

**A STUDY ON THE OFFICIAL DEVELOPMENT ASSISTANCE AND
THE INTER-KOREAN ECONOMIC COOPERATION FUND
OF SOUTH KOREA**

By

Jiwon Lee

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

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Jiwon Lee

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Dedicated to...

I would like to dedicate this study
to my beloved family and Lord who always empowered me.

Special thanks to the chamber 308 fellows;
Jung-hyok Kim, Jung-hyun Lee, Tae-wook Hwang and Jin-a Yang,
who encouraged me and shared the most precious memories in KDI.

ABSTRACT

A STUDY ON THE OFFICIAL DEVELOPMENT ASSISTANCE AND THE INTER-KOREAN ECONOMIC COOPERATION FUND OF SOUTH KOREA

By

Jiwon Lee

In the world economy structure, one sixth of six billion people live in the absolute poverty. Most of the developing countries aim at its economic development and welfare in which it could be achieved by their own mechanism. However, they also have hurdles to overcome poverty and achieve socio-economic development on their own. Thus, the Official Development Assistance (ODA) is an effective process to help the developing countries eradicate poverty and finally attain sustainable development. It is an official flow from the developed countries to or for the developing countries that are provided in the form of grants or loans for the developmental purposes.

North Korea as one of the least developing countries is now in an urgent need for international assistance. Under the extreme poverty and food shortage, six million North Koreans are in suffers. In this regard, South Korea has assisted North Korea with the inter-Korean Economic Cooperation Fund (ECF) from 1991. In a nutshell, ECF was established for the eradication of North Korea's poverty and promotion of the inter-Korean cooperation. For this reason, ECF is regarded to have the characteristics of ODA.

While the UN had set the target of ODA per GNI as 0.7%, Korea's ratio has been under 0.1%, which is far lower than the target. Thus, there has been considerable criticism that South Korea's ODA requires a quantitative increase. In this regard, this paper suggests one method for the quantitative increase of ODA by which to regard ECF as a part of ODA. By including ECF into ODA, the absolute volume of South Korea's ODA becomes twice larger. Moreover, in terms of the use of ODA, it could be better used in a more effective way. Hence, by focusing on these two points, this study redefines the ODA by including the ECF, and analyzes the methods for an effective use of future Korea's ODA.

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1. Introduction

1.1 Purpose of Study

Despite of the globalization and neo-liberalism which have focused on economic prosperity, if we take a look at the world economy structure, there are still many countries under absolute poverty. Currently, more than one sixth of six billion people live in absolute poverty and the other one billion maintain their least living conditions. It sounds like a sad story, but is a reality in this global society.

The general meaning of international assistance appeared after World War II for the purpose of mutual cooperation for postwar reconstruction. Thereby, international cooperation was to be started by many international organizations such as IBRD (International Bank of Reconstruction and Development), IMF (International Monetary Fund), and the United Nations. While the need for the development assistance went up, the economic gap between the developed and developing countries became bigger and discontent of the developing countries skyrocketed. The growth of GNI per capita of developing countries was just 40 dollars whereas that of the developed countries was 650 dollars. This huge income gap was enough to address that the financial flow from the developed to the developing countries was an urgent need. Accordingly, developed countries have provided the Official Development Assistance (ODA) in some ways such as grants or soft loans to the developing countries for the purpose of global economic prosperity, peace, moral duty and humanitarian needs. Consequently, the “Pearson Report of Development” indicating the ODA per GNI target of 0.7 percent was adopted by the UN in 1970.¹ Led by the United Nations and OECD DAC

¹ With the start of the development assistance from the 1960s, the DAC agreed on the definition of ODA, which is still valid, as follows: “ODA consists of flows to developing countries and multilateral institutions provided

(Development Assistance Committee in the Organization for Economic Cooperation and Development), the north-south cooperation was genuinely initiated in order to overcome international issues such as population, food, drugs, environment, and regional conflicts.

