Emerging Asian Approaches to Development Cooperation

Conference Version
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Preface and Acknowledgements

The current international aid architecture is largely a product of the consensus forged by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD). This consensus is being challenged, however, by the increasing presence of non-Western development actors that are not members of the DAC or who have newly joined the group. In combination, these development actors are contributing major resources to development efforts in partner countries. At the same time these development actors take a different approach to development cooperation, placing more emphasis on mutual benefit, infrastructure investment, concessional loans and non-interference in political issues. Many of these development actors base the design of their cooperation programs on their own experience and want to share their own success as an alternative path for developing countries.

This changing landscape for international development cooperation was the topic of an informal discussion between the Korea Development Institute (KDI) and The Asia Foundation (TAF) in late August 2010. During the discussion, Edward Reed, TAF Country Representative for Korea, floated the idea of organizing a series of dialogues featuring “emerging” development actors such as China, India, and Korea. Wonhyuk Lim, Director of Policy Research at the KDI Center for International Development, quickly saw the merit in the proposal and thought Korea should take advantage of its position as a bridge between emerging and advanced countries to take a proactive role in organizing such a forum. Also, to ensure a tangible output, he suggested that the dialogue series be structured in such a way to produce a book at the end of the process.

Over the next couple of months, they worked together with Anthea Mulakala, TAF Country Representative for Malaysia and Regional Advisor Donor Relations, to define the contours of the project. Meeting in Seoul in October, they agreed that the project should bring together government officials, leading analysts and practitioners from China, India, Korea, Malaysia, Singapore and Thailand to share their views on the objectives and modalities of Asian development cooperation and its implications for global discussions on aid and development.

In December 2010, the Korea Development Institute and the Asia Foundation officially launched the Asian Approaches to Development Cooperation (AADC) Dialogue Series, based on a memorandum of understanding signed by Oh-Seok Hyun, President of KDI, and Gordon Hein, Vice President of the Asia Foundation. The two collaborating institutions, as well as participants in the planning workshop, felt that this project would be a timely response to the growing interest in “emerging” actors in the development cooperation
arena, especially in the lead-up to the Fourth High Level Forum on Aid Effectiveness (HLF-4) to be held in Busan, Korea, on November 29-December 1, 2011.

The Korea Development Institute (KDI), established in 1971 by the government, is Korea’s leading think tank in the fields of economic and social sciences. Its primary mission is to contribute to Korea’s development by setting long-term national agendas and providing policy recommendations based on rigorous analysis. Internationally, KDI has also sought to share Korea’s experience and knowledge with other countries that are facing the challenge of initiating and sustaining development, primarily through Korea’s Knowledge Sharing Program (KSP). To share Korea’s development experience and contribute to international development cooperation, KDI established the International Development Exchange Program (IDEP) in 1982, which in 2010 was expanded into the Center for International Development (CID).

The Asia Foundation is a non-profit, non-governmental organization with nearly 60 years of experience in Asia. The Foundation collaborates with private and public partners to support leadership and institutional development, exchanges, and policy research. Many of the leading policy and research organizations in Asia have been grantees and partners of the Foundation. In recent years the Foundation has expanded its nationally based policy work with these organizations to explore policy and practice around the issue of development cooperation.

For KDI and the Asia Foundation, the AADC Dialogues provided an opportunity to share their work in a regional platform. Through a series of dialogues and exposure visits to Korea in December 2010 and September 2011, Malaysia in March 2011, and Sri Lanka in June 2011, the Asian Approaches to Development Cooperation project fulfilled the following objectives:

1. To clarify and raise awareness of how Asian development partners operate: their objectives, principles, motivations and funding levels.
2. To contribute Asian development partner views to the international dialogue on aid effectiveness and architecture, particularly the HLF-4.
3. To promote mutual interest, learning, understanding and opportunities for collaboration between and amongst rising Asian and traditional development actors and their partners.

The Colombo meeting profiled and analyzed Sri Lanka’s development framework and its experience as a partner of Asian development cooperation. Some of these insights are presented in the Foreword by Ajith Nivard Cabraal, Governor of the Central Bank Sri Lanka.

Upon completing this project, we would like to extend particular thanks to:

- Gordon Hein, Vice President, Asia Foundation, for his leadership and commitment to the AADC initiative;
- Anthea Mulakala, Edward Reed and Kyung-sook Lee who coordinated and managed the project from the TAF side;
• Wonhyuk Lim for recognizing the value of separate dialogue space for Asian development cooperation partners and leading the project from the KDI side;

• Yoon Jung Kim, program officer for this project from the KDI side, and KDI and TAF staff for logistical support.

The AADC project has generated much enthusiasm and interest amongst its participants and observers. KDI and The Asia Foundation will continue the series into a second year, with a thematic focus on pro-poor growth, evaluation and post-Busan reflections.

Hyun Oh-Seok
President
Korea Development Institute

David Arnold
President
The Asia Foundation
Chapter 1

Reflections on Development Cooperation

Ajith Nivard Cabraal
Governor
Central Bank of Sri Lanka

The role of foreign aid is becoming increasingly dynamic. 60 years of development assistance have given both donors and recipients a wealth of experience to reflect upon and avoid the pitfalls of the ‘development aid’ and ‘structural adjustment’ eras. This experience is complemented by new growth theories and the rejection of one-size-fits-all policies. Concurrently, the rapidly transforming global economic landscape and hierarchy have demonstrated that the destinies of national economies are intricately entwined with each other. A new generation of nations, especially from Asia, that have the potential to be “donors” are rising. The culmination of these developments poses an opportunity for international development specialists to rethink and restructure their modus operandi to ensure that past mistakes are avoided and a new culture based on development partnerships is created for sustainable growth and shared prosperity.

In this view, this article recollects some of Sri Lanka’s experience, in its role as a recipient of numerous forms of donor funding, the lessons learnt and how in its view the development cooperation process should progress in the new world economic order that is taking shape.

Foreign “aid” and the age of development assistance

Foreign aid is officially defined by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) as financial flows, technical assistance and commodities that are:

1) designed to promote economic development and welfare as their main objective (thus excluding aid for military or other non-development purposes);

and

2) provided as either grants or subsidized loans.
Grants and subsidized loans form what is commonly referred to as concessional financing. When a loan is arranged at international capital markets it is non-concessional and thus does not qualify as aid.

This definition encompasses two main elements, a concessionary component and a development assistance component. The DAC refers to aid given to low and middle income countries by donor governments as Official development assistance (ODA). Thus, aid explicitly aims at delivering long term socio-economic development to the recipient society. It further suggests that operationally this objective would be achieved through skill enhancement and empowerment of various groups in society as mere cash handouts would not amount to “development assistance”.

Despite the official definition of aid, in the real world “aid” means more than what it envisages. It is often seen as less altruistic. Aid is considered and has been used as a powerful tool to strengthen diplomatic ties, promulgate the donor country’s culture, influence behavioral and consumption patterns and strengthen military and political allies, while acting as an overall stamp of approval by the donor of the macroeconomic or political status of the recipient. Therefore, “development assistance” is often considered a veil that shrouds many other aspirations, bringing to mind the phrase “there’s no such thing as a free lunch.”

Motivations for countries to give aid

There is a common notion that economic development of developing countries is the very least of these reasons. Nevertheless, it has and still plays an important role in the case of the poorest of the poor countries, where certain targeted programs have helped sustain the lives of the poor. Several Asian countries too have benefitted from both bilateral and multilateral agency programs. However, there is no doubt that foreign policy and donor influence is a key motivation for extending aid. This practice has now been well documented, debated and mooted for change.

Another strong driver is the ability of the programs to generate employment opportunities for donor country firms and create a dedicated market for their goods. Referred to as “tied aid,” the funds are conditional on development related expertise, machinery and goods for program implementation being sourced from the donor country. In some cases it has been found that tying aid adds around 15-20 percent to the cost of the fund. While some countries do not tie aid at all, some of the major donors continue the practice of tying aid, despite strong criticism against the practice.

Certain forms of funding have been seen as a strategy to bringing about desired long term changes in behavioral patterns that provides a sustained market to the donor. To many donors, aid is more a long term investment in the future prosperity of their own countries than that of the recipients. A convenient method of guaranteeing markets for products is through extending funding for purposes such as importing a particular type of commodity that the donor country produces in excess, or training and familiarizing entire generations to use particular types of specialized machinery and equipment produced by the donor country or development of particular skills that are needed by the donor.
Sometimes development assistance assists infrastructure development that is required by the donor to extract the resources in the recipient country or gain commercial access.

The seeming dearth of bona fides behind these unexpressed or deduced motives has created suspicion amongst countries who feel they have been robbed by “donors.”

**The recipient’s expectations from “aid”**

One of the main aspirations of a recipient country is to use aid or development assistance to be independent of “aid” as soon as possible. “Aid” is also sought when a country faces an unforeseen shock that cannot be absorbed by its macroeconomic fundamentals. “Aid” is also as seen as an opportunity to enhance a country’s capacity through infrastructure and skill development.

**“Aid,” why it is so controversial at times**

Some of the terms and conditions of donor funding have made aid controversial in most cases. The use of aid to wrestle policies and affiliations of sovereign recipient nations, sometimes to ends such as starvation due to cutting off trade aid, has led to strong negative sentiments. Though aid brought the desired outcome in some instances, in many cases, it has driven countries to misappropriate resources and thereby fall into debt traps. Some countries are now realizing that concessional funds borrowed decades ago have only increased the debt burden on future generations. Further, donor practices such as demanding the use of specific procurement sources in order to channel funds and work to contractors and suppliers, consultants and technical assistance teams preferred by the donor have led to the developing world to see project or development financing more as benefitting the donor country rather than harnessing local human resources for the program. This practice is complimented by securing long-term “expensive” contracts that the recipient country is bound to honor. The introduction of Non-Governmental Organizations (NGOs) to disburse and monitor funds led to a serious deterioration in the trust that was placed in donor agencies that were directly involved in the socio-economic development of recipient countries. Further, some of the donor funds have been given at far higher rates than the market rate in the donor country, resulting in the donor making higher profits through concessional loans than by lending in international capital markets.

**The real deal: what the recipient country actually get**

Continuously receiving aid and the inability to get oneself out of indebtedness has created an aid-dependent mentality, where recipients feel incapable of solving their issues. This means that development assistance that aimed at empowering recipients has in reality been counterproductive.

Furthermore, due to the constant flow of aid, there is a moral hazard that creates disincentives for recipient countries to improve competitiveness and productivity. This
may lead to a contagion effect where society will “search” for aid. Concurrently, this could have also led to failed local industries as the influx of goods with non-commercial value could have very well muted local production while flooding markets with redundant products. The promise of aid could also swerve a country off its chosen path of economic development by bringing a tendency to sacrifice non-related and unconnected advantages or benefits, in order to satisfy the short term urge to receive aid.

Excessive donor funding has often led to the maintenance rather than the improvement of weak government structures. Benefits and perks enjoyed by government servants and consultants alike such as training, future employment opportunities and foreign trips have often operated as incentives to sustain a crippled aid-dependent system.

Most importantly, with donor funds come policies and foreign influence. Thus, inadvertently the recipient has to render unconditional support to various political and economic arrangements of donors.

A few do’s and don’ts for Recipients and Donors

The past sixty years have clearly taught us many lessons. While some countries clearly benefitted from aid, unsuccessful recipients remain the large majority. It is important at this juncture that both donors and recipients analyze failures and take pro-active measures to realize the true objectives of aid.

A few do’s and don’ts that are necessary for consideration are,
For recipients:

(a) Don’t think that everything that appears to be free or concessionary at the time of receipt, is going to be actually concessionary over the long term.

A wheat flour scheme that operated from 1966 to 2001 under PL480 provides an illuminating example. Sri Lanka received 33 loans as wheat flour “donations” under this scheme. The interest rate of 1% - 4% appeared low by Sri Lankan standards. The loans were payable from 1988 to 2031. The total amount received was US$ 615 million. In Sri Lanka Rupee terms, the value of the grain received over the 35 years was Rs 17,837 million at an average exchange rate Rs 29 per US dollar.

However, as was expected even at that time, the Sri Lanka Rupee depreciated heavily against the US dollar, over the medium term. Due to depreciation, the total outstanding is Rs 26,064 million while the total payment up to March 2011 is Rs 44,259 million. Unless the Sri Lanka Rupee regains its competitiveness, the burden on the budget will escalate over the lifetime of the wheat flour loan.

Another example is the loan for the supply of Food Grain in 1979. The amount borrowed was US$ 16.2 million (Rs 252.7 million). The total payments up to March 2011 was US$ 20.6 million (Rs 1,352.7 million). The remaining balance at the end of March 2011 was US$ 4.7 million (Rs 519.4 million). However, if the above example was to be substituted by a Government borrowing of Rs 252.7 million from domestic market in 1979 at a very
high commercial interest rate of 20%, the total payments would have been much less than the amount required settling the existing loan with past payments.

(b) **Do** remember that there is a high likelihood that your currency will depreciate in the medium term before steadying.

There may be a “concessionary” element on the interest rate at the time of borrowing, it may well be that the loan could turn highly disadvantageous to the recipient over the long period, as currency depreciation alone could leave a high burden on the country’s budget.

For this purpose, a reflection on Sri Lanka’s current status of external debt may be useful. The depreciation of the Sri Lanka Rupee against other currencies since 1950 has considerably raised the value of the country’s foreign debt. As a result of the total outstanding foreign currency debt stock which amounted to about Rs 2,000 billion, at end of 2010 around Rs 720 billion or 36% of the total external debt stock was due to the depreciation of the Sri Lanka Rupee against the other major currencies over the past. This sum is equivalent to around 10 times the investment of the Southern Express highway project in Sri Lanka, the 126 km expressway connecting the capital with the Southern coast of Sri Lanka, which amounts to US$ 589 million. This demonstrates the immense pressure of developing countries that are already grappling with Balance of Payments (BOP) issues. Sri Lanka has been able contain the ballooning effect of parity variance during the past two years through its stabilizing exchange rate which helps to maintain the stable exchange rate. However, this must not and cannot be considered as an option to mitigate the impact of the foreign debt repayment because such policies could easily hinder future growth prospects, pushing a country into difficulty. Therefore, the real cost of so-called “external concessional loans” need to be carefully assessed, before turning to development assistance agreements to avoid further burdening of the debt of the country.

(c) **Do** try to negotiate hard, and avoid conditions, which tie the recipient to a particular supplier, contractor, consultant or financier.

Developing countries generally seek foreign assistance when in dire need and are unwillingly pushed into agreeing to unfavorable terms and conditions that are accepted due to the lack of bargaining power. There is sufficient evidence to show how agreeing to such terms can be disastrous. Recipients should strengthen their case with evidence to ensure that they are not exploited into boosting the donor’s economic growth, employment generation and trade expansion strategies at the recipient’s expense.

(h) **Don’t** compromise other areas of government or society by lobbying and urging the retention of concessions, however useful and advantageous such concessions may be to the direct recipient of the assistance.

Recipients will often be tempted to forego the country’s long-term development plans to obtain funds immediately. This will be the recipient’s great undoing. Therefore, remain on your country’s development path.

For Donors
(a) **Don’t** use the word ‘donor’ any more.

The word connotes an unbalanced power relationship between parties. Given that no funding is free, the term only creates a mental subservience in the minds of the recipients and creates unfair bargaining positions. Today, we know that no country is invincible. We cannot afford to dictate terms to others as we can never take our strength for granted. Therefore, to create global prosperity and we must become “partners” knowing that we help each other to grow.

(b) **Don’t** attempt to link other outcomes and conditions to your development assistance.

Conditional assistance has been the long standing norm for some donors. The misadventures of the past century have made it clear that these can be both expensive and counterproductive. However, donor countries can become partners in development by offering the expertise and experience so that countries use this knowledge when formulating policies.

(c) **Don’t** insist on preferred suppliers, contractors, financiers and consultants.

This is a must. If preferred suppliers, contractors or even financiers are competitive and cost-effective then they will automatically be selected. The needs, capacity and priorities of each sovereign nation are unique. Therefore, this practice must stop.

(c) **Do** consider broader methods of assistance and support, rather than acting on a mere donor/recipient relationship.

The irony of assistance is that sometimes, the donor’s stated objectives and development strategies for the recipient nation and foreign policy especially trade policies are contradictory. For example, even though developing countries are assisted to develop agricultural products for exports, the donor country itself is highly protective of its domestic farmers. Further, donors may implement the same policy and program in several recipient countries (for example, development assistance to improve coffee cultivation and exports). This would invariably drive down the international price, making the import cheaper for developed countries while the recipient country is burdened with low value agricultural goods that cannot generate sufficient foreign exchange for loan repayments. Therefore, let development assistance genuinely assist the enhancement of competitiveness and achieving economic independence

(e) **Do** attempt to set up “finishing” units in developing countries as that would encourage further value addition.

(f) **Do** pay more attention to the development of infrastructure rather than providing intangible benefits only.

The failure of many direct interventions and the success of East Asian economies with sound macroeconomic policies and strong institutions led donors to provide more intangible benefits to create development-conducive environments. However, this alone is not sufficient and providing tangible facilities for production is required as well.
(g) Do remember that some of the highly developed nations of today developed at a time when there were immensely “different” sets of laws and rules internationally.

For instance, there were no laws or rules to curtail the use of “black” or “tainted” money, no rules to prevent pollution, no rules to deal with forced or slave labor; no rules to discourage infringement of copyrights and patents.

However, today, all developing countries are developing within a more sustainable and civilized framework, which is more costly in the short term, but certainly beneficial to the world at large over the long term. Hence, those countries must be supported without any strings attached.

(h) Do remember to pay reasonable prices for goods and services in developing nations. Don’t pay high consultancy fees to “foreign” consultants and suppliers, but low fees to the consultants and suppliers from the host country.

(i) Don’t lobby too hard with developing nations, when a particular aid, concession, benefit or loan is rejected by them.

A possible Asian approach for development cooperation

(a) Learn from the lessons of the past 60 years of organized international “aid”, so that more sensible and appropriate aid systems could be practiced in countries across the world, especially Asia and Africa that still need aid.

(b) Remember that many of the countries in Asia that are today in a position to offer aid and concessions were themselves countries that received aid in the past. They will probably acknowledge that they got out of poverty and difficulty, mainly because of their own commitment, drive and attitude and not due to reliance upon aid and concessions. Do not neglect this aspect.

(c) Develop a new paradigm in the provision of aid so that long term favorable outcomes are achieved, and where development assistance is not viewed suspiciously.

Conclusion

Aid is a noble concept, and should not be polluted. Partners in a contract must learn to provide aid in an unobtrusive and inoffensive manner. Partners must not demand various outcomes from the other in a manner so as to publicly humiliate the recipients, or show deficiencies in the recipient’s country, society and economy. As Asian countries join the league of donors, it is important that they carry these principles with them to achieve true development cooperation.
Chapter 2

South-South Cooperation in Changed Development Assistance Landscape

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Brookings Institution

Official development assistance—aid as it has come to be known—is an important instrument to catalyze development. Since 1960, $3.2 trillion of aid has been delivered from rich countries to poor countries. Learning from what works best in development cooperation practices, a set of rules and institutional arrangements governing aid flows to developing countries have been developed, loosely known as the global aid architecture.2 Over sixty years, a network of national and international aid agencies and programs has been built “to promote social progress and better standards of life.”3

The global aid architecture has evolved steadily in response to a number of events: decolonization, the Cold War, responses to oil shocks and other economic forces linked with globalization (the New International Economic Order of the 1980s), environmental pressures, democratization and the collapse of dictatorships in many developing countries, managing fragile States, and the consensus on the Millennium Development Goals (MDGs) and its supporting processes, such as the Paris Declaration and the Accra Agenda for Action. With each event, new aid agencies and policies were created to fill perceived gaps and needs and existing ones adapted. By the beginning of the 21st Century, the aid architecture no longer resembled its initial design that had been created around a few bilateral and multilateral donors channeling funds to governments in developing countries for projects and programs to help poor beneficiaries in these countries.

1 Official Development Assistance (ODA) or aid has three characteristics: (i) it is provided by an official body; (ii) its main purpose is economic development and welfare in poor countries; (ii) it is concessional, with a grant element of at least 25 percent. For more detail, see http://www.oecd.org/document/4/0,3746,en_2649_34447_46181892_1_1_1_1,00.html.


The newest event is the emergence of non-DAC development partners and, more narrowly, of South-South cooperation (SSC). Bolstered by the dynamism of their economies and rapid industrialization, a corresponding increase in South-South trade, and the emergence of strong private business groups, SSC is an emerging, yet powerful, game changer in global development.

Outside the DAC, there are at least 23 other countries that give aid—mostly well-off countries, including the Gulf and other oil-rich states, but an increasing number of large middle income countries as well, such as China, India, Brazil and Turkey who are active in their neighborhoods and in selected countries where they have strategic interests. Even poor countries are giving aid: Bangladesh has exported its successful model of microfinance across the developing world through what is now called South-South knowledge exchange programs.

New development partners, or non-DAC development partners as they are sometimes called, are now providing at least $14.5 billion in aid (Table 1) and probably closer to $17 billion when ballpark estimates for Brazil, Mexico and Venezuela are added. That is already a significant amount. It has more than doubled in just three years, and it is likely to continue to rise rapidly in the future. If, for example, the non-DAC donors were to give even 0.15 percent of their GDP in aid by 2015, they might be providing sums approximating $26 billion by 2015; and some non-DAC donors like the Gulf States actually provide more than 1 percent of GDP in aid.
Table 1 | Net ODA Disbursement from New Development Partners (USD millions)

<table>
<thead>
<tr>
<th>Countries (25)</th>
<th>Year 2005</th>
<th>Year 2007</th>
<th>Year 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD Members</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>752</td>
<td>699</td>
<td>802</td>
</tr>
<tr>
<td>Turkey</td>
<td>601</td>
<td>602</td>
<td>780</td>
</tr>
<tr>
<td>Poland</td>
<td>205</td>
<td>363</td>
<td>372</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>135</td>
<td>179</td>
<td>249</td>
</tr>
<tr>
<td>Hungary</td>
<td>100</td>
<td>103</td>
<td>107</td>
</tr>
<tr>
<td>Slovak Rep.</td>
<td>56</td>
<td>67</td>
<td>92</td>
</tr>
<tr>
<td>Iceland</td>
<td>27</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Mexico</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>New EU Members</td>
<td></td>
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<tr>
<td>Estonia</td>
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<td>Lithuania</td>
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<tr>
<td>Romania</td>
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<tr>
<td>Arab Countries</td>
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<tr>
<td>Saudi Arabia</td>
<td>1,005</td>
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<td>5,600</td>
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<tr>
<td>Kuwait</td>
<td>218</td>
<td>110</td>
<td>283</td>
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<tr>
<td>U.A.E.</td>
<td>141</td>
<td>429</td>
<td>88</td>
</tr>
<tr>
<td>Other Donors</td>
<td></td>
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<tr>
<td>China</td>
<td>1,337</td>
<td>2,596</td>
<td>3,800</td>
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<td>India</td>
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<td>Brazil</td>
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<tr>
<td>Total</td>
<td>6,155</td>
<td>9,808</td>
<td>14,498</td>
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</table>


4 In 2010, Korea joined the OECD DAC but is considered as a new development partner rather than a traditional donor.
6 Figures are author’s estimates based on OECD DAC and interviews with Indian officials
In 2008, aid was a roughly $200 billion per year industry: $87 billion in bilateral aid from DAC donors; $34 billion from multilateral donors; $15 billion from non-DAC official donors; and $60-70 billion from private philanthropists. These figures suggest that South-South cooperation is still small in aggregate. But the increasing impact of SSC comes from two sources. First, SSC is one of the fastest growing components of development assistance. ODA from DAC countries is under growing pressure as these countries wrestle with their own fiscal constraints. ODA from DAC actually declined in 2009 compared to 2008.7 The importance of SSC is that these donors are among the few looking to actively increase their development cooperation.

Second, SSC typically comes in a package. While many DAC donors have their aid fragmented among several different agencies, new development partners have a comprehensive overview of what they provide. New development partners also actively leverage their aid with trade, investment and other forms of economic cooperation. The total package of economic relations may be much more significant than just the aid levels would indicate.

It is not surprising that as countries get richer they take on more responsibilities for managing global affairs. From that perspective, the growing number of donors is a positive sign of global progress and in the perceived usefulness in giving aid. But there are clear differences in the aid-giving approaches taken by new development partners and DAC countries.

New development partners are building SSC on a foundation unsaddled by the historical relationships of colonialism. They prefer not to be seen as “donors” and consider their development assistance to be a form of economic and technical cooperation that mutually benefits both donor and recipient countries. This philosophy leads to approaches towards aid that differ from the current, traditional paradigm.

First, it becomes natural for new development partners to forge a close link between aid and broader economic investment and trade relationships. While DAC donors today scrupulously provide aid in the form of grants or highly concessional credits in order to avoid past mistakes of excessively indebting poor countries, new development partners combine aid flows and commercial investments in opaque, hybrid financing schemes, often protecting their commercial interests by using access to natural resources as collateral.

Second, new development partners do not subscribe to the need to untie their cooperation and permit competitive tendering of contracts. They see the award of contracts to firms from their own countries as a way of guaranteeing mutual benefit from the relationship. At the same time, recipient partners often appreciate the responsiveness to their project requests and speed of implementation that come when aid is founded on political agreements at the highest level between governments. New development partners also have development experience and technological solutions potentially better suited to the development context faced by today’s poor countries. Last, the principle of mutual

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benefit lends itself to an avoidance of conditionality or other “interference” in the development strategies of partners—something appreciated by the governments in power, but not always more broadly by people in the recipient country.

In fact, new development partners do not fit well into the basic philosophy of aid that governed the traditional aid architecture. In the traditional model, the justification for aid was to provide development resources from capital-abundant rich countries to capital-scarce poor countries. In that model, multilateral agencies were used to lower transaction costs between multiple donors and multiple recipients (Figure 1). They provided professionalism, political neutrality and pooled resources for development.

**Figure 1 | The Traditional Aid Architecture**

![The Traditional Aid Architecture](image)

Source: Figure 1, Kharas (2007), “Trends and Issues in Development Aid”

New development partners still have need for capital to fund their own development. But their willingness to share and finance development in other countries is based on a different philosophy, where the key ingredient is often not money but appropriate technology and people exchanges. For example, over 30,000 African students have received scholarships to Chinese universities. And tens of thousands of Chinese are engaged in aid projects in Africa. It is not therefore surprising that a major form of SSC is in the provision of technical cooperation.

New development partners are active in countries of strategic economic importance to them—either neighbors, or countries providing access to critical natural resources. They are
eager to build a bilateral relationship and so they typically do not provide significant resources through multilateral systems. Thus, the new development partners should not be seen as aid providers that should be shoe-horned into the traditional development architecture, but as a different component. In this, they are not alone. Other new aid actors, like private philanthropists, vertical funds, and a proliferating body of new multilateral agencies, have also mushroomed. The traditional aid architecture has given way to a complex aid ecosystem, in which multiple actors interact with each other in symbiotic ways, but there is no conscious effort to shape the environment (Figure 2).

Figure 2 | The New Aid Ecosystem

Source: Figure 7, Kharas (2007), “Trends and Issues in Development Aid”

8 On exception is that new development partners have been generous in responding to multilateral appeals for humanitarian funding. On average, new partners provide 18% of aid through multilaterals, compared to 30% for DAC donors.
KEY ISSUES

If the aid ecosystem is simply a naturally evolving landscape, with no “architect,” can it reasonably be expected to deliver aid in an effective way? How should North-South and South-South development cooperation evolve? There are three problem areas for the current aid ecosystem where South-South cooperation could aggravate matters if not properly managed.

Matching Needs and Resources

Not all aid is actually delivered as projects and programs to poor countries. The OECD/DAC has developed a new concept of country programmable aid (CPA) to try to account for the resources that can actually be programmed and used for development purposes in a developing country. Accordingly, the DAC starts with gross official development disbursements but excludes aid that:

- Is inherently unpredictable like humanitarian assistance and debt relief;
- Entails no flows to the recipient country, like administrative costs of the donor, student scholarships, and development awareness raising, research and refugee costs in donor countries;
- Is not programmed between the donor and the recipient government, like aid channeled through NGOs, food aid, unallocable aid by country, and equity investments in multilateral banks.

An even stricter version of CPA would also exclude principal and interest repayments by recipients to donor governments on past loans, as these reduce budgetary resources, and also free-standing technical cooperation that is provided in kind, as recipients often have limited control over the type of assistance they get and no control over the cost of this assistance. Indeed, it is estimated that the same technical cooperation provided by a donor in an advanced country through a contractor could be 3 times as high as the same individual would be valued at if volunteering at a non-profit organization, and 10 times as high as a local professional with similar qualifications.9

The DAC estimated that CPA under its definition amounted to about 46 percent of gross ODA in 2008. Under the stricter definition, the amounts going to CPA are even lower: about $51 billion in 2008. For many years, from 1985 to 1997, CPA either stayed constant or went down. But recently, CPA has started to increase again, as aid volumes have stayed high while debt relief has declined.

9 Center for Global Prosperity, 2007
Another way to look at the same phenomenon is to ask how much aid actually goes to the areas where poverty is thought to be most intractable, namely Sub-Saharan Africa (SSA). SSA has been given special attention in the development community and a special pledge was made at Gleneagles to increase aid amounts to SSA. Unfortunately, it was this portion of the Gleneagles commitment that had the greatest shortfall. Only about $11 billion of the $25 billion increase envisaged at Gleneagles for SSA is likely to be forthcoming in 2010.

Figure 4 illustrates by providing a decomposition of aid into its components. It starts by noting that for each $100 of net ODA provided in 2008, there are unprogrammable or reverse flows that have to be subtracted to arrive at country programmable aid that actually reaches poor beneficiaries in sub-Saharan Africa. These include: technical cooperation ($16); unspecified or unallocated by country ($12); debt relief ($10); humanitarian aid ($11); donor administrative costs ($5); interest payments ($4); and food aid ($2).10 What remains is about $37 of country programmable aid. Of that, $6 goes in programmable aid to Iraq and Afghanistan, two exceptional cases. Half of what reaches a developing country could be diverted from the final poor beneficiaries for local administrative costs, leakage to non-poor beneficiaries and corruption.11 Forty percent of the remaining $16, or $6 out of each $100 in net ODA, goes to improve the lives of Sub-Saharan African poor.

This discussion of CPA helps put SSC in perspective. Its importance is much greater than the aggregate figures would suggest and for some regions like SSA, that receive little actual aid disbursements in the current structure, SSC could be a game-changer.

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10 Some of the smaller unprogrammable items like student scholarships are ignored here for convenience.
South-South cooperation is not explicitly geared toward Africa, nor should it necessarily be oriented there. But it is important that Africa not be denied the potential benefits of South-South cooperation simply because they have no large regional economy ready to help in the immediate neighborhood, like each of the BRICs do in their respective regions. South Africa could potentially play that role but is too small as yet. South Africa also channels most of its development cooperation through multilateral structures.

One way of addressing this issue could be through Triangular Cooperation, a process whereby a traditional DAC donor funds a developing country aid provider to deliver services to a third developing country. With triangular cooperation, the tendency for new development partners to focus on their own regions can be reduced.

**Figure 4** | In 2008, each $100 of net aid disbursements resulted in $6 transfer to poor beneficiaries in Sub-Saharan Africa

![Figure 4](image)

Source: OECD DAC Aggregate Statistics and author’s calculations

**Coordination, Fragmentation and Volatility**

Killen and Rogerson (2010) estimate the direct transactions costs of fragmentation could be around $5 billion or more a year, based on work done for the European Community. The economic costs in terms of sub-optimal national investment allocations are arguably much larger still. Additional costs due to volatility are also likely to be considerable, perhaps 10 percent of CPA (Kharas, 2008). This suggests that some attention should be paid to the transmission belt through which aid resources are channeled to developing countries.

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One telling statistic is that higher aid volumes are being met through more projects, not larger projects. In fact, project size is systematically falling as Figure 5 shows. An average aid activity was $12.5 million in 1989; by 2008 it had fallen to $2.2 million. Small can be good if it is innovative and later results in scaling up, but each project also has fixed costs of design, negotiation and implementation that reduces dollars available for final beneficiaries.

Figure 5 | More Aid is being delivered through more small projects

Another way of looking at the costs of coordination is from the perspective of recipient governments. Each aid recipient sampled in a Paris Declaration survey received an average of 263 donor missions in 2007. Their senior finance officials spent one-third to one-half of their time meeting with donors and, in the case of Kenya, Ghana and others, governments have resorted to “mission-free” periods to allow officials time to handle their domestic obligations.

The large number of missions happens because each donor needs to keep tabs on each project it is undertaking in each country. But if there were a better division of labor, with donors focusing more on selected priority countries and selected sectors, the need for missions would fall. In fact, the DAC estimates that if half the smallest donor-recipient relationships were abandoned, only 5 percent of country programmable aid would have to be rechanneled. [Information Sharing vs. Division of Labor]

A final significant issue in the aid delivery mechanism concerns volatility. Aggregate aid volumes have been volatile and unpredictable, sometimes stagnating, then accelerating.

13 Not all aid is recorded with a project ID number, and defining what constitutes an aid project can itself be difficult. For example, individual consultant contracts may appear as an aid activity biasing project size numbers downwards. To adjust for this, we also computed average project size, excluding all items under $100,000, and took median values as well as means. The trends remain as in Figure 5.
and at the recipient country level this volatility has translated into significant costs. From
the early days of development assistance, the resolution of the common aid effort in 1961
recognized that “assistance provided on an assured and continuing basis would make the
greatest contribution to sound economic growth in the less-developed countries.” 14
Unfortunately, that understanding has not been put into practice. Although aid shocks—
defined as aid that declines by more than 15 percent of GDP in a two-year period—are rare,
they are eventful. The risk of an aid cutoff in aid-dependent economies may have
significant consequences for how aid is used.

Aid crises have significant disruptive effects on exchange rates, public investment, and
inflation. Sound macroeconomic policy, universally acknowledged as the foundation of
growth and development, is impossible with high aid volatility, especially if such volatility
tends to compound the normal business cycle. At a macroeconomic level, the volatility of
country programmable aid is seven times as big as the volatility of GDP and three and a
half times as big as the volatility of exports.15

South-South cooperation typically involve small activities and runs the risk of
exacerbating project proliferation, multiple missions, volatility and macroeconomic
instability. Although southern donors believe these issues should be resolved by recipient
countries themselves, these authorities are sometimes unable to cope by themselves. One
way that southern donors can help is by providing greater information about their activities,
either directly or through recipient country aid management systems. That will permit
others to avoid duplication and help ensure a better division of labor. It will also build an
empirical base for analyzing the macroeconomic effects of the additional aid. That data, in
turn, would be indispensable for all development partners.

**Aid Effectiveness**

Although there is considerable support for aid, there is also a loud chorus of criticism
that aid has not produced the results rapidly enough to meet the development targets
agreed to by the world. At the UN Millennium Summit in September 2010, heads of state
expressed their concern that progress made fell far short of what was needed, especially in
the area of maternal mortality.16

Recognizing the importance of aid effectiveness, donor countries have developed their
own targets to implement improved procedures that respect key aid effectiveness
principles, enshrined in the Paris Declaration of 2005. The Paris Declaration placed
considerable emphasis on country ownership, the alignment of donor projects with country
development plans and priorities, use of country systems, harmonized approaches,
transparency, management for results and mutual accountability. Considerable progress has been made, and the evidence suggests that, despite slowness in implementing the Paris commitments and the long time lags between implementation and development outcomes, better aid quality as measured by Paris targets does lead to better results on the ground. That is encouraging, but is not grounds for complacency. In fact, the areas where the Paris principles are most appropriate and effective are a declining share of total aid—perhaps less than one-fifth in 2008.

Some new development partners are OECD countries that are not yet DAC members but for whom the Paris principles serve as implicit, aspirational targets. But others are unlikely to respond well to efforts by traditional donors to push them to abide by the Paris principles. For these countries, a new list of commitments, based on shared interests, is needed. For example, minimum guidelines on supporting national ownership, providing information, and perhaps even committing to aid volume targets could be a start.

