge Sharing in Action



<b>Ultimate Outcome</b>	<b>Development Goal</b>			
<b>Intermediate Outcome</b>	<b>Capacity Development and Institution Building</b>			
<b>Output</b>	<b>Consultation Report</b>			
<b>Activities</b>	<b>Interviews and Meetings</b>	<b>Joint Research</b>	<b>Study Tours</b>	<b>Seminars</b>

**Experts**  
**Government Officials**  
**Practitioners**

**Peer-to-Peer**  
**Tacit Knowledge Exchange**  
**Empathy / Inspiration**

**Experts**  
**Government Officials**  
**Practitioners**

**Coalition Building**  
**Knowledge Conversion**

**Country Ownership, Cross-Country and Within-Country Interaction, and Pragmatic Recommendations**

# Differentiating the G20 and G8 Approaches to Development **KDI**

Principle	G20 approach	G8 approach
Strong, sustainable and balanced growth	Focus on growth	Focus on welfare/poverty
	Global structural transformation	Country structural adjustment
	Systemic risk management	Mitigate impact of shocks
Need for collective action	Coherent policies towards development	Focus on aid
	Model good practice	Define homogeneous standards
	Reduce free-riding through dialogue and common understanding	Enforce global rules
Tangible results	Implementation focus (templates/scorecards)	Announcements focus
	Common accountability framework	<i>Ad hoc</i> accountability mechanisms
	Significant legacy agenda	Fresh agenda each meeting
Legitimacy and Relevance to others	Global economic governance	G8 rules
	Middle income and low income development issues	Low income focus, especially Africa
	Involve regional organizations	Invite specific countries

Source: Kharas (2010)

# G20 Seoul Development Consensus for Shared Growth: Pillars and Actions



Infrastructure	<ul style="list-style-type: none"> <li>-Comprehensive Action Plans: information and needs assessment, review of internal MDB practices, investment climate improvement, regional integration, transparency and sustainability</li> <li>-High-Level Panel for Infrastructure Investment</li> </ul>
Human Resource Development	<ul style="list-style-type: none"> <li>-Internationally Comparable Skills Indicators</li> <li>-National Employable Skills Strategies (LIC pilots)</li> </ul>
Trade (no substitute for the Doha <u>Development</u> Agenda)	<ul style="list-style-type: none"> <li>-Enhancement Trade Capacity and Access to Markets</li> </ul> <p>[Progress towards Duty Free / Quota Free for LDCs]</p>
Private Investment and Job Creation	<ul style="list-style-type: none"> <li>-Support for Responsible Value-Adding Private Investment and Job Creation: standards, indicators, G20 Challenge on Innovation</li> </ul>
Financial Inclusion	<ul style="list-style-type: none"> <li>-Global Partnership for Financial Inclusion (GPFI)</li> <li>-SME Finance Challenge</li> <li>-G20 Financial Inclusion Action Plan</li> </ul>
Growth with Resilience	<ul style="list-style-type: none"> <li>-Social Protection Programs</li> <li>-Facilitation of International Remittances</li> </ul>
Food Security	<ul style="list-style-type: none"> <li>-Policy Coherence and Coordination</li> <li>-Mitigation of Price Volatility and Protection for the Most Vulnerable</li> </ul>
Domestic Resource Mobilization	<ul style="list-style-type: none"> <li>-Development of More Effective Tax Systems</li> <li>-Prevention of Erosion of Domestic Tax Revenues</li> </ul>
Knowledge Sharing	<ul style="list-style-type: none"> <li>-Enhancement of Knowledge Sharing</li> </ul>

# Busan HLF4: From Aid Effectiveness to Development (Cooperation) Effectiveness



Abiding by a particular set of principles/modalities in employing the chosen instruments will improve the effectiveness of these instruments in achieving the chosen objectives.

## Instruments

*ODA*

Philanthropy

Knowledge Sharing

Investment

Trade

## Principles/Modalities

*Ownership*

*Alignment*

*Harmonization*

*Managing for Results*

*Mutual Accountability*

Partnership

Cooperation (Joint Op.)

PBR/Cash on Delivery

No Policy Conditionality

Holistic Approach

Exit Strategy

## Objectives

1. Poverty Reduction

2. Social Development  
(Education, Health+)

3. Economic Growth

4. Freedom

5. Happiness/Well-Being

## Actors

*Countries*

*Int'l Organizations*

*CSOs*

Firms

1+2: Millennium Development  
Goals (MDGs)

2+3: Human Development  
Index (HDI)

*The Paris Declaration on Aid Effectiveness (2005) is mainly focused on the delivery and management of ODA.*



# Millennium Development Goals (2000: 1990-2015)



## Breakthroughs

- Millennium Declaration: Global Agreement on Development at Leadership Level
- Recognition of Poverty
- Establishment of Global Partnership

## Methodological Features

- Simplicity and Measurability
- Focus on Ends rather than Means
- No Unifying Theory of Development
- Global rather than Regional/Country Targets
- Different Levels of Abstraction (Mixed Bag)

## Limitations

- Focused on Basic Human Needs
- Weak on Basic Freedoms and Equity
- Susceptible to Vertical Approaches (e.g., Combat malaria with vaccines vs. broad-based development)
- Insufficient to Generate Self-Sustaining Growth Based on Progressive Local Capacity Development (cf. Korea's G20 consultation with LICs: industry, infrastructure, skills, and trade; Voices of the Poor: job, connectivity, security, and respect)

## ◆ Conceptual Framework

- Adopt a comprehensive and inspiring definition of development **that applies equally to rich and poor countries**: “development as freedom,” **building on a virtuous cycle between human development and economic growth**.
- Draw from theory and history to formulate an effective development paradigm: self-sustaining development based on progressive local capacity expansion.
- Identify development goals that are ends in themselves as well as proximate causes for better lives (e.g., education, health, connectivity/opportunity, empowerment, equity), **reflecting the needs of intended beneficiaries**.

## ◆ Structure and Methodology

- Keep the basic structure of goals, targets, and indicators.
- Keep the number of goals around 10 and targets around 20.
- Extrapolate from trends to arrive at feasible targets.
- Formulate regional and country targets as well as global targets.
- Measure progress with appropriate indicators.