Stepping into the 21st century, global poverty reduction and socio-economic development became the core international issues, with the polarization of global poverty and the 9.11 tragedy in the process of globalization. Thereby, the Millennium Development Goals (MDGs) with 8 main goals² that should be achieved by 2015 was initiated in the Millennium Summit in September 2000. Based on the historical background, ODA has been regarded as an efficient way to implement the MDGs for the global poverty reduction and the economic development.

In order to fight against the poverty, disease, environmental pollution issues, and to achieve global sustainable development, South Korea's foreign aid started working with the foundation of the Economic Development and Cooperation Fund (EDCF) in 1987 and the Korea International Cooperation Agency (KOICA) in 1991. Besides, South Korea agreed on the increase of ODA to attain the eight MDGs targets. But its ODA per GNI scale was too meager, which was far lower than the 0.7 percent UN target ratio. Regarding South Korea's dependence on trade over than 70 percent, but with only 0.05 percent ODA per GNI scale, South Korea as an OECD member state has responsibility to scale up its aid volume to the

by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25 percent (calculated at a rate of discount of 10 percent)."

Helmut Fuhrer, *The Story of Official Development Assistance*, OECD, 1994, p24.

² The eight goals of MDGs are to: Eradicate extreme poverty and hunger, Achieve universal primary education, Promote gender equality and empower women, Reduce child mortality, Improve maternal health, Combat HIV/AIDS, malaria and other diseases, Ensure environmental sustainability, and Develop a global partnership for development.

Jefferey D. Sachs, *The End of Poverty*, pp211-212, 2005.

degree of developed countries.

So far, there have been many discussions that tried to link ODA with the assistance to North Korea and find the aid improvement scheme. There were studies on South Korea's ODA and inter-Korean exchange cooperation projects, by comparative analysis of the DAC members' aid management policy³ or studies on suggesting the direction for a better aid to North Korea on the base of comparison of ODA and assistance to DPRK⁴. In addition, some studies were about the development of North Korea with a new inter-Korean aid system by adopting the ODA system⁵. But these studies tend to be biased to one part, whether ODA or assistance to DPRK. Otherwise, those focus on the policy direction for the quantitative increase of South Korea's ODA. It means that there were only few studies analyzing the inclusion of ECF for the effective use of ODA.

In this sense, the point of this study is on the suggestion for new analysis of the direction of South Korea's ODA. Especially, the direction will be analyzed along with the inter-Korean Economic Cooperation Fund (ECF). Based on the analysis of South Korea's ODA and ECF, thus, I will focus on the justification for the inclusion of ECF into South Korea's ODA. Further, this study will estimate the further effect of adding the ECF volume the ODA. Hope this study could help make a suggestion on South Korea's ODA policy.

³ Byung-ok Gil, Mi-kyung La, "Korea's Inter-Korean Exchange Cooperation Project and ODA", *Foreign Affairs Research*, 2006.

⁴ Dong-ho Choi, "Direction for the Improvement of South Korea's Aid to North Korea", *Comparative Economics Research*, Vol. 15, No. 1, 2008.

⁵ Gil-jae Ryu, et al. *Introduction of a New System for the Aid to North Korea*, Committee of Unification, Foreign Affairs and Trade, 2006.

1.2 Scope and Methods

This study focuses on South Korea's ODA and inter-Korean Economic Cooperation Fund (ECF) including their concept and historical background. Based on this, I will try to identify the ODA characteristics that ECF has had as well so far. After finding out the ECF features related to ODA through some examples and re-calculating the newly revised South Korea's ODA amount and ODA per GNI ratio, consequently, I will suggest methods for the effective and transparent use of ODA.

In the process of pulling out the estimated total amount of newly revised ODA, since the data that I have referred to differ from preceding studies and papers, I would like to notice that the estimated amounts are not accurate in some parts. However, this study is worth that it focuses on the ODA characteristics that the inter-Korean Economic Cooperation Fund has. Most previous studies had covered only the humanitarian aid to North Korea or only ODA. Few had discussed ODA with South Korea's economic cooperation aid to North Korea to suggest the newer direction for the improvement of the assistance mechanism. Those studies were limited in the evaluation of South Korea's ODA or theoretical discussion. Those which covered ODA tended to focus only on the limitations it had, and criticized that the ODA volume should be increased in the future. However, studies that have focused on the effective use of ODA have been hardly seen so far.