This is not to suggest that new development partners are any less concerned about aid effectiveness than traditional donors. They have enthusiastically embraced the Millennium Development goals and pay great attention to country ownership principles. But the approach to implementing the Paris principles differs so much that it is unrealistic to expect convergence in approach in the near term (Table 2).

**Table 2 | Diverging Approaches to Paris Implementation**

<table>
<thead>
<tr>
<th>Paris Principles</th>
<th>DAC/traditional donor implementation</th>
<th>New development partner implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>National development strategy (or PRSP) outlines priority areas for donors, built up from technical</td>
<td>Ministers/senior officials articulate specific projects for cooperation through high level political</td>
</tr>
<tr>
<td></td>
<td>discussions.</td>
<td>dialogue.</td>
</tr>
<tr>
<td>Alignment</td>
<td>Use and strengthen recipient institutions and procedures, where feasible. Tying of aid discouraged.</td>
<td>Delivery of turnkey projects in short run; capacity building as long term strategy. Tying permissible</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and widely used.</td>
</tr>
<tr>
<td>Harmonization</td>
<td>Use common arrangements to minimize burden on recipients. Multilateralization of aid</td>
<td>Minimize burden by avoiding cumbersome bureaucratic processes altogether. Occasial use of</td>
</tr>
<tr>
<td></td>
<td>encouraged in all instances.</td>
<td>multilateral system where judged to be in interest.</td>
</tr>
<tr>
<td>Managing for Results</td>
<td>Use recipient-led performance assessment frameworks and support performance-based budgeting.</td>
<td>Focus on delivering aid quickly and at low cost. Use own development experiences and “how-to”</td>
</tr>
<tr>
<td></td>
<td>Promote international best practice.</td>
<td>knowledge.</td>
</tr>
<tr>
<td>Mutual Accountability</td>
<td>Make aid transparent and hold each other accountable to Paris commitments via targets and indicators.</td>
<td>Ensure aid is mutually beneficial. Agree to fully respect each others’ sovereignty and eschew policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>conditionality.</td>
</tr>
</tbody>
</table>

Source: Kang-Ho Park (op. cit.)
The fear is that new development partners will commit the same mistakes as traditional donors did in the past. In fact, the tension that arises between new development partners and traditional donors revolves around differing interpretation of the development record. Traditional donors have codified a significant body of experience into norms and standards for better development assistance. It is this experience that has led to a focus on human rights, good governance, rule of law, avoidance of debt, support for voices beyond that of the government of the recipient country, and capacity development of systems and institutions beyond a project. But new development partners are unwilling to pursue development in the same way because they see the model as failing to deliver results, too slow, and open to the insertion of irrelevant, politically-motivated criteria. Ultimately, the new development partners are far more reliant on the performance of the government of the recipient country. If it takes its development responsibilities seriously, with solid plans, internal consultations and finances, the strategy will work well. If not, there are few safeguards to prevent abuse and negative development consequences. [Government of the people, by the people, and for the people; not of the donor agencies]

One area where Paris principles have not made much headway is in technical cooperation, an area where traditional donors spend 16 percent of resources. Here, there is considerable debate as to effectiveness. A case study of Cambodia showed that technical cooperation grants made up a staggering 50 percent of all aid to Cambodia, paying for multiple teams of foreign advisers, who gave sometimes contradictory advice to the Cambodian government.17 The conclusion by the authors: aid funds are often duplicative and unnecessary. Most of the money in fact went to foreigners, not to Cambodians.

Much SSC is in the form of technical cooperation, and while systematic evaluation is absent, case study examples suggest that the experience to date has been quite positive. There are many reasons to prefer SSC as a modality for technical cooperation—low cost, language and cultural affinity, and similarity of contexts and challenges are chief among them. But SSC for knowledge exchange has also been constrained by the difficulties in matching the needs of recipients with good practice solutions implemented by others—a dearth of global development knowledge sharing. It also suffers from limited institutional procedures—as SSC is in its formative stages, many agencies do not have experience in sharing their knowledge and experiences with others. And finally, financial issues arise. While these can in principle be resolved by triangular cooperation, in practice, the small size of much SSC means that transaction costs are too high to make triangular cooperation worthwhile.

An interesting idea is to involve regional entities more systematically in SSC.18 Regional bodies have the local grounding to match needs and providers, and can potentially provide a low transaction-cost platform that would make many more SSC activities feasible.

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17 See chapter 3 by Ek and Sock in “Delivering Aid Differently” eds. Fengler and Kharas (2010)
18 H. Rhee, “Promoting South-South Cooperation through Knowledge Exchange”, in H. Kharas et al. (eds.) 2010, op. cit.
Summary Questions for a South-South development cooperation dialogue

Although SSC is a promising new form of aid, and many Southern development partners are signatories to the Paris principles and the Millennium Development Goals, it provides some challenges to the prevailing modality of development cooperation. The SSC dialogue may fruitfully explore a number of issues:

i. Should Southern donors be encouraged to provide a greater share of resources through multilateral development channels?

ii. What can be done to orient SSC more toward Africa, the region of greatest need for development assistance? Would more triangular cooperation help in this regard?

iii. Can Southern donors be encouraged to provide more information on their activities, either directly or via recipient country aid management systems, in order to permit greater implicit coordination with others? Should Southern donors be encouraged to develop and implement transparency standards of their own, perhaps in collaboration with recipient countries?

iv. Is there a need for a more explicit division of labor between donors?

v. Can SSC be evaluated more systematically, or are case studies the best approach?

vi. Are regional organizations suitable bodies through which to accelerate South-South knowledge exchange? What other options are available for expanding this form of cooperation?

vii. How can a dialogue among donors best be conducted? Through international forums such as the Busan HLF4, national aid coordination forums, or both? Would it be desirable to undertake pilots of North-South cooperation in selected recipient countries?
References


_______(2010), “Keeping the Promise,” Draft resolution referred to the High-level Plenary Meeting of the General Assembly by the General Assembly at its 64th Session, September 17.
Chapter 3
China’s Foreign Aid: Historical Evolution, Architecture and Challenges

Li Xiaoyun19 Wu Jin20

1. Introduction

China’s foreign aid program has gained a great deal of international attention over recent years along with an increasing role China has played in the global economy. In fact, China almost started its foreign aid to other developing countries at the same time with the West. In 1950, China began to provide aid in kind to Vietnam and North Korea. In 1956, China began to provide aid to Africa. During the 1950s, China’s aid to other countries had aimed to help newly independent countries to build their economy despite the fact that the aid had been loaded with the core task of ideological-exportation. In this context, it should be noted that, although while the international aid led by the West, has promoted ‘was under the agenda of promoting the modernization,’ model, it has also been bounded with strong ideological conditions against communist expansion. In 1964, China formally developed its foreign aid policy with eight principles characterized in equal and mutual benefit and non-conditionality (China’s Foreign Aid White Paper, 2011). In 1971, after China entered into the UN, China’s foreign aid began to be expanded to a large number of developing countries in the developing world, including non-socialist countries, in order to gain wide international support. After the 1980s, China started to receive foreign aid from the West and at the same time adjusted its own policy on overseas aid by strengthening the aid to least developed countries, changing the aid scale and structure and introducing business management models to existing aid projects in order to sustain the aid program. During the 1990s, China continued to reform its foreign aid policy. In 1993, China set up a foreign aid cooperation fund by using the interest-free loans and non-interest load paid back and began to use the China Export and Import Bank to provide middle and long term concessional loans. Since year 2000, China has increased significantly its foreign aid volume.

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Average increase rate reached to 29.4% annually from between 2004 and 2009 (China’s Foreign Aid White Paper, 2011). China has subsequently expanded the modalities of its aid program from merely bilateral to mixed bilateral and multilateral cooperation models. This paper highlights the historical evolution of China’s foreign aid in the second section and introduces China’s foreign aid architecture in the third section, and finally articulates challenges that China faces in improving its aid effectiveness.

2. Historical evolution of China’s foreign aid policy

China’s foreign aid program has been gradually developed through different stages over time in both the domestic and international context. According to different criteria, some researchers have divided the historical evolution of China’s foreign aid into three periods (Zhang Haibing, 2007; Xiao Zongzhi, Zhang Derong 2002), simply based on the changes in modality of aid. For instance, from 1950-1978, the main form of aid was grants and non-interest loans, from 1979-1994, the main form of the aid was complete projects and technical assistance while from 1995, aid was gradually shifted to subsided loans and joint ventures. Other researchers further proposed the history of China’s aid into five phases (Zhang Yuhui, 2006) based on the scope and volume change of the aid program. In fact, China’s foreign policy has been largely subject to China’s entire development agenda with different visions. The changes of the modality, scope and volume are result of political and economic contingency as well as due to the changing development agenda. Therefore, this paper intends to divide China’s foreign aid into the following three phases based on the change of China’s domestic and international development agenda.

Initial stage of China’s foreign aid (1950-1978): China was dominated by the planned economy and “left-wing” development paradigm during this stage. The initial stage of China’s foreign aid program was from 1950 to the end of 1970s, which is characterized as a political and social gift to expand the socialist ideology, focusing on political and social reciprocity. The founding of the new China marked the success on the fight against imperialism and feudalism in China. China has since then gotten rid of the features of semi-colonialism and semi-feudalism society. During this period, the land reform in China also gained its success, private ownership was eliminated, women were emancipated from the previous lower social status, and therefore a series of social reform have made a good demonstration to those former colonies on decolonization. Meanwhile, the revolution in Latin America and the left-wing movement in Europe all reinforced the international atmosphere to apotheosize the deed of China. China’s foreign aid on the one hand served the purpose to gain the international support so as to solidify its own independence, and also engaged in the ideological exportation of China’s experience on the construction of socialism construction, and to practice the obligation of proletariat internationalism, expand the communist camp and soon afterwards compete with the then-Soviet Union for international support. On the other hand, China’s foreign aid also aimed to help those countries to develop their economy to strengthen their political independence.
As Figure 1 and Table 1 indicate, from 1950 to 1978, China’s foreign aid kept rising both in terms of the total amount and its proportion in GNP and the financial expenditure in the corresponding period. Aid expenditure to total financial expenditure reached from 0.63 percent in 1950-1952 to 1.53 percent in 1978, percentage and share to GNP increased from 0.36 percent to 0.66 percent respectively during the time period. The total amount of foreign aid increased to 229 million RMB in 1950-1952 to 5.584 billion RMB in 1973 and further to 1.721 billion RRM in 1978 (China Statistics Year Book 2009). In the 1960s and the most of the 1970s, China spent its highest level of the budget to support African and Asian countries, to achieve independence and build their economies. Foreign aid to GNP remained over 1 percent from 1964 to 1976. Box 1 shows some of the projects China supported during this time period.
Box 1.
In November 1956, the Chinese government gave a financial grant with an amount of 20 million Swiss Francs in cash to the Egyptian government to support their fight on the right over of the Suez Canal. In 1960, the Chinese government agreed to assist Guinea to build a match plant and a cigarette plant, which was the first development project from China in the SSA area. In the latter part of 1961 until early 1962, China sent seven agricultural specialists to Mali to help their experiments on sugarcane and tea, which was also successful. In August 1965, China sent an investigation team to Africa to assess the feasibility of building the Tanzania-Zambia railway which was completed in the 1970s; in the late 1960s, China successively sent medical teams to Tanzania, Somali, Congo, Mali and Guinea etc.

Until the early 1970s, the recipient of China’s foreign aid came up to 32 countries, which expanded from Asia, East Europe and Africa to Latin America. Furthermore the type of aid changed from mainly in kind and in cash aid to the lending of whole set equipment assistance and technical assistance. During this period, China helped 20 countries to build up 313 whole set projects. Particularly in the early 1970s in the Vietnam War, China provided more than 9 billion RMB aid to the Communist Party of Vietnam from 1970 to 1973 (Fu Daopeng, 2003). This made the total amount of China’s foreign aid go up to 5.584 billion in 1973 and renewed the record on the annual scale of China’s foreign aid since the founding of new China. The decline of the aid volume after 1973 was mainly due to China’s domestic economic troubles and did not reflect major policy changes.

Until the 1970s, China had not really formed its own aid industry, if strictly following the definition set in the West, nor had it established its own concept and framework to provide the kind of modern aid with the objective to assist the recipient countries to reform its own social and economic institutions. We should acknowledge that although China’s foreign aid had in itself the characteristic of ideological exportation ever since the very beginning, and with the overt prerequisite of “oppose imperialism and colonialism”, yet it did not set any clear conditions with its aid, nor did it have any demands on the economic gains. Therefore, its aid had not caused serious conflicts economically or politically in the recipient countries but helped to gain great international political capital and good reputations. Furthermore even in 1989, when the relationship between China and the West was somehow disturbed, China’s foreign aid to Africa was not weakened (Weiqun Wei, 1995). This provided very good social psychological foundations in the Sino-African relation. Based on such a good historical record, the African people today also tend to take China’s experience in development in a very positive manner, which is obviously a good foundation for mutual sharing and learning.

Adjustment stage of China’s foreign aid (1978-2000): From 1978, China began its domestic reforms and its economic structure greatly reduced its ideological persuasions in the international arena. China thus began to adjust its foreign aid policy towards better serving its domestic economic development. Both the total amount of the foreign aid, its proportions in GNP and the financial expenditures were lower than previous years and also fluctuated yearly due to uncertain foreign aid policies and domestic economic situations. The decline of the aid volume from 1978 to 1984 was mainly due to the policy
that concentrated on domestic economic reforms, while the decline of the aid volume after 1978 was mainly due to a clear policy to focus on domestic economic reforms; while regaining the increase of foreign aid after 1994 represented the commencement of the new foreign aid policies towards sustainability and mutual benefits. Three major changes were made to implement the policies. Chinese business companies and partner countries business groups were encouraged to take over China’s foreign aid projects as joint venture businesses. Secondly, a special fund using returned loans was set up to support the joint venture in 1993; thirdly a middle and long term Quasi-ODA loan program was launched by China Import and Export Bank in 1995. During this period, China developed a clear foreign aid policy focusing more on economic reciprocity and using a practical management model with less political persuasion. The introduction of the business management model marked a major reform of China’s foreign aid policy. The Mali Sugar Factory project is a typical example (Box 2).

**Box 2. Mali Sugar Cooperation Limited**

In 1964, China helped Mali to develop its sugar factory and sugar cane farm located in the Segou region of Mali. China granted all equipment, financed infrastructure development for the factory and farm and provided technical support. Once the factory was running it was managed by the Malians. Both the factory and the farm almost went bankrupt by 1980. In 1981, both China and Mali agreed to joint management of the factory and farm. From 1996, both governments agreed to form a joint venture. China Light Industry Cooperation shared 60 percent and the Mali government shared 40 percent. This transformation made the factory the largest agro-business cooperation in Mali, and third largest tax payer in the country. The company contributed to 1/50 of the total government revenue. The company employed more than 200 fulltime workers and 1000 seasonal workers.

**New stage of China’s foreign aid (since 2000) toward multiple development goals:**

After entering the new century, China’s foreign aid volume rapidly increased. The total amount of foreign aid was regained to 4.588 billion RMB, close to the highest level in 1974 and continued to 13.296 billion RMB in 2009, with annual average increase of 29.4 percent, despite the lower level of the share to total fiscal expenditure and GNP. This rapid increase of foreign aid was largely due to the clearly adjusted aid policy during the 1980s and 1990s, as well as due to the rise of China in the global system. Firstly, the rapid economic growth in China has made an increasing practical demand on raw materials and the associated enhanced attention on economic benefits. Under the trend of globalization, the amount of international trade increased which also requested that China’s foreign aid can also play a positive role to assist China’s “opening up”; Secondly, on the political aspect, China needed to gain support from developing countries, particularly from African countries, leveraging fear from developed nations regarding China’s increasing power in the global system. The role of African countries was of particular significance to China, in terms of gaining votes in international organizations, which usually follow the “one country, one vote” procedure (Scarlett Cornelissen, 2000). Thirdly along with the increase of China’s national strength, China should also bear the obligations of foreign aid as a “big country”, fulfilling
expectations set by the international community. Lastly, China has made remarkable achievements in its opening reform and economic adjustment. Developing countries have shown extensive interest in China’s experiences through technical assistance of China’s foreign aid. Therefore, China’s foreign aid program has been much expanded into multiple modalities and to a wider scope of areas. China participated in all major high-level international and regional consultations on international development cooperation such as the UN High-Level Meeting on Financing for Development, UN High-Level Meeting on the Millennium Development Goals, Forum on China-Africa Cooperation, Shanghai Cooperation Organization, China-ASEAN Leaders Meeting, China-Caribbean Economic & Trade Cooperation Forum, China-Pacific Island Countries Economic Development & Cooperation Forum, and the Forum on Economic and Trade Cooperation between China and Portuguese-Speaking Countries. Its foreign aid program has expanded to the fields of agriculture, infrastructure, education, health care, human resources, and clean energy. Technical assistance through China-FAO Trust Fund is a typical example of China’s new form of foreign aid program as illustrated in Box 3. In August 2010, the Chinese government held the National Conference on Foreign Aid to summarize its experience of foreign aid work, and defined the major tasks for strengthening and improving foreign aid in new circumstances. China’s foreign aid thus entered a new stage (China Foreign Aid While Paper 2011).

Box 3. China’s new form of technical assistance program

On March 26, 2007, China-Sierra Leone "South-South Cooperation," as part of FAO's "Special Program for Food Security" was officially launched. China sent 18 agricultural experts and technicians to Sierra Leone’s four project districts, i.e. MOYAMBA, MAKALI, KABALA, and KONO, for technical assistance work. Chinese experts and technicians overcame many difficulties and launched a series of productive activities during the two years in Sierra Leone.

First, China engaged in agricultural technical guidance at the grass-root level. Chinese experts and technicians conducted in-depth on site research to learn about the local agricultural resources, climate, soil, the current agricultural production, and thereby informed local farmers about agricultural production in rural areas. This was conducted more than 800 times and 58 practical skills were taught.

Second, the Project demonstrated methods of financing and actively demonstrated China’s agricultural production technology. For the two years, to fully demonstrate and teach advanced agricultural production technologies of China, Chinese experts and technicians raised 198 million Leone through various channels and built 32 small-scale agriculture demonstration sites in all work stations. Furthermore, Chinese experts shared 20-odd practical agricultural production technologies including knowledge on rice cultivation, fish breeding, vegetable production, use and maintenance of farm machinery, small-scale livestock farming, beekeeping, agriculture plant protection, etc.

Third, the Project provided extensive agriculture technical training based on local conditions. Chinese experts and technicians conducted 57 pertinent technical guides, taught 38 practical skills, and trained 1200 people.

Fourth, China demonstrated a full model effect in development of local agricultural resources. Agricultural experts and technicians in the MOYAMBA area constructed 10
acres of fertile farmland and 2.5 acres of intensive fishing pond, which was originally a swamp (FALABA). Moreover, China’s hybrid rice of 431kg per mu was produced, which was 308% higher than the local rice yield. Furthermore, 500,000 high quality tilapia seeds was harvested every year in the fish pond.

Fifth, the Project also focused on promoting the recipient’s technological innovation level. MAKALI project area shouldered the GX-9 new rice variety breeding project covering 30 acres, and reaped 12,000kg of rice seeds; the KONO project area demonstrated planting 1 acre watermelons and produced 8200 kilograms of watermelons; KABALA undertook GX-9 rice new variety breeding and spreading, beekeeping technological transformation, production demonstration and hay storage technology demonstration projects, which were highly appreciated by the government and FAO.

Source: Ministry of Agriculture, China

3. China’s aid architecture and modalities

China’s Aid Architecture

China’s foreign aid architecture has also gone through numerous changes over the last 60 years. During the 1950s, like all other economic activities, foreign aid was managed by the National Planning Commission. After the Bandung Conference (1955), China started to give aid to Africa and significantly increased the number of the countries it supported, thus the National Planning Commission was not able to manage the workload. In 1956, the Chinese government set up the Administration of Foreign Economic Cooperation to be in charge of the foreign aid affairs. In 1964, the Foreign Economic Commission was established, which was developed into the Ministry of Foreign Economy. In 1982, under the organizational restructuring program, the Ministry of Foreign Economy, Ministry of Foreign Trade and Import and Export Management Committee merged into the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), under which it set up the Foreign Aid Department and the Executive Bureau of China’s Foreign Aid (China Whole Set Equipment Export Company), to implement China’s foreign aid program. After the establishment of the Ministry of Commerce (MOFCOM), the International Economic Cooperation Affairs Bureau was created to assist in the management of China’s foreign aid. Since then, foreign aid in China has been managed by the Foreign Aid Department and implemented by the International Economic Cooperation Affairs Bureau in the Ministry of Commerce.

China’s foreign aid policy and decision-making is in the hands of the central government. The State Council oversees the coordination mechanism among the Ministry of Commerce, Ministry of Foreign Affairs, Ministry of Finance and other ministries which implement special sector programs. The Ministry of Commerce works on behalf the State
Council, and proposes foreign aid policies, regulations, overall plans and annual plans, as well as reviewing aid projects and managing project implementation through the Foreign Aid Department, the International Economic Cooperation Affairs Bureau, China International Center for Economic and Technical Cooperation, Training College of MOFCOM and China Import and Export Bank. The Foreign Aid Department is responsible for the foreign aid policies, planning and programming. The International Economic Cooperation Affairs Bureau is responsible for whole set projects and technical cooperation. China International Center for Economic and Technical Cooperation is responsible for material procurements. The Training College of MOFCOM is responsible for training and the China Import and Export Bank is responsible for concessional loan programs.

**China’s Aid Modalities**

China’s foreign aid is operated through bilateral and multilateral channels. Its bilateral aid programs are developed by the request of recipient countries, while multilateral programs are mainly contribute to multilateral institutions such as UN organizations. China’s foreign aid is provided in three main forms, which differs China’s foreign aid with Western aid. The first kind is where the complete program is financed by grant and favorable loans. The International Economic Cooperation Affairs Bureau manages domestic open bids and the contracted companies are responsible for the complete process of the project. This component takes up 40% of China’s foreign aid budget (China’s Foreign Aid White Paper 2011). The second method of China’s foreign aid program involves providing equipments and materials. This includes the provision of machinery, medical equipments, means of transportation, inventories, food and medical products. The third form of China’s foreign aid is the technical assistance program, which includes provision of experts in the areas of industrial development, agriculture, education, sports, medical services, water and sanitation etc. Furthermore, human resource development, overseas medical teams, human and natural disaster relief, overseas volunteers and debt relief are also components of China’s foreign aid programs.

**4. Lessons and Challenges of China’s foreign aid**

Over the last 60 years, China’s foreign aid has expanded from a small number of countries in the 1950s to almost 161 countries. Meanwhile, China also provided support to more than 30 international and regional organizations. Its aid projects cover a wide variety of issues, including agriculture, industry, infrastructure, public facilities, education and medical services. Although China rejects the donor-recipient model, it indeed plays a significant role in international development cooperation. Firstly, China’s foreign aid concentrates on the poor and low income countries. Its aid distribution to those countries covers two thirds of China’s total aid allocation and 80 percent of the aid goes to Africa and Asia. Secondly, its aid program largely concentrates on areas which associate with economic development and livelihood of the recipient countries. Lastly, China also actively works with the international development community to cope with global challenges such as poverty and climate change.
Given its long time engagement with other developing countries, China’s foreign aid has also gained a great deal of experiences and lessons. Firstly, its aid program insists equal partnership. Support is provided only when there is demand from recipient countries. Secondly, its aid program strongly focuses on development effectiveness. Most of its aid programs are linked with growth perspectives, for instance, large numbers of economic infrastructure development. Thirdly, its unconditional aid principle provides a non-interference environment for other developing countries to develop the homemade development agenda. Table 2 shows the overall positive reaction of recipient countries who receive China’s foreign aid.

Table 2 | Evaluation of the Effectiveness of China’s aid

<table>
<thead>
<tr>
<th>Effectiveness</th>
<th>5-most useful</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure construction</td>
<td>39.6%</td>
<td>45.9%</td>
<td>17.6%</td>
<td>11.3%</td>
<td>0</td>
<td>4.6</td>
</tr>
<tr>
<td>Agriculture development aid projects</td>
<td>29.1%</td>
<td>35.4%</td>
<td>19.8%</td>
<td>14.8%</td>
<td>0.8%</td>
<td>3.8</td>
</tr>
<tr>
<td>Private investments</td>
<td>32.7%</td>
<td>23.3%</td>
<td>24.5%</td>
<td>18.6%</td>
<td>0.9%</td>
<td>3.7</td>
</tr>
<tr>
<td>Capacity building</td>
<td>32.8%</td>
<td>16.5%</td>
<td>27.4%</td>
<td>15.0%</td>
<td>8.4%</td>
<td>3.5</td>
</tr>
<tr>
<td>Health and medical services</td>
<td>18.5%</td>
<td>31.5%</td>
<td>27.5%</td>
<td>21.7%</td>
<td>0.8%</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Note: The data is collected from 85 quick appraisal questionnaires. The evaluated are people from Nigeria, Tanzania and some other African countries; some are development officials.

Despite its unique characteristics, China’s foreign aid also faces many challenges. In the past 60 years, China’s foreign aid, especially the aid to Africa has accumulated rich experience that demonstrates a possible alternative or at least complementary to the current international aid architecture. Its growth and development oriented aid strategy, low cost management scheme and transferring its development experiences are well captured by international development community. However, China’s foreign aid is still confined by many aspects.

Firstly, China’s no-interference foreign aid policy confronts with the good governance centered Western aid policy. It affects China’s bilateral relations with its major economic and trade partners. There appears to be a need for China as well as the west donors to develop an inclusive framework to enable China and other Western donors to cooperate in a harmonious manner.

Secondly, China’s foreign aid is managed by the Foreign Aid Department and other agencies. With an increasing workload and limited as well as fragmented organizational structure, its efficiency and effectiveness are significantly constrained by insufficient capacity. The Ministry of Commerce is in charge of the aid program and its Economic and Commercial Counselor’s Offices stationed abroad are not capable of handling the aid projects efficiently. In addition, there lacks an effective evaluation system to have a clear understanding on how these assistance projects perform, and there is even no evaluation
institution to undertake integrated monitoring and evaluations, which directly recede the combined social economic impact of the assistance itself. Furthermore, owing to historical reasons, China’s foreign aid is still in a state of mistiness with poor transparency, which easily makes the international community suspicious of China’s foreign aid programs, and even makes it hard to get support and understanding by the domestic public. Since there lacks the availability of timely information, the international community and local people in Africa might have little information of China’s foreign aid projects, which would easily provoke international public opinion of the China Threat. Moreover, no systematic study on China’s foreign aid has been conducted. The identification of assistance projects and the determination of project contents at present are generally based on the demand of recipient countries. The assistance projects to some extent meet the aspiration of recipient countries, especially to that of government officials, who make the project selection of China’s aid passive and temporary in nature, unfavorable for the standardization and sustainable development of China’s foreign aid programs.

Thirdly, both the non-reimbursable assistance and economic and technical cooperation are faced with the issue of effective integration with poverty reduction targets in African countries.

As for the non-reimbursable assistance, there needs to strong effort making sure that the poor benefit from the aid programs; furthermore joint venture cooperation projects could take the role of pro-poor industries for economic growth. These are new problems faced by China’s aid to Africa. China in this aspect has rich experience; however, it needs further explore how to apply these experiences into China’s aid to Africa. Obviously, the simple principle of setting projects based on the demand of recipient countries cannot reach the goal.

Fourthly, China’s aid mainly focuses on equipment and infrastructure construction, of which the West has long-term experience and lessons in. The biggest problem in the assistance of equipment and infrastructure construction is the maintenance and operation mechanism. Therefore, criticisms to China by the West have some rationality. China’s aid to Africa should pay attention to this issue.

Lastly, China is faced with environmental concerns as economic assistance and joint venture cooperation increases, of which China has tremendous experience in, during its development of the past three decades. China should avoid negative impact on the environment which might be caused by its large-scale investment and assistance in Africa. Rigid environmental assessment should be embarked for China’s various aid to Africa.
References


Chapter 4
India and Development Cooperation Policy

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1. Introduction

Since independence, India has followed certain principles which have emerged as pillars of India’s foreign policy. The two most important elements of this policy framework are national sovereignty and independence. The emergence of Non-Aligned Movement (NAM) was ultimately an opportunity to assert for sovereignty and independence for thinking beyond the power blocs. The NAM was not an end in itself but was basically an instrument through which national governments could devote their energy and resources towards their economic and social betterment. The idea of the NAM, which was later called South-South Cooperation (SSC), re-strengthened the Indian commitment for fellow member countries.

It was immediately after Independence that India extended support to other developing countries as a part of commitment for SSC. Education and health were the two sectors which occupied key place in Indian priorities for development cooperation. The Government of India in 1949 established 70 scholarships, which was increased to 100 in 1952 with the objective of promoting cultural relations with other countries of Asia and Africa and for providing facilities for higher education to students from those countries.21 Similarly in 1952, about 200 Indian doctors were sent to Myanmar for establishing preliminary health services.22 Later the health services related support was also expanded to other neighbouring countries.

There are two interesting features one can locate in the evolution of Indian development cooperation, which are key components of the current ‘aid-effectiveness’ agenda viz.

21 MEA (1950)
22 MEA (1953)
budgetary support instead of project-based funding and triangular cooperation. In both these areas, India took measures for establishing important partnerships.

The year 1959-60 was a turning point in the history of India’s outgoing aid program.23 It was at this point India decided for program-based support of various aid activities in Nepal and Bhutan. In the case of Nepal, in 1960-61, India also agreed to provide support to Nepal’s Second Plan with aid of Rs. 180 million. This was the first support to the neighbouring country for implementing its five year planning process. In case of Bhutan, an annual grant of Rs. 0.7 million in subsidies was provided from 1960 onwards. This was largely to support the government of Bhutan in formulating their development planning. This assistance was given in addition to a sum of Rs. 0.5 million that was paid annually to the Bhutanese government under the 1949 treaty for facilitating implementation of various projects. India supported formulation of the Fourth Five Year Plan of Nepal and provided assistance for the Plan.24 India has contributed to the Five Year Planning (FYP) process of Bhutan since the First FYP support was extended by India. The support for the Second FYP was with an outlay of Rs. 200 million, which was entirely supported by India apart from services of specialists and experts for finalising the priorities and features of the plan.25 Subsequently, India also supported the Third and the Fourth FYP 1971-1976 and 1976 to 1981 with a support of Rs. 330 million and Rs. 760 million respectively.26 Similarly, India provided an assistance of Rs. 2000 million in 1973 when Bangladesh had to start its First Five Year Plan of economic reconstruction and development.27

The idea of triangular cooperation is also not new for India. The Tripartite Road construction project was undertaken jointly by Nepal, India and the USA for construction of 900 miles of road for economic support to Nepal.28 This covered Kathmandu-Trishuli road (38 miles) and Kathmandu-Sidhauli-Janakpur road. Similarly in 1958-59, the Government of India provided a sum of Rs. 50000 out of the Indian aid funds towards the cost of freight on a shipment of 1000 tons of wheat given by Canada to Nepal as aid under the Colombo Plan.29 In June 1958, a tripartite Tele-communications Agreement between the Governments of Nepal, the USA and India was signed at Kathmandu to improve the Tele-communication network between Kathmandu-New Delhi and Kathmandu-Calcutta and provide Nepal with an efficient internal tele-communication system.

Over the years the Indian Technical and Economic Cooperation (ITEC) initiative has emerged as the flagship program of the Ministry of External Affairs (MEA). This was originally launched in 1964, and it has provided supplemental support over the years to the Special Commonwealth Assistance for Africa Programme (SCAAP). It now appears that the SCAAP is likely to be absorbed into the ITEC. The ITEC aims to help fellow developing countries to overcome their limitations in the science and technology sectors, which depends crucially on having adequate numbers of trained personnel. India has provided over USD 2 billion in technical assistance to developing countries through the

23 GOI, 1959-60 (Education)
26 MEA (1973) pp:19; MEA (1980) pp:05
28 MoF (1958)
29 MEA (1959)
ITEC program since its inception. In 2011-12, ITEC is planning to offer 6500 training slots for civilians at 270 courses at 47 public and private institutions in India.

With visionary leadership of Pandit Nehru, India embraced cosmopolitanism and promoted similar values for neighbouring countries. India supported Bhutan’s application for membership of the UN in 1970 which eventually materialized in 1971. India participated with Bangladesh in organizing a conference in Dhaka in January 1973 under the auspices of UNDP for establishment of ‘Jute International’ for coordinating all matters dealing with jute including research, manufacturing and marketing. India also supported Nepal’s membership to the UN.

The 2003 decision of the Indian government of setting up of an Indian aid agency was an important milestone when the then Finance Minister Mr. Jaswant Singh of the National Democratic Alliance (NDA) government, announced the new features for India’s aid policy, during his presentation of the annual Budget for the country. Apart from enhancing the quantum of outgoing aid, it cancelled debt of four countries and emphasized on entrepreneurship development in the partner countries. It also launched the India Development and Economic Assistance Scheme (IDEAs) with the objective of promoting India’s political and strategic interest through provision of concessional lines of credit (LoCs) to select developing countries. These LoCs were with the idea of promoting India’s export of projects, goods and services for infrastructure development and capacity building in the partner countries. This had to be administered through Export-Import Bank of India (EXIM Bank). EXIM Bank has major operations in Sub-Saharan Africa, which constitutes almost 54 per cent of its lending, followed by South Asia (35 per cent), and then rest of Asia (6 per cent). As on August 31, 2010, the total LoC commitment was USD 5.3 billion, covering 143 LoCs in 94 countries in Africa, Asia, CIS, Europe and Latin America. During the recent Africa Summit, India announced that it would increase its lines of credit for projects from USD 2.15 billion to USD 5.4 billion.

With the economic resurgence and 8.1 per cent growth in real gross domestic product in the consecutive fourth year, and successful nuclear tests, the Indian government in the years 2003-04 announced a major shift in India’s external aid policy. This in a way was self-assertion as the government indicated successfully coming out of the economic sanctions and freezing of bilateral assistance by almost all the donors, subsequent to the nuclear testing. As a follow up to the budget announcement made in 2003-04, the Government of India reviewed its policy of Bilateral Development Co-operation in September 2004 to affirm the liberalization and reform orientation in India’s economic policy. Revised guidelines in this regard were issued in January 2005.

In light of these initiatives introduced by the previous government, therefore preconditioned the 2007 announcement of the Indian Finance Minister under the United

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30 Annual Report, Ministry of Finance, 2005-06. See Kumar (1987) for an early account of the programme.
31 MEA (2011)
Progressive Alliance (UPA) government that it would establish the India International Development Cooperation Agency (IIDCA) to provide unified administration of the country’s outgoing development assistance. One guiding principle for the new Agency was that India’s assistance would be directed especially at developing countries that are in greater need of external aid than India. The Agency so far has not taken off and in between discussions include that the name would be changed to Indian Agency for Partnership in Development (IAPD).35

Another important feature of India’s outgoing assistance is to support regional organizations and creation of global public goods. In this context, establishment of the India-Brazil-South Africa (IBSA) Fund assumes importance. With the initial contribution of USD 1 million each, the Fund was established in 2004. The Fund has been used by the IBSA members to develop programs that aim specifically at supporting the improvement of medical clinics in Africa and elsewhere. Experts from the IBSA countries and their national partner institutions have jointly assessed the Burundi health care system to determine how it can be improved in the fight against HIV/AIDS, drawing specifically from the national models and experiences of IBSA countries.36 The IBSA Fund has been used to rehabilitate and properly equip two healthcare centers in a remote area of the island of Sao Nicolau, Cape Verde, and to construct a water desalination plant that will provide safe drinking water to the population of Sao Nicolau.37

India has become the host country for two major Asian regional research centers for advanced technologies, namely the International Center for Genetic Engineering and Biotechnology (ICGEB), and the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT). Both institutes play a substantive role in coordinating and supporting regional-wide research in areas of medicine and agriculture in Asia. India also hosts the Asia-Pacific Centre for Transfer of Technology (APCTT). These institutions operate under the UN umbrella. India is furthermore contributing to the UN Democracy Fund, which plays an important role in strengthening democratic institutions around the world. India is the second largest contributor to this Fund with USD 20 million.38 The Fund supports various projects for developing democratic institutions in different countries. India’s overall contributions to the UN’s special agencies are especially noteworthy among the major developing countries. India’s grant contributions to the UN agencies were almost 1 per cent (Rs 160 million) of their total budgets for 2006-07.