Thus, through this study of ODA related with the aid to North Korea, I will introduce ODA and find its particular conditions to be qualified as ODA in chapter 2. As starting with the introduction of the inter-Korean Economic Cooperation Fund in chapter 3, I will try to identify the ODA traits that ECF has by explaining the two categories, the humanitarian aid to

North Korea and the economic cooperation projects. In chapter 4, I will suggest the inclusion of ECF into South Korea's ODA. And by comparing South Korea's newly revised ODA volume with the ODA status of OECD DAC countries, I will try to assess the result and provide suggestions for utilizing ODA rather than just focusing on the increase of the ODA amount.

Before going into further discussion, I would like to clarify and standardize some terms as follows: in some parts, South Korea will be written as 'Korea' or 'ROK, the Republic of Korea', and North Korea will be written as 'DPRK, the Democratic of People's Republic of Korea'.

2. The Official Development Assistance

2.1 About ODA

The Official Development Assistance (ODA) is an official measure of donor's expenditure on foreign aid. It is not a measurement of the amount of value received by a recipient country. It is only internationally comparable measure of donor assistance, reported by donor countries to the OECD DAC (Development Assistant Committee in the Organization for Economic Cooperation and Development) on an annual basis.

ODA is an official flow to or for developing countries that has been provided in the form of grants or loans for developmental purposes by the official sector including government and public funds.⁶ ODA flows to countries and territories on DAC list of ODA recipients and to multilateral institutions which are provided by official agencies, including State and local government, or by their executive agencies. And each transaction of ODA is administrated with the promotion of the economic development and welfare of developing countries as its main objective. Flows are transfers of resources, either in cash or in the form of commodities or services.⁷

Since DAC statistics concentrate on transactions likely to have a development impact, loans for one year or less are not counted. Repayments of the principal of ODA loans count as negative flows, and are deducted to arrive at net ODA, so that by the time a loan is repaid, the net flow over the period of the loan is zero. Interest is recorded, but is not counted in the net flow statistics. Where official equity investments in a developing country are reported as

⁶ ODA loans are at terms significantly softer than that of commercial transactions, and bear a grant element of at least 25 percent compared with a loan at 10 percent.

⁷ Kimberly Smith, *The DAC & Official Development Assistance*, OECD, 2008, p18.

ODA because of their development intention, proceeds from their later sale are recorded as negative flows, regardless of whether the purchaser is in a developed or a developing country.⁸

Regarding the official agencies, the main donors are federal, state and local departments, and agencies. The market-based transactions of central monetary authorities, however, are not included. Sometimes one official agency subsidizes another. Since the subsidy is internal to the official sector of the donor country, it is not reported as a flow. Rather, the transaction recorded is that between the subsidies, it is recorded as ODA. Official subsidies to private non-profit organizations or non-governmental organizations that are active in development are reportable as ODA.

Fundamentally, economic development and welfare are considered as the decisive criteria for determining ODA eligibility, which means that these are the main objective of ODA. Thus, the eligibilities to be regarded as ODA and the ODA reporting which are agreed to limit on it by the OECD DAC members in order to reduce the scope for subjective interpretations and promote comparable reporting are as indicated in Table 1. For more information of the limits on eligible ODA activities, refer to Appendix 1.

DAC members agreed that it should represent some effort in favor of developing countries by the official sector. In that sense, loans at market terms were excluded. When in the early 1970s interest rates began rising sharply, it was further specified that loans could only be reported as ODA if they had grant element of at least 25 percent, calculated against a notional reference rate of 10 percent per annum. In recent years, long-term interest rates in most OECD member countries have fallen way below 10 percent, so the 25 percent grant element

⁸ OECD Factsheet, "Is it ODA?", OECD, July 2008, p3.

level has become easier to attain. But to be qualified as ODA, loans must still be concessional in character, i.e. below market interest rates.

Table 1. Eligible and Non-eligible ODA Activities

ODA Activities	Non Eligible ODA Activities
<ul style="list-style-type: none"> • Development Projects – schools, clinics, water supply systems etc... • Emergency Aid for Natural or Man-made Disasters • Contributions to Multilateral Development Agencies • Food Aid, Emergency and Developmental Aid to Refugees • Debt Relief outlined by Paris Club Agreement⁹ • Officially Financed Scholarships for students in developing countries 	<ul style="list-style-type: none"> • Military or Security Assistance • Cultural programs for the donor’s nationals resident in other countries • Aid from NGOs financed from private sources • Foreign Direct Investment • Official export credits or other commercially motivated transactions • Guarantees on private export credits or investments • Reduced tariffs or other concessions on imports from developing countries

Source: OECD

As mentioned above, ODA represents grants or concessional loans, which public institutions including central and local governments offer to developing countries or international organizations participating in development assistance for economic development and welfare promotion in developing countries. Thus, it is likely to say that ODA concentrates on two key issues. First, how international development cooperation contributes to the capacity of developing countries to participate in the global economy, and second, the capacity of people to overcome poverty and participate fully in their societies. The crucial part is that ODA is fundamentally to help the developing countries find ways for socio-economic development

⁹ Paris Club is a Credit Club which is composed of OECD member countries in order for developing countries’ debt forgiveness. The first foreign bond management was a readjustment of the period of payment for Argentina’s governmental foreign bond, thereafter, Paris Club executed more than 200 debt management worth 200 billion dollars. (Source: Korea EXIM Bank) For more information, refer to the Paris Declaration: <http://www.oecd.org/dataoecd/11/41/34428351.pdf>

through poverty reduction and finally achieve sustainable development.

2.2 South Korea's ODA

Most of the developing countries aimed its economic development in which it could be achieved by their own mechanism. Achieving its socio-economic development such as promotion of national income or improvement of living standard was likely to be the ideal way. Yet, there were many restrictions for achieving the development by its own hands. Up to 1960s, an annual economic growth rate of developing countries reached at 6 percent, however, the growth rate in 1980s dramatically dropped to 2 percent. Consequently, the income gap between developing countries and developed countries was widened significantly. After 1970s, as foreign liability which was actively adapted to many developing countries in order to develop the domestic economy had added the burden of repayment, developing countries were in trouble. Developing countries' 68 billion dollars of foreign liability in 1970 fiercely increased to 686 billion dollars of their debt in 1985, roughly ten times bigger than that of the 1970s. Thus, it resulted in the sharp increase of the Debt Service Ratio (DSR) from 14.7 percent to 19.7 percent.

As the developing countries could not cope with the current economic difficulties by themselves, the perception of the need for new systems and efforts to deal with economic problems of the developing countries had been spread out. Korea also indirectly granted the need for expansion of economic cooperation with the developing countries in the position of an advanced developing country. Through these backgrounds, Korea, specifically the Export-Import Bank of Korea (Korea EXIM Bank), established Economic Development Cooperation Fund (EDCF) in 1987 and began to provide concessional loans to the developing countries.

In 1991, the Ministry of Foreign Affairs began to provide grants through establishing Korea International Cooperation Agency (KOICA) as its sub-organization.