35 There is no stated policy on this, but on public platforms the expression “development partnership” is being encouraged, though there are several documents which use expressions like “aid” and “development cooperation.”
36 RIS 2008.
37 UNDP 2009.
38 MEA Annual Report 2009-10.
2. Principles for Development Cooperation

Since independence, India has shown sincere commitment for SSC and for this all possible support has been sustained. This included support for technical and economic cooperation including establishment of institutions. These measures are part of India’s pragmatic foreign policy which has elements of win-win strategy embedded in the overarching framework of SSC.

Commitment for South-South Cooperation

As discussed earlier India has shown keen interest in supporting and developing cooperation with other developing countries. The institutional framework that came up in India was to strongly support SSC. India opted for hosting several international institutions like ICGEB, ICRISAT, APCTT, UNESCO Regional Centre for Biotechnology, etc. for which necessary funding comes from the host government. In the recent past, the IBSA fund has played a substantive role in expanding linkages with various least developed countries (LDCs).

TCDC and ECDC as Instruments

India has incorporated commitment for TCDC (Technical Cooperation among Developing Countries) and ECDC (Economic Cooperation among developing Countries) in India’s technical and economic co-operation programs in fields such as medicines, small-industries, mini-hydel power projects and other infrastructural support projects. India is a member of the Colombo Plan where it plays a dual role of receiving aid from advanced countries notably Canada, the UK, Australia and New Zealand and at the same time it also extended aid to other member countries that were in need of it, mainly countries of South Asia. Such technical aid includes the grant of scholarships in India for technical training. The Colombo Plan was launched on July 1, 1951 by the Commonwealth countries for collective upliftment of the people of South and South-east Asia. Since the plan for cooperative economic development in the region was decided in Colombo, this initiative is called the Colombo Plan. As part of this initiative, Malaysian and Indonesian experts were trained at various local institutions of excellence.

Institution Building

In expanding its development cooperation linkages in various parts of Africa and Latin America, India has tried to consolidate the flow of funds through effective partnerships. The first India-Africa Forum Summit, held in Delhi in 2008, produced a framework of cooperation that was later translated into an action plan that committed it to the establishment of new cooperative bodies (see Table 1). The India-Africa Institute of Foreign Trade was to meet within the next five years in Kampala, Uganda while Burundi would host the Institute of Education Planning and Administration, which would train professionals to plan and manage higher education across Africa. Ghana hosts the India-Africa Institute of Information Technology while the Diamond Institute would be in Botswana.
Table 1 | Newly Established Indian Institutions in Developing Countries

<table>
<thead>
<tr>
<th>Institute</th>
<th>Purpose</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diamond Institute</td>
<td>Training for diamond polishing</td>
<td>Botswana</td>
</tr>
<tr>
<td>India-Africa Institute of Foreign Trade</td>
<td>MBA and related diploma courses in foreign trade</td>
<td>Uganda</td>
</tr>
<tr>
<td>India-Africa Institute of Information Technology</td>
<td>Professional courses in ICT</td>
<td>Ghana</td>
</tr>
<tr>
<td>Institute of Education Planning and Administration</td>
<td>Train professionals to plan and manage growth of higher education</td>
<td>Burundi</td>
</tr>
<tr>
<td>Institute for Telemedicine</td>
<td>Specialized training for doctors</td>
<td>Ethiopia</td>
</tr>
<tr>
<td>Entrepreneurship Development Centre</td>
<td>Training in economically active sectors</td>
<td>Senegal</td>
</tr>
<tr>
<td>Plastic Technology Training Centre</td>
<td>Designing, tool room, processing division and testing centre for the plastics industry</td>
<td>Namibia</td>
</tr>
<tr>
<td>Vocational Training Centre for Small and Medium Enterprises</td>
<td>Training in economically active sectors</td>
<td>Zimbabwe</td>
</tr>
</tbody>
</table>

Source: Chaturvedi Forthcoming.

3. Priorities

The regional focus for India’s outgoing assistance, its South Asian neighborhood, was very clear right from the inception of the program. Afghanistan received a lot of assistance right in the beginning with several programs for improving infrastructure. For example, India established aeronautical and meteorological facilities at the Kabul and Kandahar airports during the year 1959 and also deputed Indian aeronautical and meteorological staff at these establishments. With the Indian support, a Radio Tele-communication network was also established as a part of India-Afghan Bilateral agreement on Radio Tele-communication.39 More recently, India’s aid has elevated, placing India at the top tier of donors for Afghanistan. In terms of pledged donations through 2013, India now ranks fifth behind the U.S., U.K., Japan and Canada, according to the government of Afghanistan.40

As is clear from Table 2, in the South Asian neighborhood, Bhutan has received the largest amounts of aid and concessional loans, followed by Bangladesh and Nepal. Recently, India announced a credit line of USD 1 billion to Bangladesh for strengthening its infrastructure during Prime Minister Sheikh Hasina’s recent visit to New Delhi. This was the highest-ever credit line extended by India to any country.41 This credit line will be used for railway infrastructure, supply of broad gauge locomotives and passenger coaches, rehabilitation of Saidpur workshop, procurement of buses and dredging projects.

39 MEA (1959).
40 Wonacott, Peter (2009).
41 Hindu (2010).
India has also substantially stepped up assistance for disaster relief as is evident from the Table 2 but the more important point here is the Indian leadership in this area in favor of UN led aid programs. At the time of Tsunami across various countries in Asia, the Indian Navy launched simultaneous aid operations in Sri Lanka, Maldives and Indonesia. India provided USD 25 million and one thousand Indian relief personnel with five naval ships to Sri Lanka.42 Similarly, USD 1 million to Maldives and same amount for Indonesia but when the US invited India to join the US-Japan-Australia core group, India suggested that the core group may supplement India’s efforts within the larger efforts being made by the United Nations.43

Table 2 | Current Outflow of India’s Development Assistance (1990-2011)

<table>
<thead>
<tr>
<th></th>
<th>1990-91</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>110.5</td>
<td>13.7</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Bhutan</td>
<td>702.9</td>
<td>14172.2</td>
<td>17230</td>
<td>16900</td>
</tr>
<tr>
<td>Nepal</td>
<td>519.9</td>
<td>1611.4</td>
<td>1500</td>
<td>1500</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>689.6</td>
<td>900</td>
<td>2900</td>
<td></td>
</tr>
<tr>
<td>Maldives</td>
<td>29.2</td>
<td>110</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Myanmar</td>
<td>495</td>
<td>900</td>
<td>1900</td>
<td></td>
</tr>
<tr>
<td>Aid to Other Developing countries</td>
<td>1076.3</td>
<td>719.1</td>
<td>343.5</td>
<td>350</td>
</tr>
<tr>
<td>Aid for Disaster Relief</td>
<td>460.6</td>
<td>1550</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>ITEC</td>
<td>134.1</td>
<td>946.1</td>
<td>1200</td>
<td>1200</td>
</tr>
<tr>
<td>SAARC Program</td>
<td>234.3</td>
<td>80</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>SCAAP &amp; Colombo Plan</td>
<td>124</td>
<td>210</td>
<td>230</td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>90</td>
<td>1258.1</td>
<td>1500</td>
<td>1500</td>
</tr>
<tr>
<td>Multilateral Economic Relation Program (MER)</td>
<td>65.6</td>
<td>130</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Investment Promotion and Publicity Program</td>
<td>6.9</td>
<td>42.1</td>
<td>41.1</td>
<td></td>
</tr>
<tr>
<td>Eurasian Countries</td>
<td>72.5</td>
<td>300</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Aid to Latin American Countries</td>
<td>1</td>
<td>40</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Aid To Afghanistan</td>
<td>2234</td>
<td>3100</td>
<td>2900</td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td>1215.5</td>
<td>..</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan</td>
<td>4225</td>
<td>4720</td>
<td>..</td>
<td></td>
</tr>
</tbody>
</table>

Source: Government of India Expenditure Budget, Vol. 2, Ministry of Finance; Loan is from MEA Annual Reports.

**Thematic Priorities**

43 Ibid.
There is no single document which states India’s thematic priorities. However, with various funded projects it becomes clear that over the years India has accomplished capacity for conducting human resource development programs with particular emphasis on training and skills development. Creation of relevant institutions and development of health and medical facilities with a focus on SMEs, or enterprise development, has also received considerable attention.

India played a key role in shaping some of the key institutions, for instance India played a key role in defining the role and scope for UNCTAD, particularly its strategic role for transforming new concepts in the evolution of international cooperation. During the Indian Chairmanship of Group of 77 (G-77) at New York, India emphasised for necessary political direction for UNCTAD and at the same time pledged USD 3.75 million for the UNDP. India also led other developing countries to support the working of the Office of the United Nations High Commissioner for Refugees in 1971 with a pledge of USD 150 thousand. India contributed USD 5 million in 1980 to the Commodity Development Fund for supporting measures other than buffer stocking of commodities.

India established primary health centres for distributing essential medicines to the local population in Nepal along the Sonauli-Pokhara road which was also supported by India. Apart from improving health infrastructure in partner countries, India also helped countries to fly their people into India for quick access to the Indian medical infrastructure. For instance in 1970, India decided to fly in several patients from People’s Democratic Republic of Yemen to New Delhi for treatment. India signed an agreement in Nepal in February 1973 for the distribution of iodised salt for a period of five years from 1972-73 to 1977-78 at a cost of Rs. 12.5 million. In the same year India supported two hospitals at Tulihawa and six Health Posts. In Afghanistan, India funded a 100-bed hospital for children as far back as in 1972. Along with this a team of 20 Indian doctors was also sent for initial capacity building. India has a strong base in traditional medicine, which it has delivered for the last several centuries. One of the systems is of Ayurveda. India has supported construction of establishments for promoting Ayurveda across several countries, for example, in 1970 India supported Myanmar to open an Ayurvedic college and sent an Indian delegation for facilitating the establishment.

Indian aid for development for village and cottage industries in Nepal was initiated in 1967-68. A sum of Rs. 3.1 million was spent from 1967-68 to 1972-73. As a part of this scheme small industrial clusters came up in Nepalganj and Dharan.

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44 MEA (1971) pp:58-59
45 MEA (1971) pp:60.
4. Case Studies

In this section, we would like to highlight two important initiatives by India for bringing in different levels of commitment and national economy building for partner countries. In the Small Development Project (SDP) in Nepal, India has specifically tried to support projects which are to serve individual community and are aimed for improving village infrastructure. The other case study we present is from the CLMV (Cambodia, Laos, Myanmar and Vietnam) region, where India has launched entrepreneurship development centers (EDCs).

**Small Development Project (SDP) Program in Nepal**

Since 2003 India introduced a relatively new program for promoting direct interaction with communities on development issues. This program was called as Small Development Project (SDP) program. The idea was to ensure that economic deliverables, particularly in the areas of education, health and infrastructure, are supported through this program.

As per the available details on SDP, projects costing less than Rs. 3.12 crores (USD 0.7 million) and with focus areas like infrastructure development and capacity building in the areas of education, health, community development are generally approved. The projects should be based on local needs, and be managed through the participation of community and local bodies from Nepal. The objective should be to ensure that development work should be directly linked with the beneficiaries with minimum overheads and direct involvement of stakeholders with wider community audit. The projects are expected to have short gestation periods, as well as the modality being simple and transparent with due flexibility. The important feature is that the overhead costs are not transferred to the partner country and is absorbed by India. People are directly involved in identifying the projects and in their implementation which helps to avoid need for monitoring and evaluation.

At this stage, Nepal has 372 SDPs working out of which 169 have already been completed and 203 are still in progress. They cover nearly 70 districts in Nepal out of the total of 75 districts spread across 14 administrative zones. The total quantum of assistance provided by India is somewhere around USD 87 million. The government has adopted this model in Afghanistan and Sri Lanka and now the plan is to replicate them in a major way in other developing countries.

**Entrepreneurship Development Centers**

As discussed earlier, the development cooperation initiative of India has a predominant focus on capacity building and human resource development through its flagship program viz. Indian Technical and Economic Cooperation Program (ITEC). During the visit of an Indian delegation to CLMV countries for providing vocational training in 2003-04, a specific request came from these countries to establish entrepreneurship development centers (EDCs).
development centers (EDC). In 2004, the government of India, through India-ASEAN Initiatives of ASEAN Secretariat provided assistance to establish Lao-India Entrepreneurship Development Centre (LIEDC) in Vientiane, Lao PDR.

This initiative became the epicenter for the CLMV region. Subsequently, similar centers came up in Hanoi, Vietnam (2005), Cambodia (2006) and Myanmar (2009). The establishment of these centers were monitored and facilitated by India. These centers have not only helped to create conducive environments for entrepreneurship development in their respective countries, but also helped each other in several different ways in introducing entrepreneurship training programs for specific niche areas. The Indian EDCs provide an important support for linking up skills with entrepreneurship related activities. The EDCs are open for individuals with specific business inclinations, who are able to earn adequate remuneration with little business orientation and training.

The capacities of these centers have been developed through ITEC programs at India’s own institution, Entrepreneurship Development Institute (EDI), situated in the North-Western city of Ahmedabad. This institution is under the Ministry of Micro, Small and Medium Enterprises (MSME). The Prime Minister of India recently announced setting up of five more such centers in the African region. Some of the centers are even getting assistance from SDC, GTZ, ILO, UNDP, EU and other multilateral agencies for organizing training programs.

The specific challenge that EDCs are facing is in terms of pragmatism that is required in sustaining the centers. According to the initial MoUs, the Indian government had to provide initial support for a definite period of time and then the local governments had to take over the management. In case of Laos and Cambodia, somewhere in 2008, the MoU period was over and with that the commitment of the Indian government was also over. Since then the local governments are paying for the salaries of the staff but there is no additional fund for meeting out any kind of overhead costs. This aspect, it seems, was not visualized earlier. Moreover in case of Laos, a governing board is in place to suggest a way out but this is not the case in Cambodia, and hence the challenges before CIEDC are far more pressing. This case suggests necessity of proper planning for exit from such joint projects, if that is at all an option.

5. Policy Challenges

With the expansion in the quantum of bilateral assistance by India and other emerging economies, it may be expected that a new setting with different terms and conditions may emerge for recipient countries. The fact that the very nature of aid is for mutual gain and that most of it is free from pre-conditions and over-head costs, acceptability of it is likely to increase. This transformation of aid scenario would have long term implications on how the whole process of aid has been viewed so far. It is expected that the emergence of India,
along with other new actors at the global economic horizon, may transform the approach to
development assistance in a major way.

However, there are some issues, particularly for India, pertaining to the management
and direction of aid flows. Over the years it has been the Ministry of External Affairs
(MEA), which administered the outgoing development cooperation from India. The
presence of one ministry makes the whole exercise more appropriate and feasible as
coordination challenges at the inter-institutional levels may be avoided but as is evident,
this has not helped in establishing synergies across various programs with input from
different ministries. As is evident from the Laos case study, a more comprehensive
approach would have helped India in making a much bigger impact and increase visibility
of various aid programs. The recent institutional changes in Norway, Japan, South Korea
and the Netherlands are clear examples of this growing trend. Also, in case of the US,
USAID is responsible for managing strategy, policy and feedback and also for its full
implementation. India needs to bring in professionalism in administration of aid without
loosing the current strengths of India’s partnership programs.

India and the other emerging economies face certain conceptual and practical issues so
as to chart-out a global march in this area. The global response to the long-standing debate
on different aspects of aid is being deliberated upon at various international fora. This
process has further been catalyzed by the emergence of large developing economies, which
have multiplied their contributions for development cooperation. In this context global
efforts are required to tap most optimum advantages of the enhanced aid flows. It depends
in what direction for which global challenges these flows may be directed. Since almost all
the emerging economies have refused to be part of the DAC, it is not clear to what extent
emerging economies would support and evolve the UN led Development Cooperation
Forum (DCF).
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Chapter 5
Korean ODA:
From Recipient to Donor

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Professor
Gangneung-Wonju National University

1. Introduction

Korea is often referred to as a sole paragon example in which a recipient country of development assistance transformed to a donor country within a generation. Korea’s rapid economic growth has become an inspirational model for many developing countries around the world. It overcame the devastating poverty and sufferings under the Japanese colonial rule and the Korean War. Now, Korea has become the 14th largest economy in the world and it officially became the 24th member of Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (OECD) in January, 2010.

As a country with unique experiences of shifting its status from a developing to a developed country, the Korean government has announced to promote better development assistance in both quantity and quality. In particular, Korea pledged to increase the portion of Official Development Assistance (ODA) to Gross National Income (GNI) from 0.12% in 2010 to 0.15% in 2012 and 0.25% in 2015 (MOFAT, OECD 2008).

In order to provide an overview of Korea’s development cooperation and suggestions to strengthen Korea’s aid effectiveness, the paper will briefly deal with the overall spectrum of Korea’s ODA including history, principles, system and future tasks.

53 Based on Gross Domestic Product (GDP) for 2010 (Source: World Bank Database).
2. Overview and History of Korea’s ODA

2.1. Korea as a recipient country

Korea’s history as a recipient country began with its independence in 1945. However, a surge of foreign assistance started when the Korean War broke out in 1950. The war-torn country was endowed with resources from major donors such as the United States and multilateral organizations to relieve its people from poverty. Korea relied heavily on foreign assistance in rebuilding its economy, receiving a total of around USD 13 billion from 1945 until the late 1990s when it was officially declared as no longer a recipient country (EDCF 2006).

Table 1 shows the specific amount of aid Korea received from 1945. During the 1940s and 50s, Korea received majority of its aid in the form of grant aid, in which the United States was the biggest donor. At the time, aid was utilized to lower inflation, secure financial stability and invest in industrial facilities (ODA Korea).

<table>
<thead>
<tr>
<th>Aid Types</th>
<th>1945-60</th>
<th>1961-75</th>
<th>1976-90</th>
<th>1991-99</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD Billion</td>
<td></td>
<td>USD Billion</td>
<td></td>
<td>USD Billion</td>
</tr>
<tr>
<td>Aid Flows</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bilateral Aid</td>
<td>2,518.4 (81.3%)</td>
<td>3,777.3 (95.8%)</td>
<td>3,312.2 (94.3%)</td>
<td>2,200.0 (98.8%)</td>
<td>11,807 (92.4%)</td>
</tr>
<tr>
<td>Multilateral Aid</td>
<td>579.5 (18.7%)</td>
<td>164.1 (4.2%)</td>
<td>198.6 (5.7%)</td>
<td>26.2 (0.2%)</td>
<td>968.4 (7.6%)</td>
</tr>
<tr>
<td>Total</td>
<td>3,097.9 (24.2%)</td>
<td>3,941.4 (30.8%)</td>
<td>3,510.8 (27.5%)</td>
<td>2,226.2 (17.4%)</td>
<td>12,776.3 (100%)</td>
</tr>
</tbody>
</table>

Source: ODA Korea Homepage

Then from the 1960s, the amount of concessional loan surged with the enactment of the Foreign Investment Promotion Act in January 1960, through which Korea vigorously attracted foreign investment. The fund was effectively and efficiently channeled to carry out the Five Year Economic Development Plans launched by the Korean government, becoming a crucial resource for government capital, investment, industrial infrastructure and technological development (EDCF 2006; ODA Korea). Then from the late 1970s, Korea received sector loans and structural adjustment loans for the development of particular sectors and overall economic and industrial structure (ODA Korea).

As Table 1 indicates, not only did Korea receive abundant amount of concessional loans, but it also received larger sums of bilateral aid. The major sources of bilateral aid were from the United States and Japan who accounted for over 90% of the entire amount. The United
States is believed to have actively participated to ward off the spread of colonialism in addition to its attempt to play a role in Korea’s economic policy (Kim, N.K. 2011), while Korea reached out to Japan to normalize diplomatic and trade relations in part to recoup declining aid from the United States. The Korean government also anticipated commercial loans and technology transfer that could spurt Korea's export and economic boom (Kholi 2004).

Concessional loans were crucial in establishing economic infrastructure and industrialization and a dominant share was invested in building social overhead capital (EDCF 2006; Kim 2011).

Major multilateral donors for grants include the Civilian Relief in Korea (CRIK), the United Nations Korea Reconstruction Agency (UNKRA) and the World Food Programme (WFP), who played a critical role particularly until the 1960s in stabilizing the Korean economy. Their aid was primarily used as emergency relief and reconstruction funds (Choi 2011; Kim N.K. 2011). Korea also received concentrated amount of financial assistance in the late 1990s from the International Bank for Reconstruction and Development (IBRD) during the Asian Financial Crisis. Due to insufficient government budget and the poverty stricken national economy, grant was primarily utilized for stabilization than investment (EDCF 2006).

2.2. Korea as a donor country

At the same time, under the financial support from multilateral and other donor agencies, Korea began contributing to international development from the 1960s by providing technical training, which expanded substantially in the 1980s, offering a wider range of training, seminars, etc (Lumsdaine et al. 2007). The International Development Exchange Program (IDEP), the first technical cooperation program financed purely by the Korean government, was launched at the Korea Development Institute in 1982 as a form of Technical Cooperation among Developing Countries (TCDC). Then the concessionary loan facility, named the Economic Development Cooperation Fund (EDCF) was established in 1987, followed by the creation of the Korea International Cooperation Agency (KOICA) in 1991 to allocate grants.

As Table 2 shows, the scale of Korea’s ODA until late 1990s remained small. It was only after 2000 when the volume leaped by a great amount and in 2010, the total amount surpassed USD 1,000 million, increasing by nearly five-fold from 2000. Compared to other OECD DAC member countries, Korea is still a small donor. In 2010, its ODA/GNI ranked the lowest with 0.12%, whereas Portugal allocated 0.29% of ODA/GNI and Italy was the second lowest by 0.15%. In terms of volume, it was the 6th lowest donor. However, as part of its endeavor to eradicate poverty, Korea will continuously expand its contribution to the international community as promised at the time of acceding to the DAC.

In terms of the types of ODA, Korea allocates bigger amount of bilateral aid and concessional loans than grant and multilateral aid. This may be attributable to Korea’s positive experience as a recipient country that achieved economic growth from concessional loans, believing in fiscal discipline of the recipient country (OECD 2008).
However, Korea is to follow the DAC Recommendation on Terms and Conditions of Aid which recommends the member countries to raise the overall grant element to 86% (OECD 2008).

### Table 2 | Korea’s ODA Disbursement

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA (Total)</td>
<td>89.4</td>
<td>116.0</td>
<td>159.2</td>
<td>185.6</td>
<td>182.7</td>
<td>317.5</td>
<td>212.1</td>
<td>264.7</td>
</tr>
<tr>
<td>Bilateral Aid</td>
<td>41.8</td>
<td>71.5</td>
<td>123.3</td>
<td>111.3</td>
<td>124.7</td>
<td>131.4</td>
<td>131.2</td>
<td>171.5</td>
</tr>
<tr>
<td>- Grant</td>
<td>26.1</td>
<td>50.1</td>
<td>53.4</td>
<td>54.8</td>
<td>37.2</td>
<td>39.0</td>
<td>47.8</td>
<td>53.0</td>
</tr>
<tr>
<td>- Concessional Loan</td>
<td>15.7</td>
<td>21.4</td>
<td>69.9</td>
<td>56.6</td>
<td>87.5</td>
<td>92.4</td>
<td>83.4</td>
<td>118.6</td>
</tr>
<tr>
<td>Multilateral Aid</td>
<td>47.6</td>
<td>44.5</td>
<td>35.9</td>
<td>74.3</td>
<td>58.0</td>
<td>186.1</td>
<td>80.9</td>
<td>93.1</td>
</tr>
<tr>
<td>ODA/GNI(%)</td>
<td>0.24</td>
<td>0.02</td>
<td>0.03</td>
<td>0.04</td>
<td>0.06</td>
<td>0.08</td>
<td>0.05</td>
<td>0.06</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA (Total)</td>
<td>278.8</td>
<td>365.9</td>
<td>423.3</td>
<td>455.3</td>
<td>699.1</td>
<td>802.3</td>
<td>816.0</td>
<td>1168</td>
<td></td>
</tr>
<tr>
<td>Bilateral Aid</td>
<td>206.8</td>
<td>245.2</td>
<td>330.8</td>
<td>463.3</td>
<td>376.1</td>
<td>490.5</td>
<td>539.2</td>
<td>581.1</td>
<td></td>
</tr>
<tr>
<td>- Grant</td>
<td>66.7</td>
<td>145.5</td>
<td>212.1</td>
<td>318.0</td>
<td>259.0</td>
<td>361.3</td>
<td>368.7</td>
<td>367</td>
<td></td>
</tr>
<tr>
<td>- Concessional Loan</td>
<td>140.1</td>
<td>99.7</td>
<td>118.7</td>
<td>145.3</td>
<td>117.1</td>
<td>132.2</td>
<td>170.6</td>
<td>214.1</td>
<td></td>
</tr>
<tr>
<td>Multilateral Aid</td>
<td>72.0</td>
<td>120.7</td>
<td>92.6</td>
<td>289.0</td>
<td>79.2</td>
<td>205.6</td>
<td>263.1</td>
<td>234.9</td>
<td></td>
</tr>
<tr>
<td>ODA/GNI(%)</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.10</td>
<td>0.05</td>
<td>0.07</td>
<td>0.09</td>
<td>0.10</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Note: Data for 1990-1994 is of average. All data are disbursement based.
Source: Ministry of Foreign Affairs and Trade
Korea Exim Bank EDCF Database
OECD International Development Statistics Database

### 2.2.1. South Korea's Assistance to North Korea

One idiosyncratic feature of South Korea’s ODA that distinguishes itself from other donor countries is South Korea’s assistance to North Korea. South Korea’s assistance to North Korea is not formally reported to DAC nor counted as ODA. However, when combining the sum of ODA and support to North Korea, the total would surpass the amount of ODA by other DAC donors such as Finland, Greece, Ireland, Luxembourg, New Zealand and Portugal, especially from 2002 to 2007 when the volume of aid to North Korea was comparable to Korea’s ODA. This is well illustrated in Table 3.
Table 3 | South Korea’s Assistance to North Korea  
(Unit: USD Million)

<table>
<thead>
<tr>
<th>Aid Types</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA (a)</td>
<td>278.8</td>
<td>356.9</td>
<td>423.3</td>
<td>952.3</td>
<td>455.3</td>
<td>699.1</td>
<td>802.3</td>
<td>816.0</td>
<td>1168</td>
</tr>
<tr>
<td>Aid to N.K (b)</td>
<td>257.8</td>
<td>283</td>
<td>369.5</td>
<td>383.3</td>
<td>311.9</td>
<td>473.2</td>
<td>105.5</td>
<td>52.6</td>
<td>28.7</td>
</tr>
<tr>
<td>Government</td>
<td>Grant</td>
<td>91.1</td>
<td>92.0</td>
<td>114.7</td>
<td>132.8</td>
<td>237.7</td>
<td>213.4</td>
<td>39.7</td>
<td>23.0</td>
</tr>
<tr>
<td></td>
<td>Food</td>
<td>120.7</td>
<td>126.7</td>
<td>118.7</td>
<td>174.5</td>
<td>0</td>
<td>162</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Private</td>
<td>Grant</td>
<td>46.0</td>
<td>64.3</td>
<td>136.1</td>
<td>76.1</td>
<td>74.2</td>
<td>97.8</td>
<td>76.8</td>
<td>29.5</td>
</tr>
<tr>
<td>Total (a+b)</td>
<td>536.6</td>
<td>639.9</td>
<td>792.8</td>
<td>1321.8</td>
<td>767.2</td>
<td>1172.3</td>
<td>907.8</td>
<td>868.6</td>
<td>1196.7</td>
</tr>
</tbody>
</table>

International Comparison

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>462.2</td>
<td>558.5</td>
<td>679.9</td>
<td>901.9</td>
<td>834.4</td>
<td>981.3</td>
<td>1165.7</td>
<td>1290.2</td>
<td>1335.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>397.8</td>
<td>503.6</td>
<td>607.4</td>
<td>718.9</td>
<td>1021.7</td>
<td>1192.2</td>
<td>1327.9</td>
<td>1005.8</td>
<td>895.2</td>
</tr>
</tbody>
</table>

Note: Aid to North Korea was re-calculated from Korean Won to USD based on the annual exchange rate.  
Source: OECD International Development Statistics Database (ODA)  
Korea National Statistical Office (Aid to North Korea)

There has been effort to incorporate aid to North Korea as part of South Korea’s ODA. Proponents of this position argue that because ODA includes consultation and technical cooperation, it can strengthen the relationship between the two Koreas and enhance aid effectiveness than mere delivery of monetary and food aid. Furthermore, ODA is more suitable in meeting basic human needs and providing social and economic infrastructure of North Korea, which lack under the current aid system that focuses on emergency humanitarian relief (Kang 2008). South Korea can also contribute better aid with its accumulated experience of supporting fragile low-income states including Iraq. Therefore, transforming current assistance to ODA will ultimately lead to better partnership and strengthen aid effectiveness (Chun et al. 2010).

On the other hand, surrounding complex political circumstances makes it difficult to combine both types of aid. For instance, should aid to North Korea be transformed to ODA, then aid cannot be used as leverage and it may create complications as aid to North Korea is not to a foreign country under the Constitution (Unification Korea 2009). Moreover, the premise of ODA is that allocated aid is monitored and evaluated, which is difficult to achieve with North Korea. North Korea itself may not cooperate, wishing not to disclose its internal affairs for the possibility of political instability. Furthermore, establishing stable public support on the issue is indefinite (Chun et al. 2010).

2.2.2. Development Assistance from the Private Sector

In addition to the public sector, the private sector has also been supporting development cooperation and the Public Private Partnership (PPP) has been receiving spotlight in enhancing aid effectiveness. It refers to private sector providing infrastructure assets and services that used to be provided by the government. The DAC/OECD defined PPP as “collaborative arrangements between private actors and bilateral/multilateral agencies or governments to address specific developmental issues (OECD 2010).” It also creates cooperation and ownership amongst various stakeholders such as government, private
companies, Non-Profitable Organizations and Community-Based Organizations, and aid recipients, creating win-win situation (Choi 2008).

With anticipating increase of ODA, private sector may resolve limited resource, experience, and capability of the public sector with their professionalism. In addition, the private sector can contribute to human resource development and prolong the effectiveness of development activities to long term (Choi 2008).

However, it is difficult to determine the scale of Private Development Assistance (PDA) as neither the Korean government nor OECD DAC provides any standardized data on PDA. Hence, activities of major NGOs and corporations have been accounted for.

Within the private sector, development NGOs are the most active actors in development cooperation. According to the KOICA and the Korea NGO Council for Overseas Cooperation (KNCOC), PDA from NGO has steadily increased over time.

Table 4 | KOICA’s ODA Allocation to NGOs

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1.38</td>
<td>6.66</td>
<td>0.92</td>
<td>2.77</td>
<td>4.17</td>
<td>5.68</td>
<td>6.39</td>
<td>5.38</td>
<td>7.88</td>
</tr>
<tr>
<td>Country</td>
<td>17</td>
<td>19</td>
<td>15</td>
<td>19</td>
<td>17</td>
<td>19</td>
<td>26</td>
<td>26</td>
<td>33</td>
</tr>
<tr>
<td>Case</td>
<td>34</td>
<td>61</td>
<td>21</td>
<td>41</td>
<td>29</td>
<td>42</td>
<td>76</td>
<td>74</td>
<td>84</td>
</tr>
<tr>
<td>Sector</td>
<td>Env.</td>
<td>Env.</td>
<td>Env.</td>
<td>Env.</td>
<td>Env.</td>
<td>Env.</td>
<td>Health</td>
<td>Health</td>
<td>Edu</td>
</tr>
</tbody>
</table>

Note: Total (Total amount of ODA allocated to NGOs) / Country (Number of countries that received ODA allocated to NGOs) / Case (Number of cases) / Sector (KOICA Sector that received most ODA) / Env (Environment and others) / Edu (Education) / Non-ODA was not considered.

According to Table 4, Korea has allocated more grants to NGOs overtime that have expanded its activities to more countries with myriads of projects. From 2002 to 2007, majority of the ODA went to the environmental sector and others but from 2008, ODA to the health and education sectors increased as well.

Table 5 also shows the volume of expenditure by NGOs who are members of KNCOC. The KNCOC is the overarching association of development NGOs implementing development and aid projects, with over 80 member organizations as of September 2011.

The table shows that the scale increased dramatically in a short period of time, by more than two-fold in 4 years from 2005 to 2009. Similar to KOICA, these NGOs also focused primarily on education and health.
Table 5 | Project Scale of KNCOC Members

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>39,843</td>
<td>53,608</td>
<td>75,471</td>
<td>82,336</td>
</tr>
<tr>
<td>Education</td>
<td>7,526</td>
<td>9,143</td>
<td>25,660</td>
<td>11,246</td>
</tr>
<tr>
<td>Health</td>
<td>4,751</td>
<td>4,696</td>
<td>16,604</td>
<td>11,744</td>
</tr>
<tr>
<td>Rural Dev.</td>
<td>13,096</td>
<td>5,514</td>
<td>6,038</td>
<td>64,882</td>
</tr>
<tr>
<td>Emergency</td>
<td>10,733</td>
<td>7,583</td>
<td>3,774</td>
<td>5,658</td>
</tr>
<tr>
<td>(Exchange Rate ($/₩))</td>
<td>(1,011.6)</td>
<td>(929.8)</td>
<td>(936.1)</td>
<td>(1,164.5)</td>
</tr>
</tbody>
</table>

Note: Rural Dev (Rural Development) / Emergency (Emergency Relief).
Other sub-sectors include economic development, agriculture, social development, etc.
The number of KNCOC members increased from 44 in 2005 to 62 in 2009.
Source: KNCOC 2009

Corporations have also branched out to developing countries as part of corporate social responsibility. Although the total amount of aid by all Korean business entities is not available, based on the reported social contribution of the Federation of Korean Industries (FKI) Korean companies have increased its expenditure for social contribution domestically as well as internationally (ODA Watch 2011).

In order to strengthen PPP, the Korean government has announced its plan to increase its PPP budget from 9 billion Korean Won in 2010 by ten-fold to 90 billion in 2015. It also promised to further support private emergency relief and NGO activities in the field (PMO 2010). So as to improve the quality of PPP, Korea will strive to boost the connectivity between KOICA and EDCF, and fortify cooperation with private sector entities (MOSF 2011).

3. Principles and Priorities

3.1. Legal Framework and Organizational Structure

Korea’s ODA is under the umbrella of the Basic Law on International Development Cooperation, which was enacted in January, 2010, soon after its membership to OECD-DAC. The Basic Law was enacted following the recommendation of OECD-DAC in 2008 (OECD 2008). This Law encompasses the fundamental values, objectives, and direction of Korea’s development cooperation. The goals are comprised of the following: to alleviate poverty, empower women and children’s rights, and achieve gender equality, sustainable development and humanitarian approach to bring world peace and prosperity. The operational principles include universal ideals such as following the UN Charter, support and cooperation with partner countries for their sustainable development. Having appropriate legal and political foundation at top-strategy level that can remain for a sufficient period of time is fundamental in ensuring aid productivity. At the same time, the
overall foundation should be regularly updated to reflect the fast-changing world of development cooperation and shaping a country’s development strategy (OECD 2008b). Out of the 24 DAC member countries, 13 countries have legislations and 19 countries have overall policy statements, including Korea (OECD 2009a).

In terms of policy making and implementation structure, Korea adopts the dual system. Under the Basic Law, the National Committee for International Development Cooperation (NCIDC) chaired by the Prime Minister is to be in charge of policy-making of mid-long term strategy and coordination of Korea’s ODA. It is the single overarching authority that oversees all ODA activities including the development policy, post evaluation, ODA volume and operational plan. NCIDC is also expected to improve efficiency and transparency of Korea’s ODA while complementing Korea’s decentralized system (Ahn 2010; ODA Korea).

At the policy and implementation level, Korea has four major actors. The Ministry of Foreign Affairs and Trade (MOFAT) is in charge of grants and technical cooperation policy, which is implemented by the Korea International Cooperation Agency (KOICA). As for concessional loans, this is managed by the Ministry of Strategy and Finance (MOSF), which is carried out by the Korea Export-Import Bank’s Economic Development and Co-operation Fund (EDCF). Every five years, MOSF and MOFAT prepare and submit the Basic Action Plan subject to approval of the NCIDC.

The dual structure has incessantly raised the issue of aid ineffectiveness, namely from lack of coordination and fragmentation (OECD 2008a). The Korean government has been advised to tackle this two pillar system and create a single entity that overlooks all policies, strategies, objectives and activities. Fragmentation makes policy coordination between multilateral and bilateral aid more challenging, preventing reinforcement and complementation of development objectives (OECD 2008a). It also leads to redundancy in

![Figure 1 | ODA Architecture of Korea](image-url)
aid activities and lack of coordination and synergy, ultimately causing unnecessary and excessive use of resource and budget (MOSF 2011).

As part of the effort, NCIDC has reached a consensus on drafting together the universal Country Partnership Strategy (CPS) which is a mid-term ODA strategy, to which both MOFAT/KOICA and MOSF/EDCF will conform. Simultaneously, NCIDC will have to augment its capacity and authority to manage all process of ODA from policy and strategy framework, management to evaluation. Right now, however, its capacity in terms of staff members and budget is far from sufficient to bridge all ODA activities that are carried out by numerous organizations including MOSF and MOFAT (Jin 2010).

3.2. Korea’s ODA Allocation by Region, Income Group and Sector

Analysis of Korea’s ODA shows its distinctive features, in addition to the concentration on bilateral aid and concessional loans mentioned above. Other characteristics of Korea’s ODA include high level of tied aid, stronger preference for Asia, and limited emphasis on cross-cutting issues (OECD 2008a).

Korea has a high level of tied aid. While the DAC average of untied aid was around 87%, Korea’s untied aid was around 36% in 2008. Even when compared to Japan, another Asian donor, Korea has a strikingly higher ratio of tied aid. Korea is to untie 75% of its total ODA, grant up to 100% and concessional loans to 50% by 2015.

Table 6 | Share of Korea’s Tied and Untied ODA

<table>
<thead>
<tr>
<th>Year</th>
<th>Korea</th>
<th>Japan</th>
<th>DAC (Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td>Total Bilateral Commitment</td>
<td>1,197.7</td>
<td>1,267.7</td>
<td>15,067.6</td>
</tr>
<tr>
<td>- Tied ODA</td>
<td>679.1</td>
<td>655.5</td>
<td>528.4</td>
</tr>
<tr>
<td></td>
<td>56.6%</td>
<td>51.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>- Untied ODA</td>
<td>428.8</td>
<td>612.2</td>
<td>14,539.2</td>
</tr>
<tr>
<td></td>
<td>35.8%</td>
<td>48.2%</td>
<td>96.4%</td>
</tr>
</tbody>
</table>

Note: Volume of the partially untied ODA was not included.
Source: OECD International Development Statistics Database

As for the geographical feature, significant sum of Korea’s ODA is disbursed to Asia and Low Middle Income Countries (LMICs) which is in clear contrast to other DAC member countries who are more focused more on Africa and LDCs (Koo et al. 2011). OECD recommended Korea to shift its focus to the poverty-stricken countries in Africa but Asia has always been the largest recipient, owing to Korea’s geographical position and development experience (OECD 2008a). Korea also directs much of its foreign direct investment to Southeast Asia as well (Stallings 2010). This implies Korea’s attempt to link ODA to its national economic interests (Choi 2011) as well as to promote regional integration and to export Korea’s own development experience while displaying its
attempt to meet international norms and standards as the newest DAC member (Stallings 2010).

Sector-wise, a large amount of ODA is concentrated on the economic sector. Whereas disbursement to social infrastructure sector is stable, aid to economic sector rose rapidly by more than two-fold from 2007 to 2009.

Table 7 | Korea’s ODA Allocation by Region, Income Group and Sector

<table>
<thead>
<tr>
<th>Region</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>4.38</td>
<td>5.63</td>
<td>18.98</td>
<td>28.11</td>
<td>39.14</td>
<td>47.83</td>
<td>70.17</td>
<td>104.06</td>
<td>95.01</td>
</tr>
<tr>
<td>SSA</td>
<td>1.44</td>
<td>2.59</td>
<td>15.21</td>
<td>22.02</td>
<td>33.41</td>
<td>38.85</td>
<td>52.56</td>
<td>86.3</td>
<td>74.7</td>
</tr>
<tr>
<td>Asia</td>
<td>124.47</td>
<td>161.77</td>
<td>192.46</td>
<td>258.82</td>
<td>374.95</td>
<td>227.59</td>
<td>299.99</td>
<td>281.37</td>
<td>313.45</td>
</tr>
<tr>
<td>Middle East</td>
<td>1.39</td>
<td>5.87</td>
<td>42.18</td>
<td>81.08</td>
<td>177.74</td>
<td>71.79</td>
<td>70.66</td>
<td>30.54</td>
<td>21.37</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income Group</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>LDCs</td>
<td>8.35</td>
<td>45.74</td>
<td>56.88</td>
<td>86.05</td>
<td>114.92</td>
<td>92.11</td>
<td>120.97</td>
<td>144.24</td>
<td>161.17</td>
</tr>
<tr>
<td>OLICs</td>
<td>60.94</td>
<td>25.16</td>
<td>26.91</td>
<td>49.24</td>
<td>45.99</td>
<td>36.11</td>
<td>37.24</td>
<td>68.51</td>
<td>76.45</td>
</tr>
<tr>
<td>LMICs</td>
<td>64.86</td>
<td>91.84</td>
<td>138.69</td>
<td>164.24</td>
<td>267.18</td>
<td>193.38</td>
<td>250.91</td>
<td>207.82</td>
<td>204.17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Infrastructure</td>
<td>74.44</td>
<td>71.6</td>
<td>108.85</td>
<td>113.12</td>
<td>138.12</td>
<td>170.95</td>
<td>402.86</td>
<td>544.52</td>
<td>876.64</td>
</tr>
<tr>
<td>Social Infrastructure</td>
<td>56.38</td>
<td>160.26</td>
<td>136.91</td>
<td>314.32</td>
<td>398.25</td>
<td>403.09</td>
<td>410.5</td>
<td>696.0</td>
<td>402.37</td>
</tr>
<tr>
<td>Production</td>
<td>5.24</td>
<td>7.17</td>
<td>38.27</td>
<td>18.8</td>
<td>50.25</td>
<td>33.5</td>
<td>128.99</td>
<td>77.44</td>
<td>57.12</td>
</tr>
</tbody>
</table>

Note: SSA (Sub-Saharan Africa) LDCs (Least Developed Countries), OLICs (Other Low Income Countries), LMICs (Low Middle Income Countries), UMICs (Upper Middle Income Countries)
Sector allocation is commitment based.
Source: OECD International Development Statistics Database

3.3. Prioritization Efforts with the New Roadmap

Korea has had the issue of lack of choice and focus in choosing partner countries. Rather than having a selective number of priority countries, Korea has allocated small-scale ODA to numerous partner countries which hindered aid effectiveness (Koo et al. 2011). It was partly due to unclear standard of priority countries and objectives (OECD 2008a).

Effort to strengthen prioritization in aid allocation has been persistent (Chun et al. 2006; Kwon et al. 2006). In 2006, KOICA announced its plan to decrease its priority partner countries from 127 in 2005 to 26 and to focus on sectors and programs in which Korea has comparative advantage in. It also proposed defining the objectives so as to maintain prioritization over mid to long term (Chun et al. 2006; PMO 2010). KOICA and EDCF also adopted Country Assistance Strategy as a means of ODA reform in 2006 to choose and
focus on a selective number of countries, thereby achieving mutual accountability and transparency. CAS will also ensure ownership of the partner countries (Chung 2010).

Recently, the Korean government reaffirmed the significance of selected focusing. In the Roadmap for Korea's ODA which represents direction of Korea's ODA policy, Korea is to follow the recommendation of OECD DAC on choice and focus and to reform aid strategy so that prioritization of KOICA and EDCF are coherent. It also aims to reduce priority partner countries to 26 based on income level, region, and capacity (PMO 2010). At the same time, it will lessen one-shot events or short-term projects and boost budget on education and training as well as emergency relief (MOSF 2011).

Sector-wise, Korea is to focus on 8 sectors in which Korea has abundant experience in and is demanded by partner countries: Economy, health, human resources, ICT, agriculture, rural development, environment, and industry and energy. Both KOICA and EDCF will cooperate in developing contents and transferring their know-how along with consultation from related ministries (PMO 2010). The Korean government will also mainstream cross-cutting issues including green growth, gender equality and human rights in all 8 priority sectors (PMO 2010).

Prioritization is necessary when taking into consideration of Korea's limited ODA resource and comparatively small budget (Kwon et al. 2006). Also, because Korea's policy capacity is relatively weaker than that of implementation, it should establish mid- and long-term combined strategy for efficient ODA budget management (MOSF 2011).

3.4. Dissemination of Korea's Development Experiences

Despite the magnitude of Korea's ODA budget remaining smaller in comparison to other OECD DAC members, Korea has strength in having unrivalling experiences and knowledge in economic development, which attract much attention from other developing countries. Upon requests from developing countries, the Korean government devised the Knowledge Sharing Program (KSP) to deliver Korea’s development experiences systematically. The earlier version of the KSP had been proposed and managed by the World Bank in collaboration with the Korean government under the name of the Knowledge Partnership (KP) since early 2000s. KSP is an important intellectual mode of Korea's ODA with the objective of systemization of Korea’s development experiences and provision of assistance to ameliorate poverty and achieve sustainable development tailored to each partner countries while mainstreaming growth in development strategy. It is a demand-driven comprehensive consultation program launched in 2004 by the MOSF and implemented by the Korea Development Institute (KDI). It is also specific and result-oriented and KSP supports detailed policy formation and institutional capacity building with the aim to produce tangible outcomes. Until 2011, KSP has carried out research and consultations in approximately 22 countries in over 200 topics.
Case Study: Knowledge Sharing Program with Vietnam

Out of the 22 KSP partner countries, Vietnam was involved from the initiation of the program from 2004 and was once again chosen as a partner country in 2011. KSP centered on economic stabilization, growth and liberalization of Vietnam.

Even prior to the implementation of KSP, KDI under the finance of KOICA has supported the establishment and provided expertise in building capacity of an economic research institute in Vietnam since 1995. The proposed institution was at first aptly named as the Vietnam Development Institute (VDI) emulating the role of the KDI in Korea. Later it was renamed as the Development Strategy Institute (DSI).

In 2004, as the first KSP was launched, KDI shared its knowledge on economic liberalization with Vietnam, preparing Vietnam to enter the World Trade Organization and attract foreign capital while sophisticating its trade policy. Then in 2009, KSP shifted subjects to the sustainable development of Vietnam, supporting the establishment of mid- and long-term socioeconomic development strategy that consists of policies on financial, industrial, technology, and private sector for stable and positive economic growth. The program will continue in 2010 and 2011, enhancing national development capacity to foster economic infrastructure and corporate efficiency.

4. Future Challenges

At the dawn of the 21st century, sharing for development became a zeitgeist in Korean society. Not only ODA, but also PDA is on the rapid rise. Poverty and plights of the poor people in least income countries moved people’s compassion and at the same time struck businessmen’s acumen in new opportunities in the Third World.

This chapter has covered extensively the background and characteristics of Korea’s ODA. The unique history of achieving unprecedented economic growth and transformation from an aid recipient to donor country will enable Korea to undertake a more crucial role in the global community. To do so, Korea should make strenuous efforts in upgrading Korean ODA in quantity as well as in quality. In this process the worldwide slogan of “More Aid, Better Aid” applies to Korea again. The following are priority tasks to be tackled in the years to come.

First and foremost, Korea should continuously raise its ODA disbursement and at the same time secure the financial and human resources domestically so that the mid- and long-term ODA strategy can be fully implemented. The pledge of increasing Korea’s ODA proportion should be kept regardless of uncertainties that might appear.
Second, it should make utmost efforts to upgrade the quality of ODA while increasing
grant, minimizing tied aid, concentrating on LDCs and allocating aid primarily based on
the needs of the partner countries rather than Korea's national interest. Once the OECD
report has justified the heavy portion of concessionary loans in Korea by saying "Korea's
positive economic growth experience from concessional loans is well reflected in its styles of foreign
assistance as a donor" (OECD 2008a). However, the idiosyncratic misallocation is overdue to
be corrected.

Third is to alleviate aid fragmentation and strengthening of aid governance. All
organizations, including KOICA and EDCF should contribute to and abide by the CPS,
imitigating unnecessary redundancies in its aid activities while forming strategic alliance
inducing aid effectiveness. Outside players such as NGOs and private enterprises should
also take part.

Fourth is to better tailor Korea's experience to suit developing countries. Sharing Korea's
experience may differentiate Korea as a donor, give comparative advantage and optimize
limited resources in choice and focus. However, Korea's experience is not fully applicable
due to different domestic and international environments. Hence, it should keenly observe
and practice aid in accordance to international norms and agreements including the
Millennium Development Goals and the Paris Declaration for synergy effect while
becoming a bridge between developed and developing countries by sharing the
particularity of Korea's development experiences.

Lastly, it should strive for public awareness and support of development cooperation.
As aid is given by taxpayers' money, it is an obligation to the citizens that the outcome of
ODA is reported back. To achieve this, Korea will also need to strengthen its evaluation
process and adopt external surveillance.
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Chapter 6

Malaysian Technical Cooperation Program:
Helping Friends in Need

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The Asia Foundation (Malaysia)

Tang Siew Mun
Institute of Strategic and International Studies (ISIS) Malaysia

1. Introduction

South-South cooperation is an important tenet in Malaysia’s foreign policy. In the last three decades, the nation of 27 million contributed to the promotion of self reliance of the developing countries through cultivating partnership amongst them, as well as vocally expressing the South’s agenda internationally. The Mahathir Administration (1981-2003) had consistently championed the South’s cause and Prime Minister Mahathir Mohamad was one of the leading advocates for the developing world. He was the voice of conscience of the plight of the developing countries. Though a small nation, Malaysia stood tall on the international stage and participated actively in addressing critical issues such as the North-South divide and the ever increasing developmental gap between the rich and less developed countries. Malaysia’s contribution to these discourses goes beyond the diplomatic front. Though a small country and not an economic powerhouse, Malaysia began its foreign assistance program in 1980 to render assistance to friends in the developing countries. This chapter examines the dynamics of the Malaysian Technical Cooperation Programme (MTCP).

2. History and Background of Malaysia’s Assistance Program

Since its independence in 1957, Malaysia’s involvement in promoting for greater cooperation and solidarity amongst newly independent countries of Asia and Africa has been a prominent feature of its modern political history. While Malaysia did not participate
in the inaugural Bandung Afro-Asian Conference in 1955\textsuperscript{54}, it quickly played an integral role in the formalized South movements such as its active membership in the Non-Aligned Movement (NAM), Association of Southeast Asia Nations (ASEAN) and the G77 caucus within the United Nations. Malaysia’s commitment in championing the cause of the developing South became even more prominent by the early 1980s when ASEAN, Organization of Islamic Conference (OIC), NAM and the Commonwealth took center stage in the nation’s foreign policy.\textsuperscript{55} One of the major initiatives launched after this policy reorientation was the establishment of the Malaysian Technical Cooperation Program (MTCP).

The prominence of MTCP is synonymous with Mahathir even though the program was officially launched before his appointment as Prime Minister. He had the vision of the importance for the South to be economically and politically strong and independent, thus not having to be overly dependent on the West. Under Tun Dr. Mahathir, Malaysia’s foreign policy has changed from one that was decidedly pro-Western and anti-Communist to one that is openly identified with Third World concerns and aspirations. It was during Mahathir’s premiership that Malaysia sought to play a more prominent role in international affairs, especially at the United Nations (UN), in the Commonwealth as well as among the developing countries in the context of South-South cooperation.\textsuperscript{56}

The shift of Malaysia’s foreign policy also played a major role in the realization of the conscious policy decision to promote self-reliance through international development cooperation. In addition, internal and external factors were also critical in setting the stage. Internally, by early 1980, the Malaysian economy had expanded and internal security challenges were successfully managed. This permitted more time for the nation to expand its foreign policy beyond its traditional diplomatic ties.\textsuperscript{57} Malaysia was also reaping the benefits of its carefully crafted management of development and modernizing programs, as well as its judicious use of foreign aid and assistance. From this experience, Malaysia is cognizant that by promoting greater international cooperation, it could expand economic interaction, thus promoting greater economic growth.\textsuperscript{58} Externally, the long awaited peace with the demise of the Communist Party of Malaya (CPM) and the winding up of the Cold War, allowed for a reorientation from geo-politics to geo-economics. The new strategic environment was the impetus for Malaysia to broaden its diplomatic and economic engagement.

\textsuperscript{54} Mainly due to its status as a British Colony at the time when the conference were held in 1955
\textsuperscript{55} Abdul Hamid, Ahmad Faiz, Malaysia and South-South Cooperation During Mahathir’s Era (Determining Factors and Implications) (Pelanduk Publications, 2005) pp. 1-2.
\textsuperscript{56} Teik, Khoo Boo, Paradoxes of Mahathirism: An Intellectual Biography of Mahathir Mohamed (Oxford University Press, 1995),pp. 65-88
\textsuperscript{57} Abdul Hamid, Ahmad Faiz, Malaysia and South-South Cooperation During Mahathir’s Era (Determining Factors and Implications) (Pelanduk Publications, 2005) pp.18
\textsuperscript{58} UNDP Report, MDG8: Malaysia Achieving the Millennium Development Goals pp.208-209
3. The Malaysian Technical Cooperation Program (MTCP)

The MTCP was officially launched in September 1980 at the Commonwealth Heads of State Meeting in New Delhi, India. Malaysia’s then Prime Minister, Tun Dr. Mahathir Mohamad, in particular was instrumental in promoting the MTCP. This program encapsulates Malaysia’s contribution (as well as commitment) to the international community, especially the South nations. It concretizes Malaysia’s belief that developing countries can derive greater benefit from the experiences of other developing countries which have encountered similar development challenges. The MTCP’s objectives are as follows:

(a) To share development experience with other countries,
(b) To promote technical cooperation among developing countries,
(c) To promote South-South Cooperation, and
(d) To strengthen bilateral relations between Malaysia and other developing countries.

Chart 1 | Geographical Distribution of MTCP Participants, 1980 to June 2011

More than 2,000 participants from 136 countries have participated in the various programs administered under the MTCP annually since its inception in 1980. The program continues to draw interest and participation from a multitude of countries, ranging from the African continent, Europe, Latin America and Oceania (see Chart 1). Nevertheless, qualitatively, the MTCP has a decidedly Southeast Asian focus. Seven of the top ten recipient countries in 2006 are located in this region (see Table 1). The

Source: The Malaysia Technical Cooperation Programme

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60 See http://mtcp.kln.gov.my/about-mtcp
concentration on Southeast Asia is a factor of geography and proximity. Malaysia’s commitment to the formation of the ASEAN Community is yet another reason accounting for the primary focus on the Southeast Asian countries. The financial resources allocated under the five-year Malaysian development plans increased more than four fold from RM45 million for the period 1980-1985 to RM200 million for the period 2006-2010 (see Table 2).

Table 1 | Top Ten Recipient Countries (2006)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Rank</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indonesia</td>
<td>6</td>
<td>Sri Lanka</td>
</tr>
<tr>
<td>2</td>
<td>Myanmar</td>
<td>7</td>
<td>Thailand</td>
</tr>
<tr>
<td>3</td>
<td>Cambodia</td>
<td>8</td>
<td>Lao PDR</td>
</tr>
<tr>
<td>4</td>
<td>Vietnam</td>
<td>9</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>5</td>
<td>Philippines</td>
<td>10</td>
<td>Sudan</td>
</tr>
</tbody>
</table>

Source: Economic Planning Unit, Malaysia (2007)

Table 2 | Allocation for the MTCP, 1980-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocation (million ringgit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980 - 1985 (RMK-4)</td>
<td>45</td>
</tr>
<tr>
<td>1986 - 1990 (RMK-5)</td>
<td>45</td>
</tr>
<tr>
<td>1991 - 1995 (RMK-6)</td>
<td>65</td>
</tr>
<tr>
<td>1996 - 2000 (RMK-7)</td>
<td>95</td>
</tr>
<tr>
<td>2001 - 2005 (RMK-8)</td>
<td>160</td>
</tr>
<tr>
<td>2006 - 2010 (RMK-9)</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Economic Planning Unit

Malaysia posits that the best forms of developmental assistance are those kept within the spirit of sharing and partnership. It is thus, unsurprising that “demand driven” and “untied aid” became two of the most distinguished and important features of the Malaysian assistance program.

Malaysia provides assistance upon the request from prospective recipient countries and the initiative for cooperation begins with the recipient countries. In short, it is demand driven. Additionally, all grants made under the MTCP are untied. Therefore, unlike conventional foreign assistance programs, which are often linked to donor values and priorities, MTCP strives to represent a neutral development approach through partnerships.
4. Principles of Development Cooperation

Malaysia is no stranger to foreign aid. From the New Economic Policy (NEP) in the 1970s, where aid was used in addressing the challenges of poverty and redistribution of the economy to the New Miyazawa Initiative following the Asian financial crisis of 1997, where aid was used mainly to finance economic recovery plans, Malaysia had benefitted enormously from foreign aid assistance.62 These experiences inform and cultivate a set of development cooperation principles which are unique to Malaysia.

For Malaysia, the fundamental objective for its promotion of international development cooperation is economic growth. Malaysia’s economic success was partly the result of good management and coordination between foreign aid and its national development objectives. A major factor of this success story can be attributed to the centralized management of well-trained and capable officers at the Economic Planning Unit (EPU). This influential agency has added clout given that it is housed within the Prime Minister’s Department. A country’s ability to attain an acceptable standard of human development depends on the quality of its human capital, and this process starts with the public sector officials who provide the vision, direction, strategies, policies, implementation, and programs on which development is based.63 Hence Malaysia’s primary principle for development cooperation is the importance on capacity building and human resource development.

With this principle in mind, Malaysia’s approach to international cooperation can be summarized in two main thrusts. First, international cooperation is valued along the spirit of partnership rather than a donor-recipient relationship. The main outcome out of this is that cooperation programs would be primarily based on demands from recipient countries, with Malaysia playing the role of providing specific expertise and financing wherever necessary. Finances related to such programs will either be co-funded by all countries involved or through a one-off untied financial assistance from Malaysia. The MTCP does not provide loans.

Second, as Malaysia has and continues to benefit from foreign aid, it promotes non-exclusive cooperation ties which would include less developed nations as well as with developed countries. This is an important element that is often understated possibly due to Malaysia’s reputation which was seen to be anti-West during the Mahathir administration. A non-exclusive approach allows for greater flexibility to tap on expertise and sharing of resources. A good example of this is the BIMP-EAGA64 project. This project, which was launched in 1994, is Asia’s largest regional grouping (with the inclusion of territories of 4 ASEAN countries) to develop sub-regional areas of countries involved by re-establishing and strengthening trade links between them. On top of the four ASEAN participating nations, this project was launched in partnership with France, Germany and Spain.

62 UNDP, MDG8: Malaysia Achieving the Millennium Development Goals, p.205
63 Ibid, p.210
64 BIMP-EAGA is short for Brunei-Indonesia-Malaysia-Philippines.
5. Priorities and Areas of Focus

The primary principle for Malaysia’s international development cooperation is the development of human resources, which is a vital catalyst to achieve sustainable socio-economic development. In view of the ever-growing population in the developing countries, human resources development plays a pivotal role in promoting growth and development. Thus, the MTCP emphasizes this aspect of development through the provision of training in various areas which are essential for a country’s development such as economic planning and development, agriculture and industry, energy and gas, healthcare, education planning, library management, fire services training, gender equality during development and ICT training (see Table 3 for a listing of the programs planned in 2011).

Among the measures taken to ensure that MTCP is planned and delivered in accordance with the priorities of the participating countries, are regular consultations, specially packaged courses, needs assessment missions and close collaboration with the participating parties in the implementation of the training programs. In 2010 for example, Malaysia and Lesotho agreed to continue their cooperation in human capital development, which will soon include training the African nation's police officers. This is following the Lesotho counterpart’s request for the Royal Malaysian Police to train the former’s police force, especially in public order and security.

Table 3 | Partial List of Activities under the Malaysian Technical Cooperation Programme Training (2011)

<table>
<thead>
<tr>
<th>Host Institution</th>
<th>Course/Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maritime Institute of Malaysia</td>
<td>International Training Course on Strategic Management of the Maritime Sector for Officials from Cambodia, Laos, Myanmar and Vietnam (CLMV)</td>
</tr>
<tr>
<td>Academy of Sciences Malaysia</td>
<td>Science and Technology Management Training Course for Researchers in OIC Countries</td>
</tr>
<tr>
<td>Department of Standards Malaysia</td>
<td>Training Program on Halal Standards and Conformance Infrastructure for OIC Countries</td>
</tr>
<tr>
<td>National Institute of Public Administration</td>
<td>Economic Planning And Management</td>
</tr>
<tr>
<td>Health Management Institute</td>
<td>Epidemiological Intelligence and Management Programm</td>
</tr>
<tr>
<td>Institute of Diplomacy and Foreign Relations</td>
<td>Diplomatic Training Course (1/2011)</td>
</tr>
<tr>
<td>The Southeast Asia Regional Centre for Counter Terrorism</td>
<td>Chemical Biological Radiological Nuclear Explosive (CBRNE) Threat – First Responder Action Practical Syariah Aspects in Islamic Finance</td>
</tr>
<tr>
<td>International Centre for Education in Islamic Finance</td>
<td></td>
</tr>
<tr>
<td>International Institute of Public Policy and Management</td>
<td>Managing Diversity in Multicultural Nations</td>
</tr>
</tbody>
</table>

Source: Ministry of Foreign Affairs (Malaysia)
Apart from the general range of training courses offered to participants from developing countries, the MTCP also offers courses tailored to the specific needs of the developing countries, including the least developed countries and those with economies in transition. All programs offered are based on the priorities of the collaborating countries. While most of its programs are done under bilateral agreements, multilaterally the MTCP also collaborates with international organizations such as the United Nations Development Programme (UNDP), Economic Social Commission for Asia and the Pacific (ESCAP), United Nations Industrial Development Organization (UNIDO), Japan International Cooperation Agency (JICA), Colombo Plan and Commonwealth Fund for Technical Cooperation (CFTC) through Third Country Training Programme (TCTP). The TCTP are organized through partnerships with several MTCP training institutions.

Based on Malaysia’s track record in poverty reduction and economic growth, the MTCP participating countries have also benefited from training courses that include courses in economic planning and development, poverty alleviation, and central banking. By 2001, 29 participants had undergone long-term post-graduate courses in economics and one in banking. In addition to the courses, a number of study visits and attachment programs focusing on various aspects of development, including programs on macroeconomic management, central banking and financial management, privatization, the capital market development have also been successful concluded.

Apart from the above, a number of MTCP training programs have also been offered to assist participating countries in sectoral development, particularly in the agricultural and industrial sectors. Up to 2004, a total of 88 short courses had been organized, and 10 participants have undergone long-term courses in these areas. 14 study visits and attachments have been organized and 10 agricultural experts have been dispatched to various countries. Furthermore, 10 project-type cooperation programs have also been implemented.

MTCP has also become the principal instrument by which Malaysia shares its industrial development experience with other developing countries. Up until 2004, eight short courses on investment promotion had been organized. MTCP participants have also benefited from technical courses in road construction and maintenance and development of small and medium-scale industries. In addition, the national oil company, Petronas has an active scholarship program and had, thus far, funded about 100 international students from South Africa, Sudan, Vietnam, and Turkmenistan to attend technical degree courses at Universiti Teknologi Petronas. At the same time, it also supported another 100 participants to attend business management and technical courses in the area of oil and gas.

A number of experts were also been dispatched to Tanzania and Namibia for consultation purposes. A total of 53 technicians in various technical and vocational specializations were sent to Cambodia from 1994–2003. The construction industry in the mean time also made notable contributions to developing countries under the auspices of the MTCP. Malaysia’s experience in providing houses for the poor has benefited a number of developing countries including South Africa, Seychelles, and Mauritius.

Malaysia has also contributed to the development of the social sector of developing countries, particularly in the area of rural health care, medical research in tropical diseases,
nutrition, education and other social programs. From 1980 until 2001, a total of 111 participants from various countries had attended MTCP-supported degree courses in medicine and library management. Other courses include archives management; fire services training and gender perspective in development training. The MTCP also sponsors study visits and attachment in the areas of health management, education planning and library management. Instruction and training in ICT is also an area of strong interest. It must be noted that while the MTCP had terminated its “long term scholarship” program in 2011, it continues to fund international students through the Malaysia International Scholarship (MIS) program. The MIS program is administered and managed by the Ministry of Higher Education.

6. Other Initiatives

Aside from the MTCP, the Malaysia South-South Association (MASSA) formed a second component of Malaysia’s assistance program. It has had its own share of success when it comes to development cooperation. The idea of MASSA was formed during the Mahathir administration, following his official visit to Chile, Brazil and Argentina with the Malaysian business leaders in 1991. MASSA sought to promote bilateral trade and investment ties directed only to the South-South countries, by serving as a platform and link between the Malaysian business community and the South countries. This initiative focuses on joint ventures with state-owned or backed companies abroad. The idea for MASSA’s establishment evolved from the fact that Malaysia’s export-driven economic growth should not be overly dependent on its traditional markets of the United States, Japan and Europe. Malaysian industries and manufacturers should instead explore the relatively untapped potential of the South, which could offer vast opportunities for trade and investment. In order to achieve this, the Malaysian government under its concept of “Malaysia Incorporated” has been very supportive of the initiatives of the MASSA in enabling its members to avail the opportunities for trade and investment in South-South countries.

Another initiative which was also introduced by Mahathir was the formation of the South-South Information Gateway (SSIG) – a depository and exchange centre for information, news and broadcast materials for all South nation. The SSIG was set up following the Langkawi International Dialogue (LID), which was held for the first time in July 1999. The LID’s main objective is to gather heads of states, think tanks as well as corporations from developing nations to meet and foster greater effort in promoting a ‘smart partnership’ nation-building vision among the South nations for solidarity, harmony and mutual prosperity. One of the resolutions of the dialogue in 1999 was that the flow of news and information between and among developing nations must be enhanced. The SSIG would serve to address these objectives. Essentially SSIG was created to harness the exchange of information, news and broadcast materials where the South’s perspective will be emphasized. With the SSIG, it is hoped that it will strengthen solidarity, harmony and mutual respect of South nations while cultivating a new communication order that will promote a freer and more balanced flow of information within its fraternity. The establishment of SSIG has served as a one-stop information centre whereby information on South nations will be made available and presented according to South perspective – a
nobel initiative to enable all South nations to be heard and to be visible in the world’s mainstream economy.

7. Case Study: The Smart School Project

In December 2005, at the 11th ASEAN summit in Kuala Lumpur, Malaysia’s then Prime Minister, Abdullah Ahmad Badawi announced that Malaysia will support the Smart School Projects for Cambodia, Laos, Myanmar and Vietnam (CLMV) which includes providing ICT facilities and human resource development program package to selected schools in these countries. This announcement followed a successful Smart School Project between Malaysia and Lao PDR (2002-2003).

The Smart School Project is a collaborative effort between the Malaysian Government’s EPU and the Multimedia Development Corporation (MDec) with the governments of the CLMV countries. The project, modeled after the Malaysian Smart School Project, was implemented to promote the growth and development of ICT in the CLMV countries, especially in rural communities and was fully funded by the Malaysian government under the MTCP. This project was in line with Malaysia’s support to the Initiative for ASEAN Integration (IAI) to bring the CLMV into mainstream development of the ASEAN region. Malaysia undertook the initiative to share its technical “know-how” of ICT usage into the education curriculum of the schools in the CLMV, and to assist in digital literacy in the four countries. The first phase of the Project was launched in August 2002, involving Myanmar and Lao PDR while the second phase involving Cambodia and Vietnam commenced in 2007.

The smart school model is comprehensive and provides end-to-end solutions for the schools. The project not only provides tangible tools to the respective schools but also the contents for learning enhancements, as well as the human skills to efficiently and effectively manage these resources. The project has contributed to the promotion of education through the creation of opportunities for vast knowledge and information accessibility. The outreach of ICT is regarded as an important tool that enhances the lives of the younger generation, through an accelerated acquisition of knowledge. In addition, this initiative is social inclusion in nature, where the community with limited or no access to computing facilities, are empowered through the availability of ICT resources.

The Malaysian-CLMV Smart School project was awarded the South-South Innovation Award, which was presented during the Global South-South Development (GSSD) Expo 2008, in conjunction with the fifth United Nations Day for South-South cooperation from 16-19 December 2008, at the United Nations headquarters in New York.
8. Policy Challenges and Future Directions

Malaysia’s assistance program was initiated with a small but noble goal of extending a hand in friendship – through training assistance and capacity building. This imperative continues to drive the MTCP and the government remains committed to the program. Malaysia has learned a great deal through the course of furnishing assistance to more than 140 countries. It is a continuing challenge for the program to provide effective and relevant assistance within a limited budget. This section reviews some of the policy challenges faced by the MTCP. It also ventures to propose some measures and suggestions to further improve the existing program.

8.1. In Search for a New Assistance Framework

The MTCP has had a successful run for more than 30 years. In the last decade, Malaysia has progressively advanced into becoming an upper middle-income country. With more resources at its disposal, Malaysia should reexamine its assistance program with an eye to improve the existing repertoire of outreach programs. Beyond the stated objectives for the MTCP, Malaysia does not have an overarching foreign assistance framework. Mainly due to this, the planning for MTCP’s program direction has been largely a bureaucratic affair rather than a strategic one. A relook at the MTCP is timely and much needed for several reasons. First, the MTCP program is not directly linked to Malaysia’s foreign policy interests. As recent as December 2009, the MTCP was managed by the EPU and largely divorced from the foreign policy circles. Nevertheless, the program is expected to have stronger policy coherence and linkage with the nation’s global priorities under the management of the Ministry of Foreign Affairs (MFA), which took over the MTCP in January 2010. A framework linking the MTCP with the nation’s national interest will also be useful in galvanizing support for the MTCP.

Second, observers of Malaysian politics will be quick to recognize the primacy and influence of the EPU. In relative terms, the change of the management of the MTCP from EPU to the MFA is seen as a “downgrade.” However, this observation may be trivial provided the MTCP continues to receive the support in the highest echelon of government. Institutional politics may, nevertheless, hamper the effectiveness of the MFA to manage the MTCP. Turf and jurisdictional grousers will be a factor that the MFA will have to content with. Therefore, it is imperative that the MTCP be seen as a national priority instead of a ministerial project. One strategy to cultivate this sense of joint ownership at all levels of government is to establish a national framework or policy for international assistance. This initiative will seek to map and identify areas of cooperation as well as the pooling of resources among all ministries and relevant parties. This will assist to facilitate more effective management of assistance and encourage inter-agency cooperation.