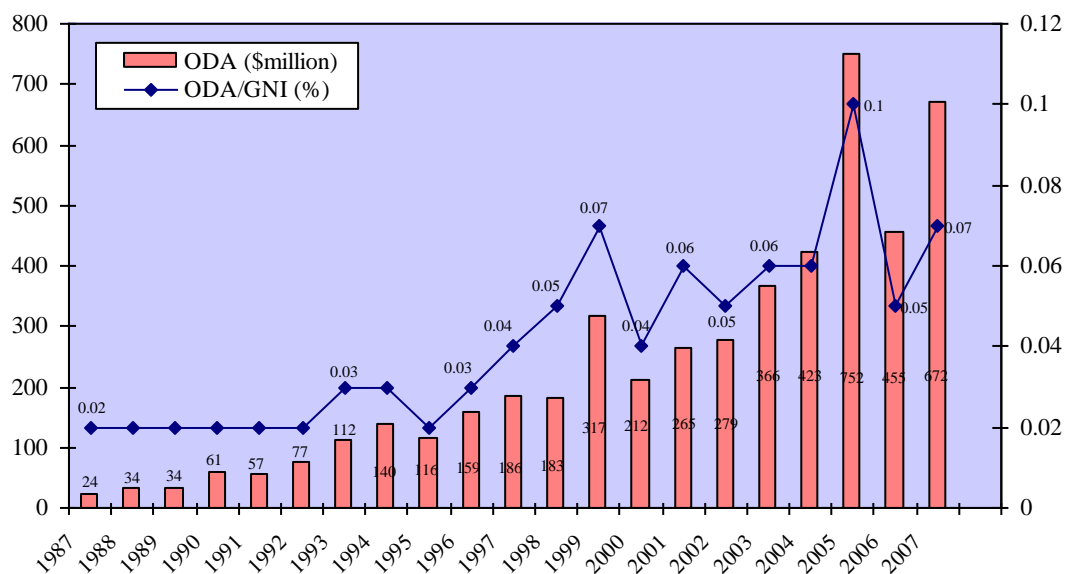
In July 1987, the EDCF was asked for a loan of 120 million dollars from 8 countries. Though Korea could support the recipient countries' request, the situation was not easy to build a substantive economic cooperation foundation because the economic advices on mid-long term economic development as well as a short term economic policy were insufficient. Moreover, since the EDCF mainly conducted bilateral aids and the pre-implementation procedures were complicated which took about 2 years for approval, initially the absolute size of EDCF business was insignificant.

Regardless of the establishment of the EDCF, the size of ODA which had merely stayed at around 0.02 percent of the GNI upturned gradual increase trend together with the establishment of the KOICA in 1991. Until 1992, the early period of the EDCF, Korea's annual amount of ODA was not yet reached to 100 million dollars. But with the start of Kim, Young Sam Administration in 1993, the Korean government strongly promoted the policy of economic cooperation with the developing countries and made a master plan to expand the size of ODA to the minimum level of ODCD DAC which was 0.2 percent of GNI by the end of 1990s.

Kim, Young Sam Administration's promotion for global management strategy as well as the expansion of development aids requested from developing countries in 1990s were the main background of increasing the amount of ODA. And it was high time to efficiently cope with the change of international environments such as foundation of the World Trade Organization (WTO). Hence, the Korean government became to have policy will to play a role

commensurate with its economic power and economy standing. In addition, the government tried to utilize the economy policies as a momentum of economic takeoff through liberalization and easing regulations. At that time, the government announced the to join the OECD through the 7th 5-year economic development plan (1992~1996) and finally entered the OECD in 1996.