8.2. Rethinking the Need-based Strategy

In keeping with the nation’s non-aligned principle, it is understandable that the MTCP was designed to be “non-intrusive” and recipient-friendly. A request-based program, fits into the nation’s foreign policy outlook of extending a helping hand to those in need
without being seen as overbearing or interfering in the domestic affairs of the recipients. This policy was amendable during the highly charged times of the Cold War, where aid and assistance were used as a tool of subversion and to reward allies. Freed from the shackles of ideological battles, Malaysia should revisit its “request based” principle. By its very nature, a request-based program is passive and reactive. Assistance is activated upon the request of potential recipients. This approach has several drawbacks. First, it complicates budgetary planning. The provider is not able to allocate resources to assist the recipient if the former remains unaware of such requests until it is actually submitted. Concomitantly, this arrangement may also delay the implementation of the assistance as the cost of the assistance will most likely be drawn from the following year’s budget. Secondly, a request-based program presents little room for the provider to be proactive in channeling assistance. Employing an essentially reactive strategy, it is difficult to see how the MTCP could be utilized strategically to support Malaysia’s foreign policy interests. Moving forward, Malaysia should adopt a two-pronged strategy of (a) maintaining its request-based modality, and (b) take the initiatives to “soft-sell” its assistance to countries who are likely to benefit from such overtures.

8.3. Sustainability of the Assistance Program

Malaysia is unique as a provider of development assistance. Although a high middle-income nation, Malaysia continues to grapple with issues of poverty and many of the developmental issues found in developing countries. Funding for the MTCP is small compared to other established assistance programs and this will have an impact on the effectiveness and future expansion of the program. With only an average of RM4 million per year from 2006-2010, the MTCP is limited to conducting “in house” courses. The MTCP announced in 2011 that long-term education funding (multi-year scholarships) have been suspended until further notice. Malaysia spends less than 0.007% of its GDP on the MTCP annually. The suspension of the long-term education funding is a harbinger of things to come when faced with budgetary pressure. The need-based approach does not provide a sustainable nor systematic basis for budgetary planning. Ad hoc funding can be found during good times, but it is often the first casualty in times of austerity or when faced with competing priorities. For the MTCP to be more effective it needs to be put on a more secure financial footing, through the establishment of a secure and appropriate line of funding. It may be hard-pressed to meet the 0.7% GDP target set for the developed countries, however Malaysia should nevertheless establish its own target as a matter of policy. A hypothetical benchmark of 0.07% of the GDP—which constitutes one-tenth of the quantum established for DAC countries - would yield an almost 10 fold increase in the allocation to RM39 million annually. The resolution on the quantum of funding for the MTCP as a ratio to the GDP will enable the program to continue and expand on its good work in assisting fellow developing countries for the past thirty years.

8.4. Internationalizing the MTCP

The MTCP, is largely, a program domiciled in Malaysia. With the few exceptions such as the Smart School Program, the majority of its activities, such as human resource training, are conducted in the nation’s academic, research institutes and training centers. There is a strong case to be made for bringing the MTCP to the recipient. It would be more cost
effective and useful for the training programs to be conducted in the recipient country, as it would enable a larger pool of participants to benefit from the training and exposure. Conducting the training programs abroad allows for the Malaysian trainers to better understand the local conditions and perhaps even suggest ways to adapt the Malaysian experience to the local conditions. In-situ training would also be more amendable to the recipients as it would decrease the participants’ time away from work. This modality is extremely useful to critical services where the employers are less willing to permit its employees to take prolonged leave away from work. On the other spectrum, junior officers training and participation in introductory courses is best held in the recipient’s country as it is more cost effective. Standout participants can be selected to the intermediate and advanced courses in Malaysia. Currently, the international component of the program involves the dispatch of advisors and consultants. It is proposed that the training programs should be re-examined for the appropriate courses to be conducted in the recipient country instead of Malaysia. This approach also brings to Malaysia the unintended result of increasing the nation’s international profile and visibility.

The idea of establishing an international volunteer corps (IVC) – modeled largely on the US’s Peace Corps – should also be given due consideration. Ideally, the proposed IVC should be open to all comers – public and private. This framework allows the MTCP to broaden its Malaysian human resources that it could draw on to assist in its programs. Additionally, bringing in the private sector – and rank and file Malaysians – increases the stakeholdership of the program. The benefit of this proposal is threefold. First, it optimizes the available human resources in Malaysia by coralling expertise from the public and private sector. Second, the cost of non-government officials could be offset or reduced through the volunteer employer’s corporate social responsibility program. Third, the program will benefit Malaysians in providing them an avenue for them to broaden their international experience while serving a good cause.

8.5. Government and Private Sector Partnership

A prospective modality of the public-private sector partnership is the latter’s participation in the IVC. There are other avenues in which the private sector could participate and contribute to the social and economic development of recipient countries. The MTCP regularly funds and provides scholarships for vocational and tertiary training. This modality could be enhanced through a link-up with the private sector by the provision of guaranteed employment in the participants’ home country after the completion of studies. Consider this: A promising Bangladesh youth is provided with a scholarship for a degree in ICT. Upon completion of the training, the participant returns to Dhaka and is given employment in Robi Axiata Limited – a Malaysian-owned tele-communications company. This arrangement contributes to Bangladesh’s human capital and at the same time makes a contribution to the its social and economic development through the provision of employment. Additionally, this arrangement alleviates the problem of brain drain, where educated and skilled Bangladesh citizens opt not to return home.
8.6. Moving Beyond Human Capital

Human capital development remains the cornerstone of the Malaysian development assistance program. This approach essentially involves the funding for foreign participants to undertake short and long-term training programs in Malaysia. In order for the MTCP to expand, it needs to seek out new opportunities for cooperation with the developing nations. Calls to increase the MTCP’s budgetary allocation need to be justified and must also provide benefits to the nation as well. Altruism has its limits and is not a philosophy that can sustain the program. New and innovative ideas need to be introduced that will be mutually beneficial to the recipients and Malaysia. Instead of providing training opportunities, the relevant Malaysian authorities could look into the possibility of conducting joint research and collaboration. Malaysia shares a high degree of similarity with a number of developing countries. Both parties benefit from each other’s expertise and experiences if the training program is extended to cover joint studies in the recipient countries. Areas such as tropical diseases, agriculture and the management of biodiversity are possible entry points for such collaborative ventures. The diversification of the MTCP from the promotion to the utilization of human capital will be mutually beneficial and productive. This is the next logical step for the MTCP as it seeks to breathe new life into the 30-year old program.

9. Conclusion

Malaysia is unique in the sense that it is a recipient and provider of assistance. The success of the MTCP broke the mould in that a developing nation – which is also a recipient of aid and assistance – is able to administer and manage an international assistance program. It certainly drove home the message that the provision of assistance is not a factor of a nation’s wealth but rather a political will and commitment. However, this phenomenon is undergoing change as Malaysia graduates as an aid recipient. It no longer qualifies for most of the aid programs as a high middle-income nation. Malaysia is progressing to the next stage of “assistance” and is working with donor countries with regard to technology transfer and technical assistance. Concomitantly, Malaysia may want to review the foundation of its assistance program which is largely based on low cost educational and training programs. Malaysia could certainly afford to invest more in the MTCP and the challenge now is to find an agreement on the new directions for the program. Instead of teaching assistance, the MTCP may well consider implementing assistance on the ground. Needless to say, Malaysia’s contributions will be miniscule compared to the billion dollar funding provided by the DAC and the developed nations. However, Malaysia possesses two priceless attributes that makes the MTCP a standout entity. Firstly, Malaysia is a model for growth and development. It has a track record and the experience which is more amendable for adoption by the recipients. Secondly, Malaysia is a well-regarded and respected nation amongst the developing nations. Its assistance program is seen as “friendly” and non-intrusive and does not have a tendency to impose its values on the recipients. In short, Malaysia – through the MTCP – is poised to play an increasingly important role in furnishing international assistance.
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Chapter 7

Thailand: An Emerging Donor?

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Director of International Program
Thammasat University

1. Introduction

Since 2003, Thailand has been promoting development cooperation policies and is considered as an emerging donor. In the early 2000s, there were several events, which illustrated a new direction and practice of the country regarding her foreign aid policy. Among others, the speech of former prime minister Thaksin Shinawatra titled “Forward Engagement: The New Era of Thailand’s Foreign Policy” in 2003, the institutionalization of “Thailand International Cooperation Agency” (TICA) as well as the institutionalization of “The Neighboring Countries Economic Development Cooperation Agency” (NEDA), as organizations taking responsibility for the country’s aid provision in 2004 and 2005 respectively, were significant.

This paper will try to provide a brief historical background of the Thai foreign aid policy focusing on a development cooperation policy and direction as well as the role of the main institutions in the aid delivery process. As a non member of OECD-DAC, Thailand’s own principles and priorities of development cooperation will be elaborated in order to understand the key features of her policy and performance. Four case studies in Lao PDR will be discussed to illustrate a concrete picture of Thailand’s aid process. Lastly, data from interviews will provide the policy challenges of the country.

2. History: From being a recipient to becoming a donor

Thailand has been a recipient since World War II, especially after the First National Economic Development Plan was adopted and implemented in the early 1960s. Since then the demand for capital and technology rapidly increased. By the 1990s, when the Thai
economy had developed and the country had reached the middle-income level, some types of foreign aid were terminated by some donors. At the same time, Thailand also began providing aid to other developing countries, particularly to neighboring countries in the region.

Thai foreign aid policy shifted dramatically in the 2000s. In 2003, Prime Minister Thaksin Shinawatra announced twice a very decisive policy of “being a donor”. Firstly, in March 2003, he mentioned in his speech titled “Forward Engagement: The New Era of Thailand’s Foreign Policy” the following:

“(Thailand) … is becoming a non-aid-recipient-country, we request our former donor countries to turn their assistance to the need of our sub-regional neighbors. On our part, we will endeavor to find ways and means to create more wealth, peace and prosperity in the Greater Mekong Sub-region through closer cooperation with these GMS countries and in partnership with their donor countries.”

Secondly, in the same year in June, he again referred to this policy in his speech titled “The Future of Asia” which was delivered in Japan as below:

“Thailand, having swiftly recovered from the 1997 crisis much faster than many had anticipated, should be ready to be of economic assistance to our neighbors. Economic empowerment of our sub-regional neighbors will take priority in our foreign policy.”

In the following year, in 2004, the “Thailand International Cooperation Agency” (TICA) was established as a new organization under the Ministry of Foreign Affairs (MFA) to take responsibility on management of international development cooperation, particularly grant and technical assistance programs. In fact, TICA is not an absolutely new organization; it is the successor of the Department of Technical and Economic Cooperation (DTEC), which was established in the 1960s under the Office of Prime Minister with the purpose of managing the inflow of foreign aid received in the form of technical assistance. However, this agency was dissolved in 2002 following the bureaucratic reform measures enforced in that year, and its duties, responsibility, and staff were transferred to the newly established institution. With the redesigned structure, TICA has focused on aid provision, rather than aid reception.

In addition, in 2005, “The Neighboring Countries Economic Development Cooperation Agency” (NEDA) was restructured and modernized to take the responsibility of aid delivery to neighboring countries in terms of financial support. This agency was firstly established in 1996 as the Neighboring Countries Economic Development Fund under the Fiscal Policy Office, Ministry of Finance with a primary task of provision of financial support to strengthen neighboring economies. After 2005, this organization became the country’s international development assistance agency providing loans to neighboring countries in the Mekong Sub-region. NEDA is now a public organization under supervision of the Ministry of Finance.

65 http://www.thaiembdc.org/pressctr/statement/pm/sifa031203.html
66 http://www.mfa.go.th/web/showstatic.php?staticid=1129&Qsearch=Thailand’s development assistance
In terms of budget, Table 1 shows that the amount of assistance provided by TICA has been increasing gradually. For NEDA, Table 2 and Table 3 show that although the amount of loan has not been increasing significantly every year, the number of projects and their scale have been expanded, particularly for Lao PDR.

Table 1 | Total value of Thailand International Cooperation Program (2001~2010)

<table>
<thead>
<tr>
<th>FY</th>
<th>Value (’000 Bht.)</th>
<th>FY</th>
<th>Value (’000 Bht.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>113,036</td>
<td>2006</td>
<td>320,242</td>
</tr>
<tr>
<td>2002</td>
<td>117,540</td>
<td>2007</td>
<td>325,307</td>
</tr>
<tr>
<td>2003</td>
<td>192,105</td>
<td>2008</td>
<td>374,758</td>
</tr>
<tr>
<td>2004</td>
<td>170,474</td>
<td>2009</td>
<td>468,624</td>
</tr>
<tr>
<td>2005</td>
<td>209,908</td>
<td>2010</td>
<td>374,533</td>
</tr>
</tbody>
</table>

Source: TICA Statistics
Note: At the current exchange rate, 1 USD is equivalent to 31.17

Table 2 | Value of Loan provided for construction projects in CLMV countries by NEDA (mil.BHT)

<table>
<thead>
<tr>
<th>Year (Contract signing)</th>
<th>Project</th>
<th>Country received</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>Road construction project: Chiang Rai – Kunming (R 3)</td>
<td>Lao PDR</td>
<td>1,385</td>
</tr>
<tr>
<td>2003</td>
<td>Road improvement project: Koh Kong – Sre Ambel Road (R 48)</td>
<td>Cambodia</td>
<td>868</td>
</tr>
<tr>
<td>2004</td>
<td>Road construction project: Houi Kon Muang Nguyen – Pak Beng</td>
<td>Lao PDR</td>
<td>840</td>
</tr>
<tr>
<td>2004</td>
<td>Railroad construction project: Nong Khai – Ban Thanaleng</td>
<td>Lao PDR</td>
<td>197</td>
</tr>
<tr>
<td>2004</td>
<td>International Airport improvement project: Wattay Airport</td>
<td>Lao PDR</td>
<td>320</td>
</tr>
<tr>
<td>2004</td>
<td>Drainage pipeline construction and T2 Road improvement project: Vientiane</td>
<td>Lao PDR</td>
<td>160</td>
</tr>
<tr>
<td>2006</td>
<td>Road construction project: Anlong Veng – Siene Reap (R67)</td>
<td>Cambodia</td>
<td>1,300</td>
</tr>
<tr>
<td>2007</td>
<td>Airport improvement project: Pakse Airport</td>
<td>Lao PDR</td>
<td>320</td>
</tr>
<tr>
<td>2009</td>
<td>Road improvement project: Klorat (near Siem Reap) – O’Smach (in Udorn Mechai)</td>
<td>Cambodia</td>
<td>1,400</td>
</tr>
</tbody>
</table>

Source: NEDA Statistics / report
### Table 3 | Value of technical assistance provided by NEDA for projects in CLMV countries

<table>
<thead>
<tr>
<th>Year (contact signing)</th>
<th>Project</th>
<th>Country received</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Feasibility study and preliminary detailed design for road development project: Si Kai Junction – Baan Namsang and Baan Paktow – Saengthong city – Baan Nasa</td>
<td>Lao PDR</td>
<td>8</td>
</tr>
<tr>
<td>2009</td>
<td>Detailed design and preparation of bidding documents for the railway construction project: Tha Nalang – Vientiane</td>
<td>Lao PDR</td>
<td>10</td>
</tr>
<tr>
<td>2010 (in process)</td>
<td>Feasibility study and detailed design for road construction project: Poo Doo (Uttaradit Province) – Pak Lai</td>
<td>Lao PDR</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: NEDA statistics / report

### 3. Objectives and Principles

Thailand’s development cooperation policy has two main objectives. For political purposes, information from documents and interviews confirm that development cooperation policies have been formulated to strengthen and promote a cordial relationship between Thailand and her neighboring countries, particularly those countries in the Mekong Sub-region, namely Cambodia, Lao PDR, Myanmar, and Vietnam. At the same time, to promote economic and social development in developing partners, especially in neighboring countries by bridging the economic gap, eradicating poverty and expanding trade and investment, are also aims of Thailand’s development cooperation policies. The ultimate goal is to help developing partners to uplift their development level and the standard of living of their people. In addition, as ASEAN countries agreed to move forward to an ASEAN Community 2015, the Thai government has also utilized development cooperation as a tool to support the regional integration process in terms of infrastructure construction, trade facilitation and capacity building.

Regarding principles, the Thai government has adopted the philosophy of “self-help”, meaning that “helping them to help themselves” and “helping them to stand on their own feet”. It is believed that through development cooperation policies of Thailand, developing partners will be able to achieve sustainable economic growth and social development. In addition, from her own experience of being a recipient, Thailand believes that “mutual benefits” and "trust" are key elements to ensure the partnership between developed and developing partners which also leads to sustainable outcome of development cooperation programs.
4. Modality and Approach

Both TICA and NEDA have adopted the demand driven approach and the concept of mutual benefits when development cooperation projects are formulated. To ensure that the needs of the developing partners are recognized and transformed into the development cooperation projects, TICA and NEDA have encouraged the developing partners to participate in all levels of project management including planning, formulating, implementing, and evaluating. Various mechanisms have also been utilized, such as, needs assessments, brainstorming seminars, preparatory workshops, etc.

Under TICA, the bilateral frameworks were developed before the 2000s. The so-called South-South Cooperation focuses largely on human resources development in three main areas: education, health, and agriculture. Activities include training courses, dispatching of Thai experts, and provision of equipment.

Trilateral framework under TICA has also been developed under the concept of partnership for development, in which Thailand serves as a hub for transferring technical know-how, skills, appropriate technology and best practices to third party countries from within the region and beyond. This modality is designed to optimize effectiveness and create the synergy of technical assistance provided to the third party countries by pooling expertise and resources of Thailand and her development partners through development cooperation in various forms, such as, training programs, study programs, study tours, dispatch of experts and volunteers, provision of equipment, and financial support for organizing seminars and conferences.

Recently, as the regional integration in Asia rapidly progressed and a number of regional and sub-regional organizations have been established, such as, ACMECS, GMS, and ASEAN. Respectively TICA developed a regional development cooperation framework in response to the changing situation and supports these integration processes. For example, TICA functions as the human resources development center to promote capacity building under ACMECS and GMS.

In addition to these modalities, TICA recently set up other channels to extend Thailand’s expertise and experiences in response to the developing partners’ demand on human resources development, such as, the Thai International Postgraduate Program (TIPP) and the Annual International Training Courses (AITC). Under these programs, fellowships for postgraduate’s degree or training courses in the fields that Thailand has expertise in have been offered.

Regarding NEDA, generally bilateral framework is applied as a main scheme for aid provision. However, as the sub-regional cooperation has advanced intensively, particularly the GMS scheme which gives priority to connectivity and transportation networks among Mekong countries, NEDA recently also developed the regional development cooperation framework in response to the GMS scheme to facilitate the sub-regional integration process. The significant character of NEDA’s assistance is the so-called “tied aid”, which is completely different from TICA’s practices. It is a policy of NEDA that the neighboring
countries must use products and services from Thailand, more specifically using no less than fifty percent of total value of goods and services required in each project from Thailand.

5. Priorities

The target countries for Thailand’s development cooperation are four neighboring countries, CLMV, other ASEAN members, and developing countries in South Asia. Compared with TICA’s total amount of assistance as shown in Table 1, Table 4 shows that approximately sixty percent of TICA’s assistance goes to CLMV. Recently, the geographical scope has expanded to Central Asia and Africa. However, the assistance provided in terms of projects and budget is not big compared with those for the CLMV and Asian countries. Table 2 and 3 in the first section also illustrates and confirms that CLMV is the main destination of NEDA’s loan projects.

Table 4 | Value of Thailand’s International Cooperation Program 2001 – 2010 for CLMV

<table>
<thead>
<tr>
<th>FY</th>
<th>Cambodia</th>
<th>Lao PDR</th>
<th>Myanmar</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>22,153</td>
<td>36,650</td>
<td>3,950</td>
<td>21,490</td>
</tr>
<tr>
<td>2002</td>
<td>30,494</td>
<td>29,238</td>
<td>2,709</td>
<td>13,272</td>
</tr>
<tr>
<td>2003</td>
<td>69,614</td>
<td>31,209</td>
<td>2,912</td>
<td>15,852</td>
</tr>
<tr>
<td>2004</td>
<td>30,536</td>
<td>47,869</td>
<td>5,544</td>
<td>17,574</td>
</tr>
<tr>
<td>2005</td>
<td>36,660</td>
<td>48,247</td>
<td>11,766</td>
<td>31,601</td>
</tr>
<tr>
<td>2006</td>
<td>36,349</td>
<td>63,694</td>
<td>13,807</td>
<td>22,750</td>
</tr>
<tr>
<td>2007</td>
<td>51,580</td>
<td>71,259</td>
<td>26,887</td>
<td>19,840</td>
</tr>
<tr>
<td>2008</td>
<td>56,507</td>
<td>87,485</td>
<td>36,805</td>
<td>22,858</td>
</tr>
<tr>
<td>2009</td>
<td>95,263</td>
<td>101,590</td>
<td>45,254</td>
<td>22,027</td>
</tr>
<tr>
<td>2010</td>
<td>40,722</td>
<td>121,239</td>
<td>43,101</td>
<td>18,864</td>
</tr>
</tbody>
</table>

Source: TICA Statistics

In terms of sector, in order to utilize her own expertise, Thailand’s development cooperation programs give priority to agricultural development, public health, and education. Capacity building and human resources development are the core themes of TICA’s development cooperation programs. Particularly, government officials of the developing partners benefit from the transfer of knowledge and technical know-how in the fields which Thailand has expertise and appropriate technology that are applicable to their local conditions and absorptive capacity. At the same time, in order to support the regional integration process, NEDA has given priority to a regional connectivity and transportation network.
6. Institutions

Two main institutions, TICA and NEDA, are assigned to carry out the task of aid provision.

TICA aims to be a leading agency with high expertise in managing international development cooperation in order to enhance socio-economic development and promote cultural and technical ties with other developing partners. The main mission of the organization is to prepare strategic plans and administrative procedures of international technical cooperation projects under bilateral, trilateral, and regional cooperation frameworks. With the above vision and mission, TICA has implemented the following activities: a dispatch of Thai experts, a provision of fellowships, an allocation of technical equipments and an implementation of development projects.

NEDA has a vision to serve as a partner in providing economic development cooperation with neighboring countries to ensure prosperity and betterment in the Mekong Sub-region. NEDA functions as a funding source for development projects, especially for infrastructure construction in neighboring countries, particularly in Lao PDR and Cambodia. Furthermore, as a public organization, NEDA also promotes the significant role of Thai private sector in neighboring countries.

Apart from TICA and NEDA, several ministries have also actively been involved in aid provision. Table 5 displays that development assistance is allocated to developing partners through various activities following the guidelines of different ministries. It is observed that training courses are the most common types of activity that almost all ministries offer to developing partners. Owing to the scattered channels of aid provision, the overlap in terms of budget, contents of the program and trainees, is often inevitable. Certainly, this situation affects the efficiency of the aid delivery process and has an impact on aid effectiveness in developing partners.

<table>
<thead>
<tr>
<th>Ministry or Agency</th>
<th>Priorities</th>
<th>ODA Support Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Agriculture and Cooperatives</td>
<td>Irrigation, Flood management system, avian flu, hybrid seed production, animal husbandry, and fisheries. Grant support to FAO.</td>
<td>Technical assistance, field tests in recipient countries, provision of equipment, study visits, international meetings and fellowships, support for international organizations.</td>
</tr>
<tr>
<td>Ministry of Commerce</td>
<td>Foreign trade, trade negotiations, and export promotion.</td>
<td>Fellowships, training and study visits.</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>Vocational education, teacher training, Thai language education, educational quality and equity, grant support to UNESCO.</td>
<td>Workshops, international meetings, study visits, scholarships, and training. Support for international organizations.</td>
</tr>
<tr>
<td>Ministry of Energy</td>
<td>Hydro Power, Solar power, bio fuels, biomass generation of electricity and wind energy</td>
<td>Field projects, training, international meetings and seminars.</td>
</tr>
<tr>
<td>-------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>Tax management and research</td>
<td>Training</td>
</tr>
<tr>
<td>Commission on Higher Education</td>
<td>Higher education in public health, science and technology, agriculture and animal husbandry, Thai language and culture, energy, hospitality and tourism, and faculty training and development</td>
<td>Scholarships, faculty exchanges, joint research programs, provision of software, training and study visits.</td>
</tr>
<tr>
<td>Ministry of Interior</td>
<td>Community development, Sufficiency Economy, rural and provincial electrification</td>
<td>Technical assistance, and training</td>
</tr>
<tr>
<td>Ministry of Justice</td>
<td>Legal and judicial development and narcotics control. Grant support to UNODC</td>
<td>Contributions to international organizations, study visits, training, and international meetings. Support for international organizations.</td>
</tr>
<tr>
<td>Ministry of Labor and Social Welfare</td>
<td>Social security, industrial rehabilitation and training</td>
<td>Field projects and study visits</td>
</tr>
<tr>
<td>Ministry of Natural Resources and Environment</td>
<td>International water resources cooperation, ground water resource development and conservation, mineral resources, and ASEAN wildlife enforcement and conservation</td>
<td>Study visits, provision of equipments, building of schools and water systems, field projects and training</td>
</tr>
<tr>
<td>Office of the Prime Minister</td>
<td>Public relations (radio), civil service, management and leadership development</td>
<td>Fellowships and study visits, international meetings</td>
</tr>
<tr>
<td>Ministry of Science and Technology</td>
<td>ICT, genetic engineering and biotechnology</td>
<td>Technical assistance, fellowships, international meetings, training and study visits.</td>
</tr>
<tr>
<td>Ministry of Social Development and Human Security</td>
<td>Disabilities, social welfare, prevention of human trafficking in the GMS.</td>
<td>Training and international meetings</td>
</tr>
<tr>
<td>Bank of Thailand</td>
<td>Banking practices, auditing, stock exchange development, calculation and forecasting of core inflation, foreign exchange management, and foreign investment flows.</td>
<td>Technical assistance, fellowships, study visits.</td>
</tr>
<tr>
<td>Ministry of Tourism and Sports</td>
<td>Physical education and tourism development</td>
<td>Fellowships and international meetings</td>
</tr>
<tr>
<td>Ministry of Transport</td>
<td>Airlines, and railroads</td>
<td>Seminars and training</td>
</tr>
</tbody>
</table>

Not only have governmental organizations, but non-governmental organizations provided assistance to neighboring countries. Among others, as illustrated in Table 6, the contribution of the Office of Royal Development Project Board (ORDPB) is significant.

### Table 6 | Value of ORDPB assistance to neighboring countries 2010-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Project</th>
<th>Country Received</th>
<th>Value (mil.Bht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1. The Royal Development Study Center : The Agricultural Development and Service Center Km.22</td>
<td>Lao PDR</td>
<td>8,023,200</td>
</tr>
<tr>
<td></td>
<td>2. The Cultural School for Orphans and Ethnic Minorities Km.67</td>
<td>Lao PDR</td>
<td>4,416,939</td>
</tr>
<tr>
<td>2011</td>
<td>1. The Royal Development Study Center : The Agricultural Development and Service Center Km.22</td>
<td>Lao PDR</td>
<td>4,747,900</td>
</tr>
</tbody>
</table>

Source: ORDPB Statistics/Report

**Four case studies: Key features**

Lao PDR ranks the first among other developing partners of Thailand’s development cooperation counterparts. Table 4 shows that among CLMV, Lao PDR has received more development assistance than the other three countries. It can also be clearly seen in Table 2 and 3, that 70% of loans and 100% of technical assistance from NEDA are allocated to Lao PDR, while Table 7 also confirms that all types of TICA’s development cooperation programs are also offered to Lao PDR. Lao PDR, as a close neighboring country, holds a special position in Thai foreign relations due to the geographical proximity, historical background, ethical issues and kinship. Thus, Lao PDR is also targeted by specific aid providing organizations, for example, the Office of Royal Development Project Board (ORDPB), as shown in Table 6. To understand Thailand’s development cooperation policy and aid provision process, four case studies in Lao PDR have been selected. Two cases are initiated and granted by TICA while the other two are Royal Projects. These four projects reflect the utilization of Thailand’s expertise of her own development knowledge and experiences, namely in the development experiences of the agricultural and educational sectors.
Table 7 | Total Value of Thailand’s International Cooperation Program for Lao PDR 2001~2010

<table>
<thead>
<tr>
<th>FY</th>
<th>Bilateral</th>
<th>TIPP</th>
<th>AITC</th>
<th>TCDC</th>
<th>Trilateral</th>
<th>Cooperation Framework</th>
<th>Total TICP ('000 Bht.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>35,112</td>
<td>-</td>
<td>1,159</td>
<td>10</td>
<td>369</td>
<td>-</td>
<td>36,650</td>
</tr>
<tr>
<td>2002</td>
<td>27,561</td>
<td>-</td>
<td>1,060</td>
<td>-</td>
<td>617</td>
<td>-</td>
<td>29,238</td>
</tr>
<tr>
<td>2003</td>
<td>26,625</td>
<td>2,587</td>
<td>1,376</td>
<td>-</td>
<td>621</td>
<td>-</td>
<td>31,209</td>
</tr>
<tr>
<td>2004</td>
<td>43,503</td>
<td>2,096</td>
<td>1,661</td>
<td>-</td>
<td>609</td>
<td>-</td>
<td>47,869</td>
</tr>
<tr>
<td>2005</td>
<td>43,529</td>
<td>2,319</td>
<td>1,267</td>
<td>-</td>
<td>1,132</td>
<td>-</td>
<td>48,247</td>
</tr>
<tr>
<td>2006</td>
<td>57,542</td>
<td>2,512</td>
<td>1,104</td>
<td>-</td>
<td>457</td>
<td>2,079</td>
<td>63,694</td>
</tr>
<tr>
<td>2007</td>
<td>57,042</td>
<td>1,952</td>
<td>3,426</td>
<td>-</td>
<td>1,982</td>
<td>6,857</td>
<td>71,259</td>
</tr>
<tr>
<td>2008</td>
<td>67,532</td>
<td>2,763</td>
<td>3,215</td>
<td>-</td>
<td>1,876</td>
<td>12,099</td>
<td>87,485</td>
</tr>
<tr>
<td>2009</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>2010</td>
<td>89,888</td>
<td>2,994</td>
<td>243</td>
<td>-</td>
<td>4,130</td>
<td>23,985</td>
<td>121,239</td>
</tr>
</tbody>
</table>

Notes: TIPP – Thai International Postgraduate Program
: AITC – Annual International Training Courses
: TCDC – Technical Cooperation among Developing Countries
: Cooperation Framework: ACMECS, BIMSTEC, GMS
Source: TICA Statistics 2001 – 2010

The Development of Master’s Degree Program in International Development Studies, National University of Laos

Regionalized development under the GMS scheme has brought about social, cultural, and environmental changes in Lao PDR. While trade and investment have expanded and people’s lifestyle and the standard of living have changed, economic development and modernization have also generated various problems; such as, urban-rural disparity, degradation of natural resources and environment and changes in local livelihoods. In addressing the development problems in Lao PDR, the National University of Laos (NUOL) has collaborated with Chiang Mai University in developing a Master’s Degree Program in International Development Studies to be launched at NUOL with an aim to train human resources in the field of development studies in Lao PDR.

This collaborative project will be funded by TICA for a duration of seven years (2009-2016). Under this project there are two components: the 21 scholarships, and the M.A. Program in International Development Studies. Regarding the scholarships, as a capacity building aspect of this project, TICA is providing a total of 21 scholarships (7 scholarships per year for 3 consecutive years) for Laotian lecturers to study at the M.A. Program in Sustainable Development at the Regional Center for Social Science and Sustainable Development (RCSD), Chiang Mai University. Out of the 7 scholarships, 3 are allocated to NUOL faculties, 2 to Champasak University and 2 to Souphanouvong University. For the M.A. Program in International Development Studies, during the first 5 years, Chiang Mai University will be providing academic assistance in developing the curriculum and teaching courses in areas which NUOL may lack expertise in and will supervise theses. For
the last 2 years, Chiang Mai University will act as a consultant for the program. It is aimed that 15 graduates will be produced every year.

The Agricultural Development Project: Sugar corn and peanut farming in Vientiane Prefecture

The objectives of the project are encouraging and promoting sugar corn and peanut farming, as well as transferring agricultural know-how to local officials and farmers in the Vientiane Prefecture. It is expected that farmers who join the project will gain technical knowledge and are thereby able to increase their productivity, while the officials who join the training program will also gain new technical knowledge and are able to disseminate it to other officials and later to farmers in other areas. It is a 3 year project (2009-2012) funded by TICA and implemented by Ministry of Agriculture and Cooperatives (MOAC). Apart from the training programs, information from interviews indicates that MOAC also provides seed and baby plants for farmers who join the project.

The Royal Development Study Center: The Agricultural Development and Service Center Km. 22

This project was born out of the good relationship between Thailand and Lao PDR, particularly between His Majesty the King Bhumibol and His Excellency Mr. Kaysone Phomvihane. The Center officially opened in 1994 following the development guidelines as practiced in the Royal Development Study Center at Sakon Nakhon Province in the Northeastern part of Thailand. The Center has three main objectives: first, to enhance good relationship between Thailand and Lao PDR by providing assistance and technological transfer; second, to serve as a demonstration site for various agriculture related activities by taking into account the local environmental and topographical conditions; and third, to promote and upgrade the standard of living of the Laotians who live in and nearby the project area.

Following these objectives several activities have been conducted, including, infrastructure development, water sources and land development, agricultural, livestock, and fishery development, model family, academic development and technology transfer through training courses. To implement the project, the Office of the Royal Development Projects Board (ORDPB) functions as the coordinating organ while the implementing agencies consist of both Thai and Laotian organizations, namely the Royal Thai Embassy at Vientiane and MOAC for the Thai side and MFA and MOAF for the Laotian side.

The Cultural School for Orphans and Ethnic Minorities Km.67

The Cultural School was established in 1976 by the Laotian government in cooperation with various international organizations. The primary purpose was to help orphans who lost their parents due to the war during the 1960s-1970s, as well as to provide opportunities for ethnic minorities. Owing to a limited budget, dormitory, food and water were inadequate. Her Royal Highness Princess Maha Chakri Sirindhorn has been providing financial support for dormitory construction and food products for students since 1990. Recently, several aid providing agencies, such as ORDPB and MOAC, are also supporting activities of this school while the activities of the school have expanded to include training courses that provide special skills for students on top of compulsory education.
<table>
<thead>
<tr>
<th>Aspect Projects</th>
<th>MA. Program</th>
<th>Agricultural Development</th>
<th>Km.22</th>
<th>Km.67</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Initiative</td>
<td>Government to Government Project</td>
<td>Government to Government Project</td>
<td>Royal Project</td>
<td>Royal Project</td>
</tr>
<tr>
<td>2. Institution (Coordinator)</td>
<td>TICA + CMU</td>
<td>TICA + MOAC</td>
<td>ORDPB + RTE</td>
<td>ORDPB + RTE</td>
</tr>
<tr>
<td>4. Approach</td>
<td>Demand driven</td>
<td>Demand driven</td>
<td>Demand driven</td>
<td>Demand driven</td>
</tr>
<tr>
<td>5. Modality</td>
<td>Bilateral</td>
<td>Bilateral</td>
<td>Bilateral</td>
<td>Bilateral</td>
</tr>
<tr>
<td>6. Counterparts</td>
<td>NUOL</td>
<td>MOAF</td>
<td>MOAF + MOFA + Vientiane Local Authority</td>
<td>MOE + Vientiane Local Authority</td>
</tr>
<tr>
<td>8. Budget</td>
<td>Approximately 5 mil. Bht. per year</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Notes: ORDPB: Office of Royal Development Project Board
RTE    : Royal Thai Embassy
MOAC: Ministry of Agriculture and Cooperatives (Thailand)
CMU    : Chiang Mai University (Thailand)
MOAF: Ministry of Agriculture and Forestry (Lao PDR)
MOFA: Ministry of Foreign Affairs (Lao PDR)
MOE: Ministry of Education (Lao PDR)
NUOL: National University of Laos
HRD: Human Resource Development

7. Observations

Information from Laotian interviewees, including officials, professors, teachers and students, illustrates the success of these four projects in terms of project achievement and contribution to development of Lao PDR. It can be seen in Table 8 that all four projects apply the same approach and modality, namely a demand driven and bilateral framework.
8. Policy challenges

Either politics or economics?
It has almost been ten years since 2003, when Thailand started its ‘donor’ activities. Several strategies were initiated; a number of programs and projects were conducted, and a large amount of budget was spent. However, Thai interviewees, particularly government officials, gave critical comments about the output and outcome of this policy. Namely, it is expected that the success of this policy to be more visible. In addition, the question of policy priorities and objectives was also raised. According to Thai officials, although it is accepted that political and economic objectives should be promoted in parallel with this policy, it is important to set the priority among the two so that the policy can be streamlined and the implementation can be focused in terms of both contents and budget. Recently, the output of this policy confirms the achievement of the political objective – a good relationship with the neighboring countries, particularly Lao PDR, but the question on the success of economic and social development of the developing partners in the sub-region still exists. Hence, it may now be the time to reconsider the policy priorities and objectives as the policy is reaching its ten year anniversary.

Either unified or multi channels/institutions?
Data from documents and interviews illustrate the scattered channels of aid provision as well as uncoordinated aid programs provided by several organizations. This leads to the question of efficiency, duplication, and contribution. In fact, TICA recently has tried to function as a coordinator and set up the national strategy on development cooperation. The key question here is not the technical issue of coordination; rather it is the question of

67 The interview and site visit could not be conducted due to the floods in this area.
policy directions and implementation. Precisely speaking, it is debated among officials whether all agencies involved in the aid provision process should be consolidated to increase efficiency and avoid duplication. Again, the different perspectives between donor and developing partners should also be considered. From the donor’s point of view, the inefficient provision process should be restructured; however, from the developing partner’s perspective, more opportunities are requested. This also poses a challenge for the Thai government and agencies who are reconsidering the delivery process and coordination among institutions. At the same time, it is also important for the Thai government to think about the reception process in order to avoid “aid dependency” and the issue of “managing the donor”.

Either area focus and quality or expanded scope and scale?
Regarding geographical priority, both TICA and NEDA have focused on Asian developing partners, particularly CLMV, which for many reasons, is appropriate. However, according to recent TICA’s report and documents, it is indicated that there is a trend to expand the scope of aid provision in terms of area to other regions, such as, Africa, and also to increase the budget, while there is not much discussion on the quality of aid or its contribution to the economic and social development of developing partners, particularly regarding poverty eradication and the measures to end aid. After a large number of programs on capacity building and human resource development have been offered, it is very important to evaluate the impact of these programs in the developing partners, particularly how it contributes to economic and social development of these countries. An attempt to expand the geographical scope and budget scale reflects the ambitious policy of the Thai government as “a donor”. However, what is more important may be the content of development assistance which is based on the belief and intention to end aid.

Either compliance or alternate?
Although Thailand is not a member of the OECD-DAC and neither a signatory of the Paris Declaration, according to TICA’s reports and documents, there is an effort to join the regime, which means that Thailand must comply with the norms and practices of a donor group, namely the OECD-DAC. Regarding this point, for Thailand, it is not a question of readiness, but it is a question of principle. As Thailand has evolved to be a donor differentiating herself to the traditional donors and has also witnessed both success and failure of the policies of traditional donors, it would be more helpful for developing partners if Thailand could propose an alternative policy and method of aid delivery and management which are derived from its experience and might be more suitable for developing partners in the region. In addition, being “a neighboring country” that shares the borders, is also a very significant condition that Thailand must take into account. Not only should the moral obligation to help neighboring countries get out of poverty be reconsidered, but also the regional common interests must be identified so that Thailand is able to develop an appropriate development cooperation policy which would benefit all countries in the region.
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Chapter 8
Good Governance and International Development Cooperation

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Since the late 1990s, the world’s largest bilateral donors have dramatically increased their spending on governance initiatives within their overall foreign aid portfolios. Multilateral organizations like the World Bank and the United Nations Development Programme (UNDP) have increased their focus on governance as well. This has not only altered the language of foreign aid — with greater attention given to such governance issues as counter-corruption, rule of law, and the institutional context for decision-making — but has led donors to include a widening array of governance components in their aid packages. Against this background, the past decade has also witnessed the rise of “new donors,” particularly in Asia, which tend to minimize governance spending and focus more on infrastructure. According to China’s recent foreign aid white paper, for example, 61 per cent of China’s concessional loans are used to help developing countries construct transportation, communications and electricity infrastructure. These divergent approaches to foreign aid appear to be emblematic of a key difference in donor perspectives: whereas new donors prefer to promote economic development first, believing that institutions will follow, OECD donors aim to build effective institutions at the outset to optimize the prospects for sustainable development. This chapter takes a critical look at the governance side of this debate by investigating the evolution of governance aid and how it is defined and practiced by “traditional” donors in the OECD’s Development

68 The author wishes to thank Dimitar Gueorguiev, Ph.D. Candidate in Political Science at the University of California, San Diego, for his valuable research support in preparing this chapter.
69 China’s Foreign Aid, Information Office of the State Council, The People’s Republic of China, Beijing, April 2011. See also He Wenping’s chapter in this volume.
Assistance Committee (DAC). The chapter then discusses specific examples of governance projects in Asia, and concludes with ideas for identifying possible common ground between traditional donors, on the one hand, and new donors on the other.

1. The Rise of ‘Good Governance’ in Development Discourse

The increasing focus on governance by OECD donors draws support from an econometric literature that establishes a positive association between the quality of institutions and economic growth. Some studies document how differences in capital accumulation, productivity, and output per worker are driven by differences in institutions and government policies that are broadly described as “social infrastructure.” Others show how economic institutions shape the incentives of key economic actors in society, influencing investments in physical and human capital and technology, as well as the organization of production. In two widely-cited studies, Daron Acemoglu, Simon Johnson and James Robinson argue that differences in institutions and state policies explain large differences in income per capita across countries. “Although cultural and geographical factors may also matter for economic performance,” they write, “differences in economic institutions are the major source of cross-country differences in economic growth and prosperity.”

The economic effects of institutions and policies have animated long-running research debates on foreign aid as well. The fundamental question of whether aid causes growth is polarized between economists who argued that aid has no effect on growth (and may even harm it), and those who argued that aid has a positive relationship with growth on average across countries. By the mid-1990s, however, a growing number of studies found a positive relationship either by allowing for diminishing returns as the volume of aid increases, or by testing for conditional relationships. Among these was a 1995 study by Jonathan Isham, Dani Kaufmann and Lant Pritchett, who discovered a strong statistical link between a country’s civil liberties and the performance of government investment projects financed by the World Bank. Subsequently, in a highly-influential article published in 2000, Craig Burnside and David Dollar provided evidence that aid accelerates growth in developing countries with sound institutions and policies, but has less or no effect in countries in which institutions and policies are poor. An important implication of this finding, which they stated explicitly, was that aid would have more impact on growth in the developing world “if it were systematically allocated toward good policy

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72 For a summary of these debates, see Steven Radelet, “A Primer on Foreign Aid,” Working Paper No. 92, Center for Global Development (July 2006), pp. 7-12.
environments.”74 A follow-up study by Burnside and Dollar in 2004 reinforced their central finding and provided additional evidence that corrupt institutions and weak policies limit the impact of financial assistance for development.75

While these studies generated criticism and debate,76 they have had a huge effect on donors in two key respects. First, having become conventional wisdom, the research findings have caused donors to develop aid allocation strategies based on “country selectivity” or “institutional selectivity” — that is, channeling more aid resources to countries that have the institutional and policy framework to use the resources effectively. Such a strategy guides the World Bank’s Performance Based Allocation system for distributing concessional International Development Association (IDA) funds. It also serves as the foundation for the U.S. Millennium Challenge Corporation (MCC). Established in 2004 as an independent U.S. foreign aid agency, the MCC seeks to deliver “smart” foreign aid by focusing on good policies, country ownership, and results. It forms partnerships with some of the world’s poorest countries, but only those committed to good governance, economic freedom, and investment in their citizens.77

Another way in which the above research studies have affected foreign aid, albeit unintentionally, is by encouraging donors to develop or significantly expand aid programs designed to promote good governance in developing countries.78 In other words, since it was accepted wisdom that aid would stimulate growth most effectively in countries with sound institutions and good policy environments, it made sense logically that donors should first help to improve those institutions and policies as part of their growth-promoting initiatives. Efforts by OECD donors to develop and expand governance-related aid programs in fact preceded the work of Burnside and Dollar. In a recent study, Merilee Grindle describes in rich detail how donors were developing models and blueprints to promote good governance throughout the 1990s — inspired, in part, by intellectual currents in the social sciences such as the “new institutionalism” in economics and political science.79 Still, as shown in Figure 1, spending by OECD donors on

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78 Burnside and Dollar do not expect aid to improve institutions and policies or be a main determinant of reform, and were not concerned with governance-related aid per se. However, they do speculate about the possible incentive effects of allocating aid based on institutional selectivity strategies. See “Aid, Policies, and Growth: Revisiting the Evidence,” p. 21.
79 “Good Governance: The Inflation of an Idea,” Faculty Research Paper Working Series, Harvard Kennedy School (June 2010), pp. 3-4. By the early 1990s, following the end of the Cold War, USAID was already expanding its support for democracy and governance programs through direct support for democratic political development in four areas: strengthening democratic representation;
‘Government and Civil Society’ programs, a subset of social sector aid, accelerated dramatically only after the publication of these econometric studies. In the decade to follow, as Grindle notes, good governance would provide a “technical” approach to dealing with institutions and policies that had come to be seen as impediments both to development and to the effective use of foreign aid.

Figure 1 | Traditional Bilateral ODA Allocated to Government and Civil Society (% of total social sector allocable ODA 1985-2009)


2. Putting Good Governance into Development Practice

Bilateral and multilateral donors define governance in different ways; broadly speaking, however, it refers to the institutional framework of public authority and decision-making. Governance includes the institutions, systems, and “rules of the game” that determine how political decisions are made, public resources are allocated, and how the economy and society are regulated. By extension, good governance typically refers to a set of admirable characteristics of how government should be carried out. According to UNDP, for instance, good governance is participatory, transparent, accountable, effective, and equitable. It also promotes the rule of law.

For its part, the UK’s Department of International Development (DFID) sees governance as the way countries and societies manage their affairs politically and the way power and authority are exercised. Good governance can improve the lives of the poor in profound ways, supporting respect for human rights; promoting lawful governance; and encouraging democratic values. See Democracy and Governance, USAID Policy, Directorate for USAID (November 1991).

80 Social sector aid has been on the rise since the early 1990s and now makes up about 43% of total ODA (see Appendix Figure A1).
ways by achieving better development outcomes, ranging from the effective provision of basic services to the reduction of violent conflict and improvement of human security in fragile states. Under DFID’s approach, achieving good governance requires three things in particular: state capability (the ability and authority of leaders, governments and public organizations to get things done; accountability (the ability of citizens to hold leaders, governments and public organizations to account); and responsiveness (how leaders, governments and public organizations actually behave in responding to the needs and rights of citizens). DFID seeks to improve governance along these dimensions in aid projects around the developing world. In Nigeria, for instance, it has supported a number of projects and programs to improve responsiveness, including a national benchmarking exercise in 2005 to compare the performance of federal states in policymaking, financial management, and accountability. DFID has also supported long-term efforts to improve the capability and performance of Nigeria’s civil service. In recent years, DFID’s governance programs have seen an increased emphasis on building peace and stability in conflict-affected and fragile states, through an approach focused on peace-building and state-building.

The growing focus of OECD donors on governance has led to increasing spending on staff, programs, and research. By 2007, DFID employed over 300 professional advisory staff specializing in the fields of governance, conflict, social development and economics, and DFID’s investment in governance averaged 17% of its total development assistance between 2004-2009. For its part, the U.S. Agency for International Development (USAID) spent US$3.3 billion on democracy, human rights, and governance programs in fiscal year 2011, accounting for 10% of USAID’s 2011 budget. This included US$1.6 billion for good governance programs related to public participation and oversight, transparency, government effectiveness, and institutional checks and balances. AusAID spends about 30% of its foreign aid budget on governance programs, which currently focus on leadership; inter-relationships between politics, state and civil society; law, justice and anti-corruption efforts; and improving the capacity and effectiveness of the public sector. Not surprisingly, as governance aid has increased, these donors have reduced the amount of aid they are providing to other sectors like infrastructure. This change in ODA funding priorities is vividly depicted in Figures 2 and 3 below.

84 See also The Politics of Poverty: Elites, Citizens and States: Findings from Ten Years of DFID-Funded Research on Governance and Fragile States 2001-2010, DFID (2010).
88 Long-run statistics on Government and Civil Society aid in the OECD database include aid for Peace and Security programs which are not typically included in definitions of governance.
The dramatic growth in governance spending over the past decade has generated concerns among some recipient countries that a new form of conditionality has arisen in which foreign aid is being conditioned on governance reforms prescribed by donors. 89 While increasingly focused on governance programming, OECD donors have nevertheless committed to following the principles embodied in the 2005 Paris Declaration on Aid Effectiveness, which emphasize host country “ownership” over development policies and actions as well as “alignment” of donor activities with host country strategies, institutions and procedures. These principles can be seen in the MCC’s emphasis on “country ownership” and in DFID’s focus on “country led” approaches to development and poverty

89 For a discussion on conditionality, see Radelet, “A Primer on Foreign Aid,” pp. 13-14.
reduction, for instance. The following section describes two Asia Foundation governance projects that were designed to be supportive of and responsive to local priorities and initiatives. They are intended to show that donors and international non-governmental organizations can engage in governance-related cooperation efforts with local authorities and partners, including business associations and think tanks, and contribute to locally-led programs of reform.

3. Examples of Governance Programs and Research in Asia

3.1. Provincial Competitiveness Index in Vietnam

During the 1990s, the Vietnamese government developed a series of laws and regulations designed to improve the policy and operating environment for Vietnam’s emerging private sector. These included the Law on Promotion of Domestic Investment of 1995 and the landmark Enterprise Law that came into effect in January 2000. The Enterprise Law significantly lowered entry barriers for business and led to a boom in private sector growth, manifested in the rapid registration of new Vietnamese enterprises. But while the law represented a paradigm shift in official policy toward the private sector, the operating environment for business continued to vary significantly from province to province. In this evolving context, The Asia Foundation partnered with the Vietnamese Chamber of Commerce and Industry (VCCI) in 2002 to undertake research in 14 provinces to study the interplay of economic and governance factors in generating provincial growth. This research became the foundation for the Provincial Competitiveness Index (PCI) under the Vietnam Competitiveness initiative, a USAID-funded project.

Launched in 2005, the PCI was developed by The Asia Foundation and VCCI to rigorously assess and rank all 64 Vietnamese provinces on various aspects of economic governance. The goal of the project was to create a tool to measure year-to-year changes in standards of economic governance in Vietnam’s provinces from the perspective of private sector development. The underlying rationale is that economic governance affects private sector development independent of initial endowments such as location, infrastructure, and human resources. Thus, good economic governance practices can explain why some provinces out-perform others despite having similar initial endowments.

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92 The number of Vietnamese provinces was reduced from 64 to 63 in 2008, following the merger of Hanoi and Ha Tay.
At its core, the PCI is a composite index based on a 100-point scale that scores the economic governance of each province. The index is comprised of 10 sub-indices that capture the key elements of the local business environment that can be influenced by provincial regulations and officials. These sub-indices include entry costs; land access and security of tenure; transparency and access to information; time costs and regulatory compliance; informal charges; SOE bias and competition environment; proactivity of provincial leadership; private sector development services; labor and training; and legal institutions. Each of the sub-indices is broken down into a series of indicators. The data required to capture these indicators involves surveying businesses about their perceptions of the provincial business environment and collecting “hard data” from published sources. The indicators are then scored and aggregated to create composite scores for each province, and the composite scores are ranked to create the full composite index. A diagram of the PCI’s methodology is provided in Figure 4.93

![Constructing the PCI and EGI Methodology](image)

Provincial rankings have been released on an annual basis together with a full report since the PCI’s inception, attracting widespread attention from policymakers and the media. The PCI was voted one of the ten most important events of 2005 by Vietnamese Television, cited in speeches of two successive Prime Ministers, and covered in hundreds of investigative news stories. The widespread media attention also created demand among provincial officials for customized diagnostic workshops to learn more about their provincial scores and how they can take action to improve. Following a PCI diagnostic workshop in Kien Giang province in 2008, for instance, the local People’s Committee issued

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a report analyzing each sub-index ranking and outlining an action plan of reforms that
needed to be implemented by provincial departments.

In addition to ranking Vietnamese provinces based on the quality of economic
governance, the PCI research team also assesses the impact of governance improvements
on private sector growth and welfare. Specifically, with comparable data going back three
years from the start of the project, the 2008 PCI report found that all else being equal, a one-
point improvement in the 100-point PCI in a given year within a particular province was
associated with a 6.9 percent increase in active private companies, a 2.6 percent increase in
average investment per capita, and a 1.6 percent increase in GDP per capita in the
subsequent year. The results show that while governance is not the only driver of
improvements in economic conditions in a province, it does matter a great deal.94

The PCI continues today as a widely-used annual benchmark of provincial
governments’ performance in supporting business-friendly environment. It has become a
useful policy analysis tool for Vietnamese government officials, particularly at the
provincial level, and a model for development practitioners interested in evidence-based
programming. The methodology of the PCI, which was managed by The Asia Foundation
in partnership with VCCI from 2005-2008, has now been applied to related Economic
Governance Indices (EGIs) implemented by the Foundation in Indonesia, Cambodia, Sri
Lanka, and Bangladesh.95

3.2. Researching Governance Trends in China

The Asia Foundation is currently supporting a research initiative, the Chinese
Governance Assessment Project (C-GAP), that examines changes in public participation,
transparency, and accountability across provinces in China and assesses whether these
changes correlate with key governance outcomes such as improved legal compliance,
reduced corruption, and better public service delivery. The project is being carried out in
partnership with leading Chinese research institutions, and is designed to produce fine-
grained measures of China’s governance over time by quantitatively and qualitatively
analyzing changes and variance across locales.

As already discussed in this chapter, a growing body of econometric literature
demonstrates a positive association between good governance and a range of important
socioeconomic outcomes such as economic growth, business development, and poverty
alleviation. As shown in Figure 5, however, China represents a glaring anomaly for
international comparisons of governance and economic performance. Despite achieving
the fastest economic growth in the world over the past two decades and lifting hundreds of
millions of citizens out of poverty since the late 1970s, international measures of Chinese
governance have hardly budged and even declined in some cases.

94 Ibid., pp. 16-18.
95 For an in-depth look at this methodology, see Edmund J. Malesky and Nina Merchant-Vega, “A Peak
under the Engine Hood: The Methodology of Subnational Economic Governance Indices,” forthcoming
C-GAP is investigating this anomaly by offering a more nuanced picture of governance reforms and changes in China over time. In recent years, reforms have included government efforts to promote public participation in lawmaking and administrative rulemaking; the promulgation of national open government information (OGI) regulations following local experiments in OGI; revisions to the Organic Law of Villagers’ Committees mandating local elections; and expanded criteria for official performance evaluation, including the integration of citizen satisfaction surveys into these criteria. To better understand the nature and impact of these reforms, C-GAP is measuring three specific aspects of governance: (i) transparency in the provision of information on government activities, processes, and regulations; (ii) public participation in the formation of government laws and policies; and (iii) accountability of government officials to the public.

In addition, collection of comprehensive data on participation, accountability, and transparency is facilitating statistical testing of three well-known hypotheses in the governance literature, namely:

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H1: Greater transparency reduces corruption. In keeping with the notion that “sunlight is the best disinfectant,” disclosure of information on government budgets, fees, and discretion standards should reduce opportunities for government corruption by constraining the ability of officials to exploit rules to their benefit.

H2: Greater participation in rulemaking enhances downstream compliance. This hypothesis is premised on the logic that when citizens participate in creating policies through notice and comment procedures, public hearings, or other participatory mechanisms, they are more likely to believe in the justness of a policy and to comply with its stipulations.

H3: Greater accountability leads to better public service delivery. The quality of public services such as infrastructure, education, and healthcare should be higher where official tenure and promotion are influenced by elections, citizen lawsuits, evaluations, and other accountability mechanisms.

C-GAP builds on The Asia Foundation’s law and governance programs in China, implemented in close cooperation with government partners and universities, that support the development of administrative law, facilitate public participation in lawmaking, and encourage transparent government information systems following recent OGI reforms. Ultimately, the project aims to spur discussion of governance trends in China among policymakers, academics, and development practitioners. Once completed, it should not only provide international observers with a clearer understanding of Chinese governance, but also should assist Chinese policymakers to better evaluate the socioeconomic impact of ongoing governance reforms.

4. Conclusion

A recent article in The Economist, reporting on a proposal by India to establish its own aid agency to distribute $11 billion over the next five to seven years, asserted that the “rules of aid are being turned inside-out” while traditional donors remain transfixed by an old binary division of the world in which rich countries give aid and poor countries receive it. Meanwhile, emerging donors like China, Brazil, and India are engaged in South-South cooperation, combine aid more closely with commercial ties, and focus more on infrastructure. The article concluded that aid, like trade, would benefit from specialization and comparative advantage in which emerging countries concentrate on infrastructure spending and the West focuses on policies and good governance.97

The idea of encouraging division of labor and specialization holds some intuitive appeal, with traditional donors focusing on governance (“software”) and new donors focusing on infrastructure (“hardware”), but it could be fraught with contradictions and lead old and new donors to work at cross-purposes in providing aid, even in a single country. Perhaps a more constructive and sustainable approach is to identify forms of governance programming that find appeal beyond the traditional donor community. Many such

97 “Aid 2.0,” The Economist (August 13, 2011). See also “Charity Begins Abroad” in the same issue.
examples may exist, but the aforementioned programs in Vietnam and China are illustrative in two respects. First, they focus on outcomes, not just institutions. The Vietnamese PCI not only identifies provincial-level governance problems based on rigorous research, but also shows that specific institutional reforms are associated with improvements in private sector growth and welfare. Similarly, C-GAP is designed to identify correlations between administrative reforms (e.g., improvement in accountability mechanisms) and important development outcomes (e.g., the delivery of public services in health, education and even infrastructure). Second, these projects seek to unpack the governance paradigm by breaking it down into different components and examining changes through evidenced-based programming and research. A key innovation of C-GAP, for instance, is to look at extensive micro data on public participation, accountability, and transparency to assess long-term governance trends and impacts. In the end, both projects aim to provide the tools and analysis which allow local policymakers to gauge the broader development effects of governance reforms.

Such an approach appears consistent with discussions surrounding the OECD’s 4th High Level Forum (HLF-4) on Aid Effectiveness in Busan in November 2011. In a speech delivered on September 29 in Seoul, South Korea’s Ambassador for Development Cooperation, Cho Tae-yul, called on the HLF-4 to supplement aid effectiveness with a broader concept of development effectiveness. Among other goals, he said, “development effectiveness should focus on supporting endogenous efforts to build skills and institutional capacities for locally-owned and locally-led development,” and should “give more weight to building competent governance and effective institutions” to help increase development impact.98 This is a promising proposal for stimulating further discussions between different donors, old and new, about the role governance can play in promoting effective and sustainable development.

98 “The Busan High Level Forum on Aid Effectiveness: Vision and Goals,” presentation at Korea Development Institute, September 29, 2011.
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Appendix Figure A1. Traditional Bilateral ODA by Broad Sector
(% of total ODA, 3-year average commitments 1969-2009)

Chapter 9

Infrastructure and Development Cooperation:
China’s Program in Africa

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Infrastructure is the foundation for national economic development and reflects the level and potential of a country’s national economic development. More importantly, it also has a direct bearing on a country’s attraction to foreign investment and key lever for the environment of investment. Actually, the correlation between infrastructure development, especially transport infrastructure, and investment, trade, growth and poverty reduction has long been discussed and widely recognized by decision makers, academics and the society as a whole.99

1. Conceptual Framework and Main Literature on Infrastructure

In the recent decade, the term of “infrastructure” has been gradually enriched and now is divided as two categories, namely “hard” versus “soft” infrastructure. According to the definition given by Wikipedia, “hard” infrastructure refers to the technical structures that support a society, such as roads, water supply, sewers, electrical grids, telecommunications, etc, and can be defined as “the physical components of interrelated systems providing commodities and services essential to enable, sustain, or enhance societal living conditions.” “Soft” infrastructure refers to all the institutions which are required to maintain the economic, health, and cultural and social standards of a country, such as the financial system, the education system, the health care system, the system of government, and law enforcement, as well as emergency services.100 Since we will have another chapter in this

book focusing on the “governance” issue, which is certainly a main part of “soft” infrastructure, plus China’s involvement in Africa still remains far away from this area, so the “infrastructure” discussed in this chapter is only limited in the “hard” sense where China’s presence in Africa has become increasingly obvious and strong.

There are numerous research papers and reports that have already given very deep analysis about the infrastructure issue and almost all of them have highlighted the positive role and good correlation between infrastructure investment and economic growth and also human development. For example, the World Bank landmark study on infrastructure early in 1994 highlighted the critical role of infrastructure in the development process. Furthermore, the World Bank also did a specific study on infrastructure in Africa, which is one of the most detailed study ever undertaken in the African continent, titled as “Africa’s Infrastructure: A Time for Transformation” and published in 2010, highlighted the results of the Africa Infrastructure Country Diagnostic (AICD). The report findings were based on the surveys that were conducted among 16 rail operators, 20 road entities, 30 power utilities, 30 ports, 60 airports, 80 water utilities, and over 100 ICT operators, as well as the relevant ministries in 24 countries. The report shows that Africa’s basic infrastructure lags far behind that of other developing regions and that inadequate infrastructure suppresses Africa’s per capita growth rate by as much as two percentage points each year. In other words, according to one study, if the poorest countries in Africa had the infrastructure of South Korea, their average per capita growth could be as much as 2.6 percentage points higher every year.

Poor infrastructure is one large obstacle hindering Africa’s economic development. The underdeveloped transportation industry and poor traffic conditions not only raise the cost of cross-border trade and domestic trade but also hinder foreign investments in Africa. The insufficient and unstable power supply is also common in many African countries. Due to the lack of power supply, many African countries are completely dark at night, so Africa is described as the "dark continent" by the Western media. An earlier assessment of Africa’s infrastructure requirement done in 2006 by the African Development Bank shows that less than a third of Sub-Saharan Africans have electricity, only 56% have access to clean water, barely a third of rural Africans live near a road, about 4% of Africa’s farmland is irrigated and the continent has less than a quarter of paved roads per km than other developing regions.

2. China’s Infrastructure Focus in Development Cooperation in Africa

2.1. Policy Endorsement

The importance of taking infrastructure programs has been highlighted every time in Forum of China-Africa Cooperation (FOCAC) declarations and Action Plans in 2000, 2003, 2006 and 2009 respectively. For example, in the FOCAC 2003 meeting in Addis Ababa, Ethiopia, the China-Africa Cooperation-Addis Ababa Action Plan for 2004-2006 indicated that “both China and Africa agree that underdeveloped infrastructure is still an obstacle to Africa’s social and economic development. Infrastructure development and improvement have been identified by African countries as one of the priority areas under NEPAD. We note that the Chinese Government has for decades provided loans and grant assistance to African countries mainly to help them build roads, bridges, hospitals, schools and other infrastructure projects, thus making positive contribution to social and economic development of recipient countries.”

Moreover, in China’s African Policy issued in early 2006, which is the very first of this kind in China’s diplomatic history since 1949, the part of “infrastructure” was addressed as the following: “The Chinese Government will step up China-Africa co-op in transportation, communication, water conservancy, electricity and other infrastructures. It will vigorously encourage Chinese enterprises to participate in the building of infrastructure in African countries, scale up their contracts, and gradually establish multilateral and bilateral mechanisms on contractual projects. Efforts will be made to strengthen technology and management co-op, focusing on the capacity-building of African nations.”

2.2. Competitive Advantages

Compared to the western companies, the Chinese construction industry has several competitive advantages of entering into African market. (1) The construction industry has been one of China’s economic backbones. Since 1949, the government made rebuilding the nation a priority, focusing on establishing infrastructure such as hydroelectricity, water control, bridges, roads and heavy industry. Rapid economic expansion has provided continuous momentum for construction in China which currently has the largest construction market in the world. Until relatively recently, the majority of construction companies in China were state-owned and they are enjoying strong government and bank support (such as preferential loans from EXIM Bank); (2) Chinese companies have a good reputation in terms of attitude and work ethic. The “shift strategy” employed by some Chinese companies ensures that workers are on site around the clock. In some compounds, there is a “one bed, two workers” policy whereby a night-shift worker and a day-shift worker share the same bed, ensuring extended working times; (3) Low labor cost, low bidding price, low margin profit, but high efficiency and high quality; (4) Low material procurement spending, etc..

It is worth noting that Chinese state-owned companies are also the major stakeholders for undertaking the infrastructure programs in Africa. For example, the China Road and Bridge Corporation (established in 2005) primarily engages in project contracting, construction, design, supervision, counseling and international trade operations. The
company has five categories of affiliates and 31 overseas branches. Another example could be the Chinese Overseas Engineering Corporation (COVEC). It is one of the first SOEs to enter the global market and has undertaken over 1000 large and medium-sized international projects. Starting from the mid-1990s, it has operations in West Africa, Southeast Africa, South Pacific and Southeast Asia. Compared to Chinese private companies that also involved in infrastructure in Africa, Chinese state-owned companies not only enjoy more financial backing from relevant Chinese policy banks, but also perform better in CSR.

2.3. Major achievement

The poor situation on Africa’s infrastructure suits perfectly China's "going overseas strategy" and its internationally competitive construction industry. "Build roads and profits will come rolling in." It is from its own success in reform, opening up and economic development that China has learned the importance, necessity and great business potential of investing in Africa's infrastructural development. On the one hand, Africa is in urgent need of better facilities across the board but not financially capable as it stares at a funding gap of at least $20 billion a year. On the other hand, with China's "going-out strategy" and its internationally competitive construction industry, there is a strong inter-complementary nature of economic cooperation between China and Africa. Hence China could suit Africa’s need perfectly in this regard.

Actually, getting involved in Africa’s infrastructure is not a recent story for China. Early in the 1970s, China, despite its own economic hardship, provided assistance for the construction of the 1,860-km-long Tanzania-Zambia railway, which is historical evidence of China's selfless help to Africa. Since the establishment of FOCAC in 2000, the pace has been marched largely forward ever since. According to the statistics of Chinese Ministry of Commerce, from 2000 to 2006, Chinese companies contracted over 6,000 km of road building, 3,400 km of railway building or renovation, 7 electricity power stations with total capacity of over 3.5 million kilowatts. Renovation work included Nigeria’s railway, the hydroelectricity station of Congo (Republic of), and the telecommunication network of Angola. In 2006, Chinese companies completed engineering and labour services valued US$ 9500 million.

In 2006, the Centre for Chinese Studies at Stellenbosch University (CCS) published a research report about the theme and the report concluded as saying that China’s involvement in Africa’s construction and infrastructure sectors has proved most effective in building relations with African governments. On 11 July 2008, the World Bank published a report titled *Building Bridges: China’s Growing Role as Infrastructure Financier for Sub-Saharan Africa*. Through in-depth analysis of China’s involvement in Africa’s infrastructure sector, the report reached the objective and positive conclusion as saying “China’s

105 It is a well known saying in China since the “reform and opening-up” policy has been adopted in late 1970s. The idea regards the infrastructure building as the prerequisite and guarantee to realize the economic development.


107 The research report written by the Centre for Chinese Studies at Stellenbosch University (CCS), South Africa, *China’s Interest and Activity in Africa’s Construction and Infrastructure sectors*, published in 2006.
investments have greatly improved Africa’s infrastructure as well as the overall investment environment and boosted economic development on the continent.”

The World Bank report maintains that China has constructed many bridges, railways and roads in sub-Saharan Africa, where natural conditions are harsh to say the least. The total value of Chinese financial commitments to African infrastructure projects rose from less than US$1 billion per year in 2001-03 to around US$1.5 billion per year in 2004-05, which reached at least US$7 billion in 2006 then trailed back to US$4.5 billion in 2007. Among an array of infrastructure developments, hydropower plants and railways are two key areas of China’s investment. With a total investment of $3.3 billion already in place, the ten hydropower plants currently under construction can add 6,000 megawatts of electricity to the sub-Saharan region, raising its power supply capacity by 30 percent. Meanwhile, China is renovating the 1,350 km of existing railways and 1,600 km of new tracks will be a significant addition to the 50,000 km railway network in Sub-Sahara.

Furthermore, the World Bank Report also indicated that apart from China, the leading investor in African infrastructure, India and a few oil-rich Gulf countries are also providing funding for a number of large-scale infrastructure projects in the continent. In terms of construction scale and total investment, these newly-arrived financiers have surpassed traditional investors such as members of the Organization of Economic Cooperation and Development (OECD), showing a new trend in continued growth of South-South cooperation. In 2006, the infrastructure resources provided to Africa by the emerging financiers jumped to around US$8 billion while the ODA of OECD donors offering to Africa that year was amounting to US$5.3 billion.

While Western countries focus on “software” such as capacity building, China puts more investment in “hardware” such as roads, railways and other tangible infrastructure that bring direct and visible benefit to the host country. The China Export-Import Bank, founded in 1994, has played an important role in providing financial support for such infrastructure projects. By September 2006, there were 259 projects financed by the Chinese EXIM Bank in 36 African countries, 79 per cent of which were committed to infrastructure development, such as railways (Benguela and Port Sudan), dams (Merowe in Sudan; Bui in Ghana; and Mphanda Nkuwa in Zambia), thermal power plants (Nigeria and Sudan), oil facilities (Nigeria), and copper mines (Congo and Zambia). Most of these loans were issued as buyers credit with low interest (2 per cent) to Chinese companies and are not classified as bilateral assistance by OECD DAC (OECD Development Assistance Committee).

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109 Ibid, see the part of “Executive Summary”, page XI.
3. Lessons and Implications: Opportunities and Challenges for promoting infrastructure programs and maximizing its benefit for other social goals

In the mid-term and long future, with the political stability and economic development in Africa, the demand of infrastructure programs in Africa is still huge (peace and post-conflict rebuilding in a number of African countries, even including the post-conflict Libya). For Chinese companies, they will be encouraged by at least two factors: one is the further backup measures by the Chinese government (such as the newly founded China-Africa development Fund); the other is the impact of financial crisis which has already generated the funding shift from the resources industry to infrastructure and other sectors.

However, there are also many challenges ahead. One of the key challenges is how to maximize the spill-over effect of economic infrastructure to other broader social goals such as generating employment, improving education and health situation, etc. Infrastructure investments have been proposed in the development literature as an influential factor of economic growth, working through at least two of the three classic drivers of economic growth: directly via capital accumulation and indirectly via total factor productivity gains. Infrastructure investments are hypothesized to facilitate private investments by lowering production costs and opening new markets, thereby creating new production, trade and profit opportunities. In addition, roads reduce transport costs, ports reduce transaction and trade costs and electricity and telecommunications enhances effective and efficient transactions. General speaking, this is seen as a good circulation and has been proved well in China’s experience (economic growth and development through infrastructure has worked well in China, and this is the reason why the Chinese proverb saying "If you want to be rich, you must first build roads" became so well-known and unchallenged in China in the past 3 decades). However, considering the harsh reality in many African countries, it is a huge challenge for exploring the business opportunities generated by the infrastructure programs.

3.1. Sustainability issue

In the past five decades, a lion’s share of Chinese development assistance has been put on those relatively grandiose and prestigious buildings such as presidential palaces, government buildings and football stadiums, etc. Even though these projects could somehow help the host countries, infrastructures development assistance sometimes also bears the risk of developing “white elephants” that do not add value to the local economy, failing to produce job opportunities and eventually turning themselves as “unproductive investment” as some argue. In other words, buildings and roads themselves cannot generate jobs and offer any visible products for improving people’s livelihood. Only when the roads are linked with markets, factories and schools, the infrastructures has a “life” which becomes meaningful in a real sense.

The maintenance of the infrastructure projects is also a common challenge facing all the partners involved. Take Tanzania-Zambia railway as an example, this milestone project in Sino-African history has been constantly facing running deficits due to poor management,
deteriorating equipment and brain drain of technical staffs, etc. In this sense, the technical transfer, is the key for maintaining the programs and ensuring the sustainable development of the infrastructure projects. During the past, handover or “turn-key” projects were the main approaches for Chinese development assistance, which means that all Chinese experts will leave the country once the project has been completed and handed over to the local counterparts. Since the late 1980s, the form of joint-management and joint-venture programs have been widely introduced and proved to be a better alternative for dealing with the issue. At the China-Africa Beijing Summit in 2006, the Chinese government initiated to establish 3-5 economic and trade cooperation zones in Africa aiming to promote Africa’s industrialization and meet local content requirement. The initiative has been warmly embraced by African countries. At the moment, 6 economic and trade cooperation zones are under constructing in Zambia, Mauritius, Nigeria, Egypt and Ethiopia. Being the first one in Africa, the Zambia-China Economic and Trade Cooperation Zone which locates in the copper belt region, so far has attracted 13 Chinese companies moved in. These companies engage in mining, prospecting, nonferrous metals processing, chemical engineering, and construction, having made investment worth US$600 million, and providing more than 6,000 jobs for local people.110

3.2. Technical transfer

Technical transfer also relates to another challenge, particularly to some Chinese companies, that is how to improve the localization of the company by increasing the employment of local labor and encouraging the interaction and communication with each other. The enterprise culture of Chinese companies is indeed different to Western companies in many respects. For example, Chinese prefer to live together in their own circle and they are not so sociable towards their fellow local employees. Considering the language issue which is another big barrier for communication, it will take some time for Chinese companies to catch up.

Actually, apart from adapting more with local culture, technical transfer could be facilitated through training and compulsory regulations given by the host country as well. Through the establishment of training centers in the host countries and selecting outstanding local staff and sending them to China for job training, some Chinese companies have already trained a large number of local skilled personnel. For example, in Sudan, China National Petroleum Corporation (CNPC) has provided millions of dollars for Sudanese students to study undergraduate and master degrees in China, or receive short-term training. With the rich human resources of well trained local technicians and managers, the percentage of local employee among the total staff has reached over 90% in some joint programs.111 In Angola, the current agreement signed by the local government and the Chinese EXIM Bank, with the amount of $2 billion to be spent on integrated infrastructure projects, includes a new regulation stating that 30% of the work should be subcontracted to local companies. With such compulsory regulations, the management capacity and technical know how of local companies could be greatly upgraded.

3.3. “Resources for Infrastructure Model” and Debt Sustainability Issue

China learned from Japan a variant of the “resources for infrastructure” arrangement in the early stage of China’s “reform and opening-up” process in the late 1970s and early 1980s. At that time, China exported its natural resources in exchange for Japan’s high technology equipments and advanced management skill. Considering the financial constraints that most resource-rich African countries are facing these days, China introduced the “resources-infrastructure swap” on the infrastructure development in Africa. For example, in the Democratic Republic of Congo (DRC), China EXIM bank agreed to finance more than $6 billion in infrastructure, using the copper and cobalt mining joint venture in DRC as a guarantee.

Hence, there is a saying, such as “China loans create ‘new wave of Africa debt’” or “rogue aid”, which often appeared in the media and naturally causes the concern in the debt sustainability issue of Africa. In fact, these commodity-secured loans are not unique to China. In Angola, dozens of international bank consortia have provided oil-secured loans to the government. The Chinese loans to Angola – like the large package in the DRC – were different, in that they were never given in cash, but tied to development infrastructure constructed by Chinese companies (now with 30 percent reserved for Angolan subcontractors).

Furthermore, the debt issue in Africa began decades ago. Among the astronomical US$300 billion debt, African countries borrowed heavily from Western creditor nations and the international monetary institutions in the 1960s and 70s, China is just a minor creditor country and has been making efforts to write off African countries’ overdue debts in recent decade.

Actually, when we look at the other side of the coin, Chinese investment flows also frequently and objectively creates new cash flows to finance investments for other areas in the country. Moreover, Chinese loans closely fit the recipient countries’ ability to repay. Normally, the larger, less concessional loans are offered to countries such as Angola, Congo, Nigeria and Sudan, all with rich natural resources that guarantee their capacity for repayment (for example, the once war-torn Angola has been enjoying double-digit economic growth in recent years). Smaller, poorer countries such as Togo, Mali, Rwanda, etc. tend to receive grants and zero-interest loans. Similar with stopping eating is certainly not a right recipe for curing the digest problem, stopping aid and loans to Africa is not the right prescription to avoid a new round of debt crisis. Countries urgently need to develop their payment capabilities through economic progress and step out from the vicious circle of piling on new debt to pay off existing debt. That is to say, development sustainability and development first should be the priority concern.

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Chapter 10

The Impact of Aid on Korea’s Development\textsuperscript{114}

Joon-Kyung Kim and K.S. Kim\textsuperscript{115}

1. Introduction

In asking why different countries experience different growth patterns, the human consequences of which are simply unimaginable, Robert Lucas conceded: “Once one starts to think about them, it is hard to think about anything else.” Indeed, it is hard to think about anything else but why Korea has been able to achieve the kind of spectacular growth that has eluded so many other countries. Many have tried to explain Korea’s economic development; but few have truly considered the implications of the massive amount of foreign aid on Korea’s development. From 1945 to 1965, Korea was the recipient of nearly US$13 billion of economic and military assistance, nearly all of it in grants, allocated under the willful hand of the US. Korea also benefited from Japanese economic cooperation fund, or colonial reparations, depending on what side of the strait one is on, after relations between the two countries were normalized.

In the 18 years after its liberation in 1945, following World War II, Korea suffered depression, hyperinflation, and civil war, any one of which could make a country poor. Aid was critical in averting a humanitarian crisis in the wake of World War II and the Korean War in a poor country that had just been freed of its colonial yoke. But foreign aid alone does not explain Korea’s miraculous economic development. It is only part of the story. In fact, Korea became too dependent on aid and looked as if it would become a ward of the US early on in its development. The great geopolitical uncertainty of the Korean Peninsula right after WWII, Korea’s eventual physical partition, which culminated with a civil war, never allowed development to get traction in the early years of the republic. By the late

\textsuperscript{114} This paper makes no pretense on generalizing the lessons drawn from the subtleties of Korea’s experience. The impact of foreign aid in Korea is extremely context specific. Nonetheless, it is to be hoped that the paper provides some useful insights and lessons to contribute in shaping future research and development policies.

\textsuperscript{115} The contents of this paper are taken from other works that are part of a larger body of research on Korea’s development experience. For further information, please contact Professor Joon-Kyung Kim (joon@kdischool.ac.kr) at the KDI School of Public Policy and Management.
1950s, signs of Korea’s economy increasingly becoming aid-dependent were emerging. A large part of foreign aid was comprised of commodities, which suppressed agriculture prices and distorted the incentives of farmers. It is evident that economic growth was largely aid-driven consumption. Indeed, a drop in US aid correlated with a fall in Korea’s GDP growth.

Moreover, the Korean government had become addicted to aid, overvaluing its currency to maximize aid receipts and printing money to meet budget needs. This made the economy susceptible to persistent high inflation and any attempt to keep macro stability difficult. Possibly more detrimental to the Korean economy, the over reliance on aid had given way to corruption and crony capitalism within government and business, itself becoming an obstacle to economic reform and progress. As the 1960’s began, Korea’s economy was by all intents and purposes dependent on aid while the failures of the Korean government gave merit to the label of a “basket case”.

Despite this, it is hard to think that Korea could have developed so rapidly, or even achieved economic takeoff for that matter, had foreign aid not filled the financing (income) gap. The humanitarian role of foreign aid was invaluable in ensuring the survival of Korea in the tumultuous years before and after the Korean War. But foreign aid was also critical in putting Korea on a path to sustainable growth. The massive investments financed by aid - the transfer of resources - raised the level of Korea’s capital stock (including human capital and physical infrastructure), laying the basic foundations for economic growth. Arguably, the event that had the most profound and lasting impact on Korea’s development prospects did not come in the form of aid but of policies and chance events. Land reform and the re-privatization of colonial properties under the heavy influence of the US and chance events, conspired to determine the initial conditions that would shape the evolution of Korea’s economy. A dramatic turn of events on the peninsula resulted in a relatively flat distribution of income and wealth, effectively leveling the playing field and rearranging Korea’s institutional setting.

2. Role and Impact of Foreign Aid

After the Japanese departed, Korea’s economy was left a shell of its former colonial self. Korea's trade with Japan accounted for over 80% of total trade while Japanese technical workers accounted for 82% of the total technical workers. But Korea’s colonial past also

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116 Much has been said about the exploits of President Syngman Rhee, who as an outsider was more interested in the politics than the economics of Korea, spending most of his energy and the country’s resources soliciting political influence. The government under President Rhee was known to be inept and corrupt resulting in much rent-seeking behavior.  
117 Dani Rodrik (1994) has argued before that the favorable initial conditions of relatively equal income and wealth distribution that prevailed in Korea and Taiwan set the stage for rapid economic development that followed. One implication being that the absence of “pressure groups” allowed government to coordinate better outcomes rather than to engage in rent-seeking behavior.  
118 According to economic historian Dae-Keun Lee (2002), Korea’s manufacturing accounted for less than 5% of total production, but the share of production in manufacturing grew rapidly to over 40% by 1940 during Japanese colonization. By this time, Korea’s manufacturing sector experienced a fairly rapid
meant that the remnants of Japanese technology and knowledge as well as public institutions, left its building blocks from which to build from. Besides instituting a statutory basis and a structure of government administration, the Japanese built a network of railways to transport natural resources like lumber. The introduction of a modern education system also occurred during Japanese colonization though it was very limited to males and primary education. Korea’s industrial base was dominated by the Japanese, which supplied the capital, technology and managerial know-how while Koreans supplied the labor. After the Japanese departed, the economy once developed to exploit Korea and serve its imperial ruler was no longer viable. With a political and economic vacuum left in its wake, the newly liberated Korea soon descended into utter social chaos that soon precipitated a humanitarian crisis. Such was the context in which foreign aid first arrived in Korea.

In the wake of the World War II, Korea fell under the auspices of the US Army Military Government (USAMG) by virtue of having been a Japanese colony. Emergency relief and aid was provided under the Government Appropriations for Reliefs in Occupied Areas (GARIOA),119 which had three basic objectives: preventing widespread starvation and disease; boosting agricultural output; and overcoming a shortage in most types of commodities or consumer goods. The emergency assistance provided much needed humanitarian relief, staving off widespread starvation, disease, and social unrest through the provision of basic necessities, including food stuffs and agricultural supplies, which accounted for 35% and 24% of a total assistance, respectively. Indeed, the provision of grain totaled 44% of the total grain supply in Korea by 1947, while the large amount of fertilizer imported to Korea led to the huge increases in agricultural production.

Table 1 | Commodity Composition of GARIOA Imports: 1945-49

<table>
<thead>
<tr>
<th>Commodity Composition of GARIOA Imports: 1945-49 (Units: US$1,000, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Foodstuffs</td>
</tr>
<tr>
<td>Agricultural supplies</td>
</tr>
<tr>
<td>Unprocessed materials</td>
</tr>
<tr>
<td>Petroleum &amp; fuel</td>
</tr>
<tr>
<td>Medical supplies</td>
</tr>
<tr>
<td>Clothing &amp; textiles</td>
</tr>
<tr>
<td>Reconstruction</td>
</tr>
<tr>
<td>Misc</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Mason et al. (1989)

The GARIOA programs implemented in other occupied territories of the US were generally the same, since its main objective was humanitarian assistance.
US assistance was administered under the following objectives: establishing a free and independent Korea as pledged in the Cairo and Potsdam conferences, fostering a self-reliant country as a stabilizing force in Asia, and founding a new republic as an outpost of democracy (Mason et al., 1980). But the objectives were shrouded in a cloud of great uncertainty, as Korea remained a physically divided country until late 1947. As such, longer-term reconstruction efforts were put off, which were assessed to be undesirable, too risky at the time, in light of the geopolitical uncertainty that arrested Korea. As Mason et al. write:

“...the US Congress was reluctant to provide funding; the Korean question was still being debated in the UN; and the belief was held by many Americans that, because Korea would eventually be reunited, America had no real stake in a costly and taxing program aimed at economic development of a South Korea that might shortly be reunited with its northern half.”

As such, US assistance during 1945 to 1951 focused on short-term assistance to address immediate humanitarian relief by supplying basic commodities and supplies while only a small amount was used for reconstruction efforts. There were efforts in implementing a longer term and more sustainable economic development strategy under the Economic Cooperative Administration (ECA), but in reality, the ECA essentially operated like GARIOA, focusing on the import of commodities.

In 1948, the policy objectives of the US aid program were formalized under the ROK-US Agreement on Aid, shortly after the founding of the Republic of Korea (ROK) led by the new Syngman Rhee government. No sooner had Korea been cast free of Japan’s colonial yoke than did the US impose a strict set of provisions and controls to insure that the aid funds were allocated and used efficiently, and not misused or misappropriated. Outlined under 12 articles of the ROK-US Agreement on Aid, it provisioned that the Korean government agree to stabilize prices, to privatize the properties formerly owned by the Japanese, and to liberalize markets, i.e. fair foreign exchange rate. The last provision on exchange rates was a cause of “often acrimonious donor-recipient conflict over stabilization policy” that would test the limits of the donor-recipient relationship (Mason et al 1980). The Rhee government was intent on maximizing foreign aid receipts by keeping an overvalued currency against the dollar.

The agreement also stipulated that the two governments had to implement mutually agreed upon fiscal measures aimed at balancing the budget, reducing fiscal expenditures, and maintaining a conservative money and credit supply. A consensus had to be reached on any subsequent changes to fiscal, monetary, and balance of payment policies as well as on a national reconstruction plan. Under Article 5, a counterpart fund account had to be established at the central bank where the proceeds of US goods provisioned under the assistance program and sold in the market place were to be deposited. The allocation and uses of the counterpart funds had to be mutually agreed by both governments.

The conditional nature of the ROK-US Agreement on Aid was judged to be unfavorable and intrusive by the Korean government. In effect, it was a show of a lack of confidence on the part of the donor, which from the donor’s standpoint seemed justified in light of the
recipient country’s failures in managing the economy and a poor governance track record. Mason et al. describes the Korea-US relationship:

“There were periods when Korean and American officials had similar and compatible views as to the objectives and appropriate forms of US assistance. There were other times when the disagreements were profound and often exposed to public view. Then there were some critical turning points when a change in the substance, or form, or even the perception of the assistance precipitated a convergence or divergence of views and actions of the two governments which, in turn, had significant implications for Korean development and US-Korean relations.”

As a result, the assistance program suffered from policy inconsistencies and lack of support from the Korean government at the outset while the US believed Korea was slow to institute the stabilization policies and sought to maximize inflow of aid by maintaining an overvalued foreign exchange rate. Ultimately, the US held all the levers of aid, and ended up getting policy cooperation from the Korean government. It should be noted that the macro stabilization and fiscal austerity measures had real positive effects in checking hyperinflation and shoring up Korea’s fiscal budget, as well as laying the ground works for development. After liberation and the Korean War, the economy suffered hyperinflation caused by rapid expansion of the money supply as the government kept printing money to meet budgetary needs and finance the war.

By mid 1949, the Korean and US governments began preparations on economic reconstruction. The Korean government took the initiative by devising a five year reconstruction plan, centered on industrial development to promote the manufacturing sector. The Korean plan was considered to be too ambitious by the ECA; ultimately, unrealistic by the US Congress. In any case, the ECA reduced the size and scope of the original plan and submitted a three year reconstruction plan totaling US$350 million to the US Congress for approval. To make Korea a viable and self-sustainable country, the proposed plan as described by Mason et al. (1980) focused on three basic areas of capital investment: “development of coal, expansion of thermal power generating facilities, and construction of fertilizer plants, in that priority order.” The Korean recovery plan assumed that US assistance would end by 1953, and any balance-of-payment deficits would be met by private foreign investment and borrowings. However, the plan was strongly opposed by the US Congress and failed to be approved by one vote. The bill, HR 5330, was eventually revised and passed to a one year US$110 million development plan. As a

120 The issue of setting up a “reasonable” exchange rate became a highly controversial issue, which was begrudgingly resolved by a “series of unsatisfactory comprises.” The US accused the Korean government of trying to maximize foreign exchange receipts by keeping an overvalued Won while the US government sought to minimize the allocation of dollars into the hands of Korean government officials.

121 This plan was similar to a recovery plan implemented in Japan to increase production by investing in coal production used to increase power generation, which was used to produce fertilizer, and so on.

122 In the context of history, the opposition of the plan by the US Congress, as some have observed, may have had far reaching consequences beyond the plan’s suitability; in that, the actions of the US Congress could have been construed as symbolic of wavering US support of South Korea, and thus, a precursor to the North Korean invasion, as opposed to the widely cited speech by Dean Acheson at the National Press Club a few days later.
result, the ECA had to pare down the size of the aid program especially in capital investments and to shorten the program’s duration.

These efforts would be for nothing, as war broke out on the Korean Peninsula with the invasion of North Korea on June 25, 1950, essentially grinding the aid and reconstruction efforts to an immediate halt, and reallocating resources for military and humanitarian assistance. Indeed, the order of priority had once again focused on humanitarian assistance first and development later. Under the UN flag, Korea received multi-lateral assistance of US$457 million, of which all but a fraction came from the US, as part of war time relief efforts. A military-administered relief and assistance program was organized under the UN and the civil relief program. Most notably, the Civil Relief in Korea (CRIK) was established. Much of the assistance was used for food stuffs, and textiles and clothing, representing 40% and 24% of total assistance, respectively. The UN relief efforts were crucial in preventing widespread starvation and disease.

Table 2 | UN Relief Efforts

<table>
<thead>
<tr>
<th></th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
<th>1954-56</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodstuffs</td>
<td>34.7</td>
<td>45.8</td>
<td>74.0</td>
<td>29.7</td>
<td>184.2 (40%)</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>25.4</td>
<td>47.0</td>
<td>33.3</td>
<td>5.7</td>
<td>111.1 (24%)</td>
</tr>
<tr>
<td>Medical</td>
<td>6.2</td>
<td>5.6</td>
<td>1.7</td>
<td>2.7</td>
<td>16.2 (4%)</td>
</tr>
<tr>
<td>Fuel</td>
<td>0.6</td>
<td>9.0</td>
<td>13.0</td>
<td>2.8</td>
<td>25.3 (6%)</td>
</tr>
<tr>
<td>Construction material</td>
<td>4.5</td>
<td>5.6</td>
<td>13.3</td>
<td>1.7</td>
<td>25.0 (6%)</td>
</tr>
<tr>
<td>Transportation equip</td>
<td>1.9</td>
<td>1.5</td>
<td>0.3</td>
<td>0.9</td>
<td>4.6 (1%)</td>
</tr>
<tr>
<td>Agricultural equip</td>
<td>-</td>
<td>23.5</td>
<td>19.9</td>
<td>13.9</td>
<td>57.3 (13%)</td>
</tr>
<tr>
<td>Rubber and Products</td>
<td>1.0</td>
<td>3.9</td>
<td>0.7</td>
<td>-</td>
<td>5.6 (1%)</td>
</tr>
<tr>
<td>Misc</td>
<td>-</td>
<td>13.8</td>
<td>2.6</td>
<td>1.9</td>
<td>18.3 (4%)</td>
</tr>
<tr>
<td>Total</td>
<td>74.4</td>
<td>155.5</td>
<td>158.8</td>
<td>59.2</td>
<td>457.4 (100%)</td>
</tr>
</tbody>
</table>

Lee, Dae-Keun (2002), *The Korean Economy in the Post-Liberation period and the 1950s*

Based on the premise that the Korean War would end fairly quickly and the Korean peninsula would once again be re-unified, the Korea Reconstruction Agency (UNKRA) was established in December 1950 to resume economic reconstruction efforts. In this sense, UNKRA’s mission was different from CRIK; in that, its goal was to "lay the economic foundations for the political unification and independence of the country.” However, the war as it would turn out dragged on for far much longer than anyone anticipated. As a result, UNKRA’s role in its first and second years of establishment was limited. It was not until after the Korean War had ended that UNKRA was able to provide significant amount of assistance and support in the reconstruction of Korea's economy: repairing devastated properties, providing rehabilitation supplies, transport, and services for Korean industry.

After the ceasefire in 1953, the Korean peninsula was left war-torn, divided and in utter destruction. South Korea suffered massive social and economic damage; civilian causalities totaled nearly 1.5 million while the destruction of properties were estimated to be about US$3.1 billion, leaving nearly 43% of residential homes and 42-43% of industrial facilities damaged compared to pre-war levels. To help with reconstruction efforts, Korea received
massive amounts of US economic aid totaling about US$ 1.5 billion. Moreover, military assistance as a share of total US bilateral aid began to increase after the Korean War, when military assistance comprised more than half of total US aid to Korea in the 1960s.\(^{123}\)

After the tragedies of the Korean War led to a false-start on Korea’s economic recovery plans, preparation for a national reconstruction plan resumed once more. Just as before the war, the Korean and US government found themselves in disagreement over Korea’s development strategy and the allocation and uses of aid resources. Again, economic historian Dae-Keun Lee (2002) writes, the Korean government was intent on pursuing a development strategy oriented on capital investment to increase production. It, thus, proposed to allocate 70% of total aid to repair damaged industrial plants, leaving the rest to be used for consumer goods. The US aid administrators insisted on pursuing stabilization first, then development, placing priority on reining in hyperinflation caused by the expansion of debt to finance the war, and on securing a bare subsistence level of living. The imperative was securing macroeconomic stability and a self-sustainable path to development to reduce Korea’s dependence on foreign aid. In principle, the Korean and US governments knew where they wanted to go; they just didn’t agree on how to get there. It was clear to the US that the Korean government sought not only to secure as much aid as possible but also to allocate as much of the aid as possible to increase investment. In the end, the Korean government capitulated to US demands. Foreign aid was focused on increasing the supply of consumer goods and intermediate goods to curb inflation while providing basic essentials (Krueger 1979).

After the Korean War, the Foreign Operation Administration (FOA) was created in August 1953 to administer US aid with the objective of economic rehabilitation and military assistance. Between August 1953 and June 1955, the US provided a total of US$ 206 million in assistance to Korea, where 34% of the assistance went to facility investments, and 66% to consumption goods and raw materials.\(^{124}\) In June 1955, the FOA was renamed the International Cooperation Administration (ICA), while its main objectives remained unchanged. Under the ICA, a total of about US$ 1.3 billion of aid was disbursed, essentially the single largest aid program in Korea, peaking in 1957.

Under the ICA, a considerable amount of aid was invested in infrastructure but also in human capital development, especially in education.\(^{125}\) US aid efforts after the war

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\(^{123}\) After 1965, US aid was provided in the form of concessionary loans, and larger portion of US aid comprised of military assistance relative to economic assistance through the 1970s.

\(^{124}\) The planning and implementation of the reconstruction plan was conducted by the Combined Economic Board (CEB), a board comprised of representatives from the Korean and US government under the Agreement between the ROK and the Unified Command Concerning Economic Coordination signed in May 1952. The CEB convened on a regular basis to deliberate on important policy matters related to the allocation of aid funds and economic policy issues.

\(^{125}\) US assistance under the ICA was comprised of two categories: project assistance for facilitating investment to increase production and non-project assistance for consumption goods and raw materials to provide relief and secure economic stabilization. During 1955-1959, non-project assistance comprises 70% of total aid, the largest component of being fertilizer, followed by wheat and energies. For project assistance, nearly 37% of the aid was used to construct railways for YoungAm railway, Choongbuk railway, and Hahmbaik railway. Some of the project assistance was used to investment in manufacturing including the construction of the Choongju Fertilizer Plant as well as numerous small
contributed greatly in the expansion of primary education by repairing and building education facilities and vocational schools, and by providing technical assistance for educating and training new teachers in primary and higher education.\textsuperscript{126} Quite possibly more important, and controversial, than the quantitative expansion in primary education were the US efforts to build an education system modeled on western-democratic ideals, values, and practices, much of it a reaction to the perceived threat of communism. As McGinn et al. (1980, p86) write, the US was “determined to use education in Korea as a major vehicle for the democratization of society.” Before the Korean War, the US Military Government was active in promoting civic schools for literacy and basic education in formal and informal schooling.

Under the ICA, a teacher education program was carried out in Korea in cooperation with the George Peabody College of Teachers, which provided technical assistance. This program benefited several universities including Seoul National University, Korean normal schools, junior colleges, and lower-level schooling programs. Under the Peabody Program, technical assistance was carried out between 1956 and 1962, where about 40 Peabody faculty members were sent to Korea to train and educate Korean educators in western-style education. The Korean educators were trained in educational theory, curriculum development and teaching practices through on-site technical assistance at various educational institutions in Korea. Also, nearly 80 Korean teachers participated in an exchange program and were sent to the US to receive training in higher education.\textsuperscript{127}

To promote higher education, the ICA assistance was used for technical training by sending Korean nationals to the US for training and by sending US experts to Korea. During 1955-59, a total of US$ 19.8 million was used to train technicians in the US. A total of 1,421 Koreans that included technicians, teachers, professors, and government officials received special training and education in the US. One of the technical assistance programs, known as the “Minnesota Project,”\textsuperscript{128} under the ICA sought to upgrade capacity of higher learning institutions.

\section*{3. A Clean Break from the Institutional Past}

\textsuperscript{126} UNKRA also provided aid in education totaling nearly US$ 11 million, most of which was used to repair schools destroyed during the Korean War.

\textsuperscript{127} Many of the Korean educators that participated in the exchange program ended up becoming prominent figures or leaders in Korean education, who are known as the “Peabody School.”

\textsuperscript{128} Minnesota University was one of 53 US colleges that participated in the ICA program, which totaled nearly US$ 100 million, with 96 contracts covering 33 countries as of September in 1960. To maximize the effectiveness of the program, countries and universities were matched based on various criteria that best suited their conditions. Indeed, Minnesota University was able to offer technical assistance in agriculture, and shipbuilding which other universities that applied to the program could not offer. There may have been other reasons including political factors behind the selection of Minnesota University, as the head of USAID at that time was a former governor of Minnesota. (Lee, Wang-Joon, 2006).
Notwithstanding the massive amounts of financial and military assistance, the single most significant accomplishment that set the stage for Korea’s development, came whilst pursuing the Land Reform Act, which was legislated in March 1950, and in the process of divesting physical properties formerly owned by the Japanese. In Korea’s case, land reform means the redistribution of land to the poor. This would have immeasurable consequences on Korea’s development prospects.

After its liberation, most of the capital or wealth in Korea was in the land, mostly owned by Korean landlords, and in the manufacturing businesses, mostly owned by the Japanese that made up its industrial base. According to historians, most of the arable land was still in the hands of Korean landlords while Japanese owned about 13.4% of total arable land during its colonization. In contrary, Korea’s manufacturing was dominated by the Japanese, which controlled 78% of all manufacturing and 87% of all mining businesses (Lee Dae-Keun, 2002). More specifically, Japanese industrialists owned 68% of the 2,682 firms with capital estimated to be greater than 10 thousand Korean Won as of August 1940.

From 1900 to the time of Korea’s liberation, the number of landlords that owned large plots of land had steadily increased. By some estimates, the number of landlords who owned more than 50 Chongbos (1 Chongbo = 9,917m²) of land increased from 1,899 in early 1910s to 3,048 in 1942. As more of Korea’s land came under the system of landlords during the colonial period, farmers were increasingly subjugated to the tenant-farming system. By the late 1930s, 55.7% of all arable land was controlled by landlords while the rest was owned by small farming households (See Table 3). Tenant farmers had to pay rent that was generally between 50% and 90% of their output, or about 40 to 70% rent net of inputs and maintenance costs, which were supplied by the landlords.

Table 3 | Owner-Tenant Distribution of Land Before 1945

<table>
<thead>
<tr>
<th></th>
<th>1913-17</th>
<th>1918-22</th>
<th>1923-27</th>
<th>1928-32</th>
<th>1933-37</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners</td>
<td>21.8</td>
<td>20.4</td>
<td>20.2</td>
<td>18.4</td>
<td>19.2</td>
<td>19.0</td>
</tr>
<tr>
<td>Part-owners</td>
<td>38.8</td>
<td>39.0</td>
<td>35.1</td>
<td>31.4</td>
<td>25.6</td>
<td>25.3</td>
</tr>
<tr>
<td>Tenants</td>
<td>39.4</td>
<td>40.6</td>
<td>44.7</td>
<td>50.2</td>
<td>55.2</td>
<td>55.7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Ban, Moon and Perkins (1980), Rural Development p284

Under the tenant system, most of the land (over 80%) was still owned by Korean landlords, though Japanese landlords became increasingly more prominent as their numbers rose rapidly during Japanese colonization. The Japanese landlords still owned a smaller share of land relative to Koreans, but the share they did own was some of the most fertile regions such as Cheonra Province where the introduction of modern irrigation systems and the consolidation of smaller plots of farmland raised agricultural productivity.

After Korea’s liberation from Japan, the US quickly redistributed the land formerly owned by the Japanese. In fact, one of the first actions taken by the US was to undo the repressive tenant farming system by capping the rent paid by tenant farmers at no more than one-third of annual crop output. Redistributing the land owned by the Japanese was
the easy and right thing to do, but its ultimate objective was to redistribute all of the land to secure social and economic stability. Despite having done so in Japan as part of post-WWII reconstruction efforts, the US was apprehensive, having a mixed and unclear view of land reform. The idea of land reform was seen as near sacrilege, going against the cardinal institution of private property rights. To some Americans, it even “smacked of communism.” But the potential costs from the social economic fallout and the threat of communism spreading particularly in rural areas, outweighed the benefits of keeping to ideology. Socialism had already taken hold of North Korea by then which had distributed the tenanted land to tillers. So, the US pressed ahead with land reform in Korea.

In 1946, Arthur Bunce Mission, the architect of Japan’s land reform, visited South Korea and drafted a plan for land reform. From the start, the US intention was to redistribute all of the land, essentially based on the land-to-tiller’s (耕者有田) principle. But efforts on land reform faced great opposition from the landed elite who were politically influential. Indeed, some members of the Legislative Committee of the Interim South Korean government refused to even deliberate the land reform bill in the national assembly. Initially, the US managed to carry out partial land reform in March 1948, only distributing the land formerly owned by Japanese landlords, which was far easier politically. A good deal of land belonged to Japanese landlords that were repatriated immediately after the end of WWII. Under the land for tiller plan, 487,621 acres of land (96% of agricultural land formerly owned by the Japanese) was sold to 502,072 tenants in 1948. To pay for the land, the farmers had to make installment payments of 20% of their average annual rice output to the government over 15 years.

Table 4 | Distribution of Land Rented by Tenants

<table>
<thead>
<tr>
<th></th>
<th>(unit: Chongbo)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vested farmlands sold by the US Military Government</td>
</tr>
<tr>
<td>2</td>
<td>Farmlands distributed in accordance with 1950 Reform Act</td>
</tr>
<tr>
<td>3</td>
<td>Land privately sold (1945-51)</td>
</tr>
<tr>
<td>4</td>
<td>Land not yet distributed as of 1952</td>
</tr>
<tr>
<td>5</td>
<td>Total land to be reformed as of 1945 (=1+2+3+4)</td>
</tr>
</tbody>
</table>

Source: Ban, Moon and Perkins (1980), Rural Development, p286

**Re-Privatization, Land Reform, and War** Besides land formerly owned by the Japanese, the US Military Government also took custody of physical property that belonged to the Japanese including businesses, factories, buildings, equipment, inventory, homes, and other physical properties. When Korea was liberated in 1945, the US took possession of 166,301 properties including 3,555 businesses, 70% of which were in manufacturing such as machinery, chemical, and light manufacturing (See Table 5). Effectively confiscated by the US Military Government, the properties were subsequently turned over to the American Office of the Property Custodian (AOPC).

129 During 1946-57, North Korea carried out land reforms in two steps. In the first on March 3, 1946, landlords were stripped of their land by the government without compensation, and this land was then distributed free among the rural poor (a total of 682,000 tenants), but with 25% of tax on the crop output. North Korea, then, took the next step in 1957 to completely abolish the private ownership of land.
The US plan was to divest the Japanese properties; however, it faced many difficulties, even more than when it redistributed the Japanese owned land. Though it did manage to divest some of the properties such as homes and small businesses fairly quickly, the US essentially failed to make any meaningful progress. The whole process turned into a messy affair. After the Japanese departed, the factories and businesses sat idle with no managers and technicians to operate the factories, and no raw materials to produce goods. Even though managers were brought in to operate the businesses, many of the businesses were looted, their equipment and materials sold for cash. It got to a point where people were saying that “the factories are empty but the bellies of managers are full” (Lee Dae-Keun, 2002, p101). Frustrated and unable to make progress, the US turned over the properties to the newly established Korean government led by President Rhee in August 1948.

Table 5 | Number of Vested Firms Formerly Owned by Japanese (1945)

<table>
<thead>
<tr>
<th></th>
<th>Central</th>
<th>Seoul</th>
<th>Kyung-gi</th>
<th>Choong-buk-nam</th>
<th>Choong-buk</th>
<th>Chon-nam</th>
<th>Chon-buk</th>
<th>Kyung-buk-nam</th>
<th>Kyung-buk</th>
<th>Kang-won</th>
<th>Jeju</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufac.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,469</td>
</tr>
<tr>
<td>Metal</td>
<td>10</td>
<td>13</td>
<td>10</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>32</td>
<td>3</td>
<td>2</td>
<td>-</td>
<td>76</td>
</tr>
<tr>
<td>Machine</td>
<td>12</td>
<td>121</td>
<td>30</td>
<td>20</td>
<td>3</td>
<td>22</td>
<td>21</td>
<td>99</td>
<td>40</td>
<td>3</td>
<td>-</td>
<td>371</td>
</tr>
<tr>
<td>Chemical</td>
<td>24</td>
<td>147</td>
<td>46</td>
<td>12</td>
<td>7</td>
<td>22</td>
<td>12</td>
<td>74</td>
<td>23</td>
<td>3</td>
<td>7</td>
<td>377</td>
</tr>
<tr>
<td>Electricity</td>
<td>13</td>
<td>22</td>
<td>2</td>
<td>3</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>4</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>51</td>
</tr>
<tr>
<td>Ceramics</td>
<td>3</td>
<td>10</td>
<td>17</td>
<td>11</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>33</td>
<td>9</td>
<td>-</td>
<td>-</td>
<td>103</td>
</tr>
<tr>
<td>Textile</td>
<td>75</td>
<td>60</td>
<td>23</td>
<td>12</td>
<td>20</td>
<td>11</td>
<td>3</td>
<td>68</td>
<td>36</td>
<td>11</td>
<td>-</td>
<td>307</td>
</tr>
<tr>
<td>Food</td>
<td>8</td>
<td>67</td>
<td>45</td>
<td>77</td>
<td>2</td>
<td>72</td>
<td>94</td>
<td>177</td>
<td>132</td>
<td>22</td>
<td>4</td>
<td>718</td>
</tr>
<tr>
<td>Wood</td>
<td>102</td>
<td>23</td>
<td>8</td>
<td>7</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>20</td>
<td>9</td>
<td>15</td>
<td>-</td>
<td>197</td>
</tr>
<tr>
<td>Printing</td>
<td>-</td>
<td>37</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>10</td>
<td>18</td>
<td>15</td>
<td>15</td>
<td>1</td>
<td>-</td>
<td>97</td>
</tr>
<tr>
<td>Mining</td>
<td>31</td>
<td>30</td>
<td>18</td>
<td>5</td>
<td>-</td>
<td>2</td>
<td>10</td>
<td>16</td>
<td>20</td>
<td>178</td>
<td>-</td>
<td>316</td>
</tr>
<tr>
<td>Agri/fish</td>
<td>69</td>
<td>17</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td>5</td>
<td>9</td>
<td>57</td>
<td>7</td>
<td>11</td>
<td>3</td>
<td>182</td>
</tr>
<tr>
<td>Finance</td>
<td>-</td>
<td>11</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>23</td>
</tr>
<tr>
<td>Others</td>
<td>56</td>
<td>349</td>
<td>56</td>
<td>42</td>
<td>70</td>
<td>46</td>
<td>47</td>
<td>88</td>
<td>28</td>
<td>15</td>
<td>4</td>
<td>601</td>
</tr>
<tr>
<td>Total</td>
<td>403</td>
<td>907</td>
<td>260</td>
<td>206</td>
<td>59</td>
<td>201</td>
<td>220</td>
<td>686</td>
<td>334</td>
<td>261</td>
<td>18</td>
<td>3,555</td>
</tr>
</tbody>
</table>

Lee, Dae-Keun (2002), p97

The vested properties, in effect, were nationalized by being turned over to the Korean government. Given that the properties were in the hands of the government, it was seen as a huge potential financial windfall for the government’s coffer but also a lightning rod for anti-communist critics. So the Rhee government wanted to re-privatize the properties with no delay (Lee Dae-Keun, 2002). In December 1949, the Law of Divestiture of Vested
Properties was enacted, which served as the legal basis for the divestiture or re-privatization program. Meanwhile, the US continued to press the Rhee government to finish the job in redistributing the rest of the land, which faced great opposition from the landed elite and politicians. To induce landowners to sell their land for redistribution, the Rhee government tried to persuade the landowners to sell their land to the government, and then, use the proceeds of selling their land to buy the vested properties the government owned. Basically, the government was trying to sell the idea of becoming industrial capitalists to the landowners.

To swap the land for properties, the government issued promissory notes or bonds to the land owners who then had the choice of keeping it or selling it for cash to bury the properties in installments over 15 years. To speed up the re-privatization process, the Rhee government revised the Law by adding additional provisions to induce as many landlords to sell their land as possible. First, the rights to the properties or businesses had to be held by multiple owner-managers instead of one single owner-manager. Second, half of the rights of the businesses had to be held by former landlords based on the recommendation of the Minister of Agriculture. Third, new managers given rights to the business, had to a landlord when an existing owner-manager left a business. In effect, the government was trying to induce multiple landowners to sell the rights to their land for the rights to own-manage one of the businesses. However, the government’s plan faced many difficulties, and ultimately failed to meet its objectives. In trying to convince the landlords, the government realized they were not ready or willing to let go of their land in exchange for a chance to become an industrial capitalist. Indeed, the businessmen traditionally occupied the lower rung of Korea’s social ladder whereas the landowners sat on the top rung. Moreover, the government wanted to buy the land cheap relative to the price it was selling the businesses to maximize revenues from the sales of properties and to minimize the cost of redistributing the land. At the time, the average purchase price of a land was 10 thousand won, while the average sale price of a property was 1 million won. Regardless of the wide price difference, the government believed that many landowners would form a group to pool their money to buy a property, similar to issuing equity shares of a company to multiple investors (Lee Dae-Keun, 2002).

The government did achieve its goal of buying land at a relatively cheap price; however, it still faced the problem of having to sell the properties to the private sector which was not going well. This forced the government to lower the sale price of the businesses at a steep discount to their market prices. In the end, most of the properties were estimated to have been sold at pre-1945 book values to former managers or employees, in the process failing to convince the wealthy land owners to sell their land and take a shot at being industrial capitalists initially planned. As many of the buyers had little capital, most of the acquisitions were financed using loans with a small down payment of 10 percent of the sale price. The rest was to be paid in installments over fifteen years. But the real financial burden of paying for the properties was never high due to persistent high inflation, and in many cases, loan repayments were not even enforced. In 1958, after the properties were sold, 37.7% of the outstanding loans had not even been repaid (Kang, 1996). It is not difficult to imagine that corruption and rent seeking behavior under the Rhee government had resulted in the business being given away basically for free as was the case in the privatization of banks. But all was not lost. The government did succeed in convincing land owners to sell their land, which was subsequently redistributed. By 1952, the
government purchased and distributed nearly 330,000 hectares of land, nearly 70-80% of land that was planned for redistribution, to farmers who paid for it with 150% of their annual output in installments over five years.

Aside redistributing much of land formerly owned by landlords to farmers, the government’s efforts aimed at securing a financial windfall for its coffers and a more fair distribution of income and wealth had been all but a failure. The landlords were paid for their land with government notes while a class of enterprising businessmen had acquired businesses and banks practically for free. But the even hand of history would deal Korea a more just outcome. In 1950, civil war broke out on the Korean peninsula with invasion of North Korea, leaving in its wake total economic and human destruction. Little had survived the brutality of the war. A countless number of people were killed or went missing, and most physical structures and properties were damaged or destroyed. The war brought hyperinflation, effectively, making all debt worthless including the notes held by the former land owners.

The Korean War had flattened the distribution of Korea’s income and wealth, wiping out much of the capital, ill gotten or not, that was accumulated in the preceding years, leaving behind a relatively “equal distribution of poverty.” Everyone was poor and the playing field was leveled, the immediate and lasting economic consequences of which have yet to be fully understood. But the effects in the rural sector were immediate, as a relatively high degree of equality was achieved in the rural sector, which was not seen in many countries. Since the tenant farming system was abolished and farmers could own their own land, it changed the incentive structure of farmers who could now work for themselves instead of landlords, resulting in higher agricultural production. Income stability in the rural sector meant that investment in primary education could result in better outcomes; in that farming households could afford to send their children to schools instead of having to make them work on the farm. According to the UNDP report, Korea’s literacy rate jumped from 22.2% in 1945 to 91.9% in 1966, and has achieved full literacy by 2009. The huge economic payoffs of an educated and healthy population, the bedrock of Korea’s industrialization, cannot be over emphasized.

Just as important are the lasting effects of a more equitable distribution; the obvious one being that economic and political power was not concentrated. Had power rested within a few hands, it is hard to imagine if the subsequent development policies of Park Chung Hee such as clean government, tax administration reform, and rural development, which set the stage for Korea’s broad-based rapid development, could have been possible had the state or other self-interested group been an obstacle to development.

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130  Since the farmers were only able to buy small plots of lands it resulted in a highly fragmented agriculture sector that was inefficient. This was later reformed under the Park Chung Hee government by land consolidation, to introduce large scale enterprise farming.

131  Countries that undertook land reforms (South Korea, Japan, Taiwan) with the land-to-the-tiller principle tended to have well-educated rural people, because many tenants did not have to pay their rentals to landlords. Countries that undertook land reforms tended to achieve the development having well-educated labor force, thereby reducing poverty effectively. In India, Prime Minister Nehru attempted land reform but failed in 1947 due to political opposition from the landlords. Indeed, India suffers from high illiteracy rate of 30-40%. This is the same case for Indonesia.
4. Japanese Economic Cooperation Fund (Colonial Reparations)

It is a well known fact that Korea’s rapid development was financed largely by foreign savings; but little is known of how Korea was able to secure foreign borrowings in the first place. As Table 6 shows, Korea’s rapid development was highly dependent on foreign savings. This is much higher compared to Taiwan, which was able to mobilize domestic capital brought over by Chinese nationals from the mainland.

Table 6 | Korean Investment and Savings

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment/GNP</td>
<td>13.1</td>
<td>16.3</td>
<td>25.4</td>
<td>29.0</td>
<td>31.0</td>
<td>28.2</td>
<td>32.7</td>
</tr>
<tr>
<td>Domestic saving/GNP</td>
<td>3.7</td>
<td>8.0</td>
<td>15.1</td>
<td>20.4</td>
<td>25.5</td>
<td>24.8</td>
<td>34.8</td>
</tr>
<tr>
<td>Foreign saving/GNP</td>
<td>9.4</td>
<td>8.3</td>
<td>10.3</td>
<td>8.6</td>
<td>5.5</td>
<td>3.4</td>
<td>-2.1</td>
</tr>
<tr>
<td>Foreign saving/investment</td>
<td>71.7</td>
<td>50.9</td>
<td>40.6</td>
<td>29.7</td>
<td>18.1</td>
<td>12.1</td>
<td>-6.4</td>
</tr>
</tbody>
</table>


To industrialize, Korea had to make capital investments; it had to import foreign equipment, which required foreign currency. Needless to say, Korea did not access to foreign credit while income and domestic savings was low in the early stages of development and domestic capital markets were non-existent. Moreover, Korea had little foreign currency receipts as its export base remained small and it lacked a foreign currency reserve. Wanting to pursue industrialization but lacking foreign currency, President Park freed the industrialists that were arrested for corruption on the condition that they go out and secure foreign loans to finance capital investments. Subsequently, a delegate of top businessmen went on an international road-show to drum-up foreign investors; one group led by Pyung Chul Yi (Founder of Samsung) went to the US while the other group led by Chung Rym Lee (Founder of Korea Petrochemical Industry) went to Europe. But their efforts proved futile, being able to only secure a small amount of foreign loans. Not even did the government’s legislation of the Foreign Loan Repayment Guarantee Act in 1962 do much to induce foreign borrowings. By this time, total US assistance began to decline and more of the foreign assistance was comprised of concessionary loans, much of which was military assistance.

The normalization of relations with Japan is one of the most underappreciated accomplishments of President Park. It gave Korea access to foreign trade and technology but more importantly to foreign capital. In the background, the US had been pushing for normal ties between the countries as a way to wean Korea off of aid and to foster development. Against fierce, often violent, public objections at home, President Park made the decision to normalize relations with Japan in 1965; subsequently, Japan committed to US$ 800 million of the economic cooperation fund, or reparations in the eyes of Koreans, in

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132 In fact, the group of businessmen was only able to secure 3.8 million German Mark of loans at very high interest rates.
133 The decline in US assistance was largely due to political and economic factors in the US.
the form of grants (US$ 300 million), concessory (US$ 200 million) and commercial loans (US$ 300 million). It was agreed by both countries that most of the assistance would be allocated to the agricultural sector. As it turns out, a good deal of the funds was also used to finance Korea’s industrialization.

**Allocation of Japanese Economic Cooperation Fund: POSCO** By now, Korea had implemented its first Five-Year Economic Development Plan (1962-66), and plans were drawn up to construct the first integrated steel mill, the centerpiece of Korea’s heavy and chemical industrialization strategy. To secure the funding to finance the large capital investment, the Korea International Steel Association (KISA), an international consortium was formed in 1967, consisting of the U.S, U.K, Germany, Italy, and France, which was supposed to raise foreign capital and facilitate technical assistance. The consortium actively sought to obtain foreign loans but to no avail. Negotiations with foreign creditors such as the US EXIM Bank stalled as international support for the construction of steel factories had waned at the time. By then, many other developing countries had failed to construct a viable steel industry due to lack of economies of scale, poor technologies, and insufficient demand for steel. The World Bank was also highly skeptical of the Korean government’s plans, recommending that it focus on the labor-intensive machinery industry. Indeed, the lack of infrastructure and small domestic market for steel raised questions of feasibility and scale; could Korea build a steel mill with sufficient economies of scale to produce quality steel at internationally competitive prices? When a Korean delegate sounded the idea of constructing a steel mill, the same question was posited by a top Japanese government official, who suggested that Korea just buy steel from Japan.

President Park didn’t want to just buy steel; he wanted to make it. Unable to secure foreign capital, the Korean government sought to use some of the Japanese economic cooperation fund to finance the construction of a steel mill. But it was always going to be easier convincing the Japanese than Koreans of using a portion of the funds for industrialization. In fact, a total of US$500 million (US$300 million with no interest and US$200 million with interest of 3.5 percent) of the funds was earmarked for the agricultural and fishery sectors. Japanese businesses showed strong interest from the time the Korean government first approached them for financial and technical assistance in building a steel mill. The procurement of contracts related to the construction of a steel mill and development of the Korean market were seen as an economic boon for exporting steel products and industrial plants. The involvement of the largest Japanese steel companies, which held strong influence in government and political circles, was critical in allowing some of the Japanese economic cooperation fund to be used in the construction of a steel mill. Regardless, the shared history and geographic proximity of Korea and Japan meant that security interests would loom just as large as economic interests in driving Japan’s policy to Korea. As such, the formulation and decision making of Japan’s policy to Korea transcended the usual government bureaucratic processes.

Once Japan came on board, President Park made the decision to use part of the Japanese economic cooperation fund to construct Korea’s first integrated steel mill in 1969, which would eventually become Pohang Iron and Steel Company (POSCO), despite the fierce social and political backlash. In total, US$77.2 million (US$30.8 million with no interest and US$46.4 million with interest of 3.5 percent over 20 years with a grace period of seven years) was used to finance POSCO. Table 7 below shows other areas where Japanese
development assistance was used. A key implication being that the repayment of the concessionary and low interest commercial loans from Japan allowed Korea to build a track record as a creditor, which allowed it to induce future foreign loans that were critical in financing its export-led industrialization.

Table 7 | Uses of Japanese Economic Cooperation Fund (Colonial Reparations) (US$ Million, %)

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>39</td>
<td>7.8</td>
</tr>
<tr>
<td>Fishery</td>
<td>27</td>
<td>5.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>278</td>
<td>55.6</td>
</tr>
<tr>
<td>Construction of POSCO</td>
<td>119</td>
<td>23.9</td>
</tr>
<tr>
<td>Purchase of raw materials</td>
<td>133</td>
<td>26.5</td>
</tr>
<tr>
<td>Promotion of SMEs</td>
<td>22</td>
<td>4.5</td>
</tr>
<tr>
<td>Science and Technology</td>
<td>20</td>
<td>4.0</td>
</tr>
<tr>
<td>Equipments for practical training for the schools</td>
<td>6</td>
<td>1.2</td>
</tr>
<tr>
<td>Equipments/facilities at KIST</td>
<td>3</td>
<td>0.6</td>
</tr>
<tr>
<td>Social Infrastructure</td>
<td>90</td>
<td>18.0</td>
</tr>
<tr>
<td>Construction of Soyang-river dam</td>
<td>22</td>
<td>4.4</td>
</tr>
<tr>
<td>Gyeongbu (Seoul-Busan) Expressway</td>
<td>7</td>
<td>1.4</td>
</tr>
<tr>
<td>Improvement of Railway system</td>
<td>20</td>
<td>4.2</td>
</tr>
<tr>
<td>Construction of Yongdong Thermal Powerhouse</td>
<td>2</td>
<td>0.4</td>
</tr>
<tr>
<td>Expansion of Waterworks</td>
<td>4</td>
<td>0.8</td>
</tr>
<tr>
<td>Construction of Namhae Bridge</td>
<td>2</td>
<td>0.4</td>
</tr>
<tr>
<td>Rehabilitation of Han-river Bridge</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td>Power Distribution facilities</td>
<td>4</td>
<td>0.7</td>
</tr>
<tr>
<td>Expansion of out-of-town Telephone lines</td>
<td>4</td>
<td>0.8</td>
</tr>
<tr>
<td>Total (Reparation funds for free and public loans)</td>
<td>500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: EPB (1976), *White Book on Reparations* pp. 378-381

*Japanese Development Assistance: Public Health and Education* Japanese ODA contributed to improving public health and education in Korea. Like many poor developing countries, Korea suffered from a high rate of parasite infection including ascaris and trichuris due to poor sanitation and inadequate public health. In the 1950s, the parasite infection rate was estimated to be nearly 80%. Efforts to address the high infection rate first began in 1948 when the US military government conducted public examinations for infections. In 1964, the Korean Association of Parasite Eradication (KAPE) was established by the government. However, it lacked the necessary human resources and technical knowledge and equipment to undertake medical examinations and tests for parasites. From 1968-74, Japanese development assistance contributed to eradicating the high incidence of parasite infections under the Overseas Technical Cooperation Agency (OTCA). Under this program, a total of US$ 57,750 of assistance was provided in the first year, US$ 55,450 in the second year, and US$ 11,800 in the third year, to purchase microscopes, mobile clinics, testing equipment, and medicine. Examination facilities were established across the country. In 1969, students across the nation in elementary, middle and high school, began to be tested for parasites, when the infection rate for ascaris was estimated to be 77%. By the mid 1980s, it had fallen to less than 5%. Amazingly, Korea had drastically reduced the infection rate within a very short time,
successfully reducing the rate in less than half the time Japan did. One of the factors that contributed to the rapid decrease was the efforts to improve public health by building sanitation facilities through the *Saemaul* Movement during the 1970s.\(^\text{134}\)

Japanese assistance also contributed in improving Korea’s system of technical and vocational schools, which helped meet the high demand for engineers and skilled workers as industrialization accelerated. Korea allocated part of Japanese assistance to purchase modern training equipment for its schools. A total of 1.2 billion yen was used to fund the purchase of equipment from Japan. In 1972, the Kum-Oh National Technical High School was established, as a model for technical schools. After initial attempts to train instructors by sending Koreans to Japan proved too inefficient, the government directly hired eight highly trained Japanese instructors for a period of three years until the first graduating class. The Japanese instructors were given a fairly lucrative compensation package that also included housing benefits to recruit them.

In terms of admissions to Kum-oh, standards were kept high and the admissions process was very selective based on a combination of academic performance, recommendations from middle school principals, and an interview as well as a series of aptitude and physical tests. The school sought to promote balanced education and build a work ethic based on integrity, precision, and earnestness. The students were also given full scholarships and other benefits like books and housing. By 1976, among 400 newly admitted students, more than half were the top 5% of their graduating class from middle schools all over Korea including 126 valedictorians. Indeed, Korea excelled in international vocational training competitions (Vocational Olympics), winning nine times in a row during 1977-91.

5. Conclusion

In the context of Korea’s development, and perhaps in general, few would argue against the importance of aid, and the critical role it can play in assisting developing countries. There is little doubt that foreign assistance was invaluable in aiding Korea’s survival in the tumultuous years following its liberation in 1945 until the years immediately after the Korean War broke out in 1950. But assessing the longer term impact of aid on Korea’s development presents a more complex challenge. At one point, aid had a depilating effect on the economy and the government. Corruption and rent-seeking behavior had taken hold of a government dependent on aid, itself becoming an obstacle to reform and progress. The lasting effects of aid and development policies on Korea can only be truly understood after taking a broader view of the development process. In this regard, advances in modern economics and the lessons of past reform experiences allow us to better explain Korea’s social and economic transformation. Despite the highly multi-faceted, complex, and

\(^{134}\) Please refer to *Development of ODA model on Parasite Management Based on Korean Experience by the Korea Association of Health Promotion (KAHP) and Korea Foundation for International Healthcare (KOFIH)* in 2011.
contextual nature of development, policy lessons can be drawn from past experiences and Korea’s experience can offer some useful insights on current issues.

Few economists would disagree that Korea’s human capital was fundamental to its rapid export-led development not only in the labor-intensive but also in the heavy and chemical phases of industrialization. Endowed with a rich stock of human capital relative to physical capital, income, and technology, Korea was able to exploit its comparative advantage of having an educated and low cost labor force by producing export goods that were competitive in the international market. Aid was critical in the development of Korea’s human capital; massive investments were made in public education, particularly in the expansion of primary education. Beside repairing damaged schools and building new ones, a considerable amount of technical assistance went into improving the quality of education in primary and higher education. But investments in education do not explain everything as the benefits of improved public health also contributed to both an educated and healthy labor force. The high rate of education and health attainments can be seen in the sharp drop in the illiteracy rate and incidences of parasite infection early in Korea’s development.

Korea’s equitable distribution of income and wealth has arguably had a profound impact on Korea’s development prospects. It created favorable preconditions that set the stage for economic take off and sustained development. Land reform, the redistribution of land to the rural poor, promoted equity and efficiency in the rural sector, and improved the incentives of farmers. Most of all, a relative equal distribution of income and wealth in Korea meant that economic and political power was not concentrated in the hands of a few. The implication being that once government failure was corrected, government could take ownership of the development process and actively play a role in coordinating better comes. Had the state or other self-interested group been an obstacle to development as it once was in Korea, the subsequent government actions under Park Chung Hee, such as tax administration reform and rural development, could not have been possible.

In many developing countries, improving education and health outcomes remain a priority, especially in the rural sector, where much of the people and poverty are found. Aid can and should play a role in improving access to education but also the quality of education. If there is one policy take away from Korea’s experience, it is that it illustrates the interconnectedness and multi-layered nature of development, which may require a set of complementary interventions across multi-sectors to achieve better outcomes. In many poor countries as was the case in Korea, a diagnostic analysis of economic conditions will likely reveal that several binding constraints may exist at the same time in multiple sectors, which may need to be addressed simultaneously to ensure more desirable development outcomes. In Korea, equity and higher income in the rural sector may have had strong spillover effects on investment in health and education. Despite the argument and prospects for promoting equity and efficiency in the rural sector, land reform as a practical policy instrument for achieving a more equitable distribution still raises more questions than answers. Moreover, the benefits of equity and higher income, and how it affects the benefits of improved education and health need to be examined further.
References


Chapter 11

Beyond Aid\textsuperscript{135}

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Director, Institute for Development and Human Security
Ewha Womans University

1. Introduction

Rapid economic development of East Asian newly industrializing economies (NIEs)\textsuperscript{136} during the latter half of the 20\textsuperscript{th} century shaped the theories on economic development. Unlike their predecessors in Europe, the US, and Latin America, the NIEs in East Asia used export oriented industrialization as its primary strategy for economic growth, and were very successful while many other countries in the world struggled with poverty. In many of the NIEs, foreign aid (or, referred to as “development cooperation”) helped them recover from the ruins of war, poverty or colonization. In the case of South Korea (hereinafter referred to as “Korea”), official development assistance (ODA) totaling $12.78 billion played a crucial role for its industrialization in the 1960s-1970s. It is argued that in the Korean case, foreign capital in the form of grant aid and later concessional loans were catalysts for its remarkable development from extreme poverty to prosperity. Within 20 years since it began its rapid economic growth, Korea’s extreme poverty nearly disappeared. Now, Korea boasts the 13\textsuperscript{th} largest economy in the world, and its ODA to countries in need of development cooperation is rising rapidly with a promise to provide over $3 billion and 0.25\% of ODA/GNI by 2015. The Korean government’s ODA policy objective was to end its dependence on aid as soon as possible, and to become a donor on its own right. It has now kept its promise to become a globally responsible member of the world and help its more unfortunate neighbors as it received such support just 60 years ago.

\textsuperscript{135} Sections of this chapter are excerpted from Eun Mee Kim’s manuscript being prepared for publication in an academic journal.

\textsuperscript{136} East Asian NIEs include South Korea, Taiwan, Singapore and, to a lesser degree, Hong Kong. The so-called second tier NIEs, which include Indonesia, Malaysia, and Thailand, are not included in this chapter’s analysis of 20\textsuperscript{th} century East Asian NIEs.
However, the global political economy has changed in the 21st century, and has made the experience of East Asian NIEs somewhat obsolete. This paper asks to what extent the global political economy has changed in the 21st century, and its implications for a new development cooperation alternative using the East Asian NIEs’ experience of rapid economic development in the 20th century.

2. From 20th Century Development to 21st Century Development Cooperation

2.1. Economic Development of NIEs in the 20th Century:

East Asian NIEs’ rapid economic development in the 20th century was based on a set of key institutions. First, the developmental state was seen as a key in leading the market. The developmental state had set long-term economic development plans, and provided capital and technology to private businesses so that they would follow the leadership of the state with its industrial policies. The state was not merely providing the best conditions for businesses to perform, but led the businesses into new sectors even when the businesses may not have been initially ready. Thus, the state was a heavily intervening state. State-intervention in the market was a critical component of the developmental state, and this included industrial policies, effective use of carrots and sticks (performance-based incentive structure), and prevention of moral hazard and corruption.

Country ownership was exercised in development planning and usage of ODA. There is ample anecdotal evidence that negotiations with donors were always tough, and East Asian NIEs tried to determine their own fate of economic development, sometimes going against the advice of donors and arguing for a more favorable exchange rate. In the case of Korea, when it was unsuccessful in receiving aid or loans for its ambitious iron and steel mill project (which later became the Pohang Iron and Steel Company [renamed as POSCO]) in the mid 1960s, it began discussions with Japan to normalize its relations after their ties were severed in 1945 following the defeat of Japan in the Second World War and end of the Japanese Colonial Period (1910-1945). In sum, Korea did not stop when major donors rejected its proposal to establish an iron and steel mill, and aggressively sought foreign capital from its previous colonizer in the face of great opposition from its own people that the Korean government was kowtowing to its former colonizer. Korea’s experience with ODA is filled with such anecdotes, which shows that in spite of the lop-sided power as donor vis-à-vis a recipient of ODA, it still tried to negotiate for the best deal. Thus, “ownership” seems to have been a key element of Korea’s dealing with ODA.

Second, many of these developmental states utilized an authoritarian state apparatus for development. The police, intelligence agency, and tax auditing system were used as effective tools to discipline the businesses to follow the government’s directives for economic development. Labor rights were suppressed and wages were kept below market rates to keep the prices low.

Third, the East Asian NIEs had a relatively high rate of literacy and education level even before they started their rapid economic development. Investment in education was high
and there were more relatively highly-educated persons in these countries vis-à-vis other countries suffering from similar levels of poverty. Thus, capacity building was key to the rapid economic development of the NIEs.

### 2.2. Changing Dynamics of Foreign Assistance in the 21st Century

The global political economy has changed in profound ways since the latter half of the 20th century. The Cold War ended which signaled global peace, but in turn caused a cut in aid to former allies of the US and the USSR; globalization has engulfed the world in political affairs as well as in the economic sphere, which meant that democracy was seen as the desired political system more than ever; WTO was the new trading order in which member countries were to abide by the open trade system; and the world is faced with more regular and devastating global financial and economic crises. Table 1 summarizes these changes.

During the Cold War period, foreign aid was often used as a tool to support allies in the rivalry between the US-led capitalist democracies vs. USSR-led communist nations. Countries such as Korea received large amounts of foreign aid from the US due to Korea’s geo-political location as the last frontier in Far Eastern Asia in the fight to contain communism in the USSR, China and North Korea. Support for Korea during the Cold War was an insurance plan to help contain communism in North Korea and beyond. The U.S. used its military assistance to increase the recipients’ capacity for national defense, and ultimately contain communism (Griffin 1991; Mott 2002).

In the 1960s, the US market was open to the world’s cheap manufactured products – they were coming initially from Japan, and later from the East Asian NIEs. Their cheap textiles and garments had easy access to the huge US market. However, the NIEs remained quite closed to the foreign businesses as investors in their economies and also closed to imports other than raw materials they used for production and assembly for re-exports.

### Table 1 | Changes in the Global Political Economy

<table>
<thead>
<tr>
<th></th>
<th>Time Period</th>
<th>Global Political Environment</th>
<th>Global Economic Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIEs</td>
<td>20th Century</td>
<td>• Cold War: Military Aid &amp; Economic Aid</td>
<td>• Open Market (US)</td>
</tr>
<tr>
<td></td>
<td>(1960s-1980s)</td>
<td></td>
<td>• Relatively few exporters with cheap export products</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• High trade barriers in NIEs</td>
</tr>
<tr>
<td>Developing</td>
<td>21st Century</td>
<td>• Post Cold-War</td>
<td>• WTO</td>
</tr>
<tr>
<td>Nations</td>
<td></td>
<td>• Aid to Transition Economies</td>
<td>• Learning effect of EOI</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Democratization</td>
<td>• Cyclical and global financial/economic crisis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• US: War against terrorism</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• China: South-South Cooperation</td>
<td></td>
</tr>
</tbody>
</table>
As the Cold War ended, and globalization spread rapidly since the late 1980s and early 1990s, many countries that used to receive aid from either the US or the USSR were left with large numbers of people living under the poverty or extreme poverty line. The Millennium Development Goals (MDGs) signed in 2001 reflected this urgency in the rise of the poor across the globe, and a global attempt to reduce the world’s poverty by 2015. The advanced donor countries would have to provide 0.7% of its GNI to ODA to help fund the MDGs (UN 2003).

The Washington Consensus, which was embraced by the World Bank, and the IMF, includes economic reforms, trade liberalization and de-regulation. The Consensus has also influenced foreign aid programs from traditional donor countries. Structural adjustment programs became dominant in international development cooperation, and these included policy prescriptions such as trade liberalization, privatization and deregulation to developing countries. The WTO regime encouraged developing countries to open its market and pursue mutual interest through trade (Ford 2002). By providing rules and standards for trade, the WTO regime created more opportunities for developing countries to participate in international economy through trade (Toye 2003).

By the late 1990s, it became quite evident that the Washington Consensus was not able to help the developing countries. The foreign aid regime based on the Washington Consensus was heavily criticized by scholars and practitioners since neo-liberal policies failed in many Sub-Saharan African countries (Rodrik 2006). Thus, the world has been searching for an alternative approach to the Washington Consensus and has looked to Asia since the end of the World War II, East Asian NIEs since the 1960s, followed more recently by the second-tier NIEs, which include Indonesia, Malaysia and Thailand. We have also witnessed the rapid economic development of China. Although it is difficult to argue that one pattern of economic development explains all these economies in East Asia, there appears to be some consensus that the government has played an important role and that export-oriented industrialization was used as a main development strategy. In particular, the East Asian NIEs’ experience of rapid development from poverty would be useful as a basis for a new 21st century alternative for development cooperation. This new alternative should be aid to reduce and cut the dependency on aid. Aid to end aid was the quest for many of these Asian nations that received substantial amounts of aid in the 20th century.

2.3. Changes in the Domestic Political Institutions

The end of the Cold War signaled an end to communism and socialism around the world apart from a few exceptions. Democracy seemed to be the only alternative for transition countries. The advent of globalization with internet, CNN, and social network service (SNS) enabled ordinary citizens to engage in democratic governance more than ever before. More and more countries are becoming less tolerant for non-democratic political systems. The Middle East is currently engulfed in such people’s movement for democracy, which will have significant impacts in other neighboring regions. In terms of democracy, traditional donors have long embraced the virtues of democracy and democratic governance in aid. Many Western donors highlighted the positive role of democratic and
accountable government of recipient countries in their development cooperation (Degnbol-Martinussen and Engberg-Pedersen 2003; Fukuda-Parr 2004).

The continuing challenges in the development partner countries in terms of their domestic political institutions include governance crisis, corruption, and high dependence on aid in their government budget. Thus, democratic governance is not always an easy condition that the development partner countries can embrace.

Furthermore, there is great variation in terms of the capacity of the state. Unlike in the East Asian NIEs where the government bureaucracy was well established and there were economic and political institutions set up to implement state-led development efforts, very little seems to be available in many development partner countries. See Table 2 for a summary of these discussions.

Table 2 | Changes in the Domestic Political Institution

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Political System</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIEs 20th Century</td>
<td>• Developmental state</td>
<td>• Well functioning bureaucracy</td>
</tr>
<tr>
<td>(1960s-1980s)</td>
<td>• Authoritarian state</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Restrictions on civil liberties (labor)</td>
<td></td>
</tr>
<tr>
<td>Developing</td>
<td>• Less tolerance for non-democratic political system</td>
<td>• Governance crisis</td>
</tr>
<tr>
<td>Nations 21st Century</td>
<td>• Global/local demands for democracy</td>
<td>• Corruption</td>
</tr>
<tr>
<td></td>
<td>• Budget dependence on foreign aid</td>
<td>• Budget dependence on foreign aid</td>
</tr>
</tbody>
</table>

In terms of a new development cooperation paradigm, democracy needs to be embraced. East Asian NIEs’ developmental state needs to be rethought to remove the authoritarian and non-democratic governance from its alternative since the world will not tolerate a system that does not respect the civil liberties of its citizens. Thus, the challenge is to redesign the developmental state, which worked well in East Asian NIEs, without an oppressive authoritarian apparatus.

2.4. Emergence of New Development Cooperation Actors

The world has seen many nations become donors of ODA, or partners in South-South Cooperation. China and India were the two leading countries in these efforts with China at the lead in terms of volume and influence. These new donors dramatically increased the total volume of foreign aid to developing countries, and provided a new paradigm of development cooperation (Halper 2010). The Beijing Model assumes respect for the development partner’s sovereignty, usage of China’s own businesses and labor to build infrastructure and extract natural resources in many sub-Saharan African nations in need of foreign aid. ODA money is rarely given to the development partners, and the projects and programs are simply built and delivered to the partners. Hence, the output was efficiently delivered, but learning rarely took place and it was not clear who was really benefiting
from this type of transitions – i.e., China or the recipient nations? Regardless of the mounting criticisms against China’s South-South Cooperation, China continues to provide a great deal of needed assistance to these development partners. This will not end in the near future.

The proliferation of development actors raised an issue about harmonization among donors in developing countries. Non-traditional donors, new emerging donors, non-OECD DAC members, all had different approaches for development cooperation, especially in comparison to the traditional donors. Emerging donors focus on economic growth of recipients based on mutual benefit while traditional donors highlight social development with good governance. Discussions on how these donors with different approaches and goals cooperate and harmonize are still evolving in the development community. See Figure 2 for a summary of the alternatives for development cooperation.

This discussion will become more complex as we try to find a global aid architecture that also embraces non official development assistance – i.e., private development assistance (PDA) from Bill and Melinda Gates Foundation types, corporate social responsibility efforts, NGOs and CSOs efforts in developing nations, etc.

2.5. OECD/DAC Guidelines on National Development

Before we begin our discussions about how we can modify the East Asian NIEs’ experience of rapid economic development from poverty in the 20th century to that of development cooperation in the 21st century, let us briefly examine the OECD/DAC guidelines on national development. These guidelines stress capacity development and good governance as important factors for social, political, and economic development (OECD 1995, 1997, 2006). According to the OECD/DAC’s definition, capacity development
refers to the process of creating, strengthening and maintaining capacity of human resources, organizations and society. As Figure 2 shows, OECD/DAC recommends that capacity development of recipients is a key to achieve political and economic development by empowering public and private sectors (OECD 2006).

In terms of economic development, OECD/DAC emphasizes the importance of women’s empowerment and their role in development. Traditionally, women in developing countries have limited access to education, economic opportunities, information, and decision making process so that women were the most fragile (OECD 2007). However, many scholars and practitioners focused on the role of women in development and emphasized gender equality as one of the main development goals. OECD/DAC also emphasized empowerment of women economically, politically and socially and to integrate gender-focused approaches into all development programs (OECD 2008). Also, private sectors are seen as important tools to create jobs and strengthen local economies, and thus OECD/DAC suggests empowering the private sector.

Figure 2 | OECD/DAC Guidelines on National Development
Source: Kim et al. 2010.

OECD/DAC also recommends good governance and civil society organizations (CSOs) to achieve political development. Good governance refers to having a rule of law, participatory process, transparency and accountability in economic, political and social structures in a country (OECD 1995). In particular, OECD/DAC recommends that donors and recipients build partnership to promote accountability and reduce corruption. Especially, the CSOs can play the role of monitoring government performance and addressing public needs.
3. Conclusion: East Asian NIEs’ Alternative for Development Cooperation

With the most recent experience of economic and social development out of extreme poverty, East Asian NIEs can provide a useful alternative of development cooperation in the 21st century. Their economic development experience can be summarized as strong country ownership, developmental state, and capacity building of human resources.

However, since the international environment and development norms have changed, it is necessary to adjust East Asian countries’ experience in the context of the 21st century. This includes democracy as the desired political system, and trade openness in the economic system. Thus, the revised alternative from the East Asian NIEs for development cooperation should look like the diagram in Figure 3. While the developmental state still can provide useful lessons for development, it must be modified in terms of the way in which authoritarian apparatus was used, and there should be an understanding that the world trade order has made it difficult to use high levels of trade protectionism in its pursuit of exports. Most importantly, ownership of the development partners needs to be recognized and enhanced when necessary. The development partner countries’ capacity to exercise ownership of their fate must be enhanced through education and development of the state bureaucracy. The goal of development cooperation must be to end aid.

Figure 3 | EA NIEs’ Alternative

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