Figure 1. South Korea's ODA

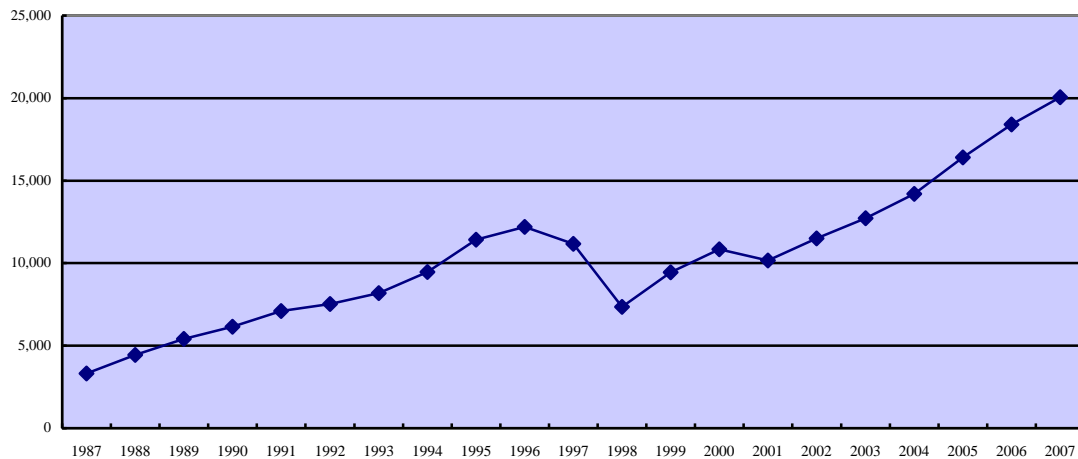


Source: Korea EXIM Bank

As shown in Figure 1, generally the amount of Korea's ODA had gradually increased. And as shown in Figure 2, except the period of IMF crisis from 1997 to 1998, Korea's economic growth had been constantly boosted. Internationally, the Soviet Union collapsed in late 1991. And in accordance with China's accelerated open-door policy, the socialist countries quickly converted their economy system to market-economy system. The acceleration of opening and converting to market-economy system of the socialist countries was an opportunity for Korea to enhance complementary cooperation with those countries. It became a momentum to

actively promote the EDCF loan for those counties.

Figure 2. South Korea's GNI per capita (%)



The amount of ODA reached 100 million dollars in 1993 because of the enormous increase in bilateral loans and multilateral aids. In 1995, the amount of ODA significantly decreased by diminishing multilateral aids. But in the following year, a sharp expand of bilateral loans led to the scale up of total amount of ODA. In the late period of Kim, Young Sam Administration from 1997 to 1998, the bilateral loan was withered for the IMF crisis, but Korea could sustain its total amount of ODA to the 180 million dollars level because of the increase of multilateral aids. At the same time, the total amount of ODA was slightly over 300 million dollars because of the expansion of grants and capital subscriptions from the World Bank. In 1999, the ratio of ODA/GNI dramatically increased, which resulted from large raise of multilateral aids as well as steep decrease in GNI because of the IMF crisis.

In 2000, the amount of ODA decreased 33 percent as multilateral aids decreased 57 percent, which means that multilateral aids were restored to the amount of previous year. The ODA

per GNI also dramatically dropped from 0.07 percent to 0.04 percent. As shown in Figure 2, the ODA volume expanded along with the gradual increase of GNI per capita. The outbreak of Iraq War in 2003 and the Tsunami disaster in 2004 amplified the amount of grants and the total ODA volume drastically escalated. That is, South Korea's ODA has been fluctuated according to changes of and needs in the international environment. As multilateral aids expanded bigger than bilateral aids in 2005, South Korea's ODA volume reached 700 million dollars and the ODA/GNI ratio reached 0.1 percent which was the maximum until 2007. However, Korea's net ODA disbursements in 2006 totaled 455 million dollars, down to 39.5 percent compared to the previous year. This large decrease was mainly due to a sharp fall in multilateral ODA, which had fallen by 72.6 percent. Bilateral ODA also decreased, since temporary disbursements for post-conflict and post-tsunami areas had dropped significantly.¹⁰ Due to the sharp fall in total ODA, thus, the overall ODA/GNI ratio also decreased from 0.1 percent to 0.05 percent. Another reason of the decrease in 2006 was because of the debt relief decline for Iraq and Nigeria, according to the expiration of the debt relief plan of the Paris club. This influenced on the reduction of overall DAC's ODA amount as well. Between 2000 and 2006, even so, the volume of Korea's ODA had extended by 115 percent. And in 2007, the estimated volume of Korea's ODA amounted about 672 million dollars, which constitutes 0.07 percent of the GNI or a 53 percent increase compared to 2006.

Currently, South Korea's ODA does not include the assistance to North Korea. Even the main purpose and concept of the two assistances, ODA and ECF, are similar; each is in absolute different realms. Because the aids to North Korea is regarded as supporting same nation-state not a different country, which does not meet the condition of ODA. South Korean government prescribes the inter-Korean relationship as a particular relation that heading for

¹⁰ Korea EXIM Bank, "2007 EDCF Annual Report", 2007, p41.

reunification.¹¹ Hence, any inter-Korean transactions were regarded as ‘internal transactions’ which cannot be regarded as trade between the two countries. Whereas, the ODA regulation prescribes that the target of aid flows should be a ‘country’. In this regard, all South Korean assistance toward North Korea has not been counted in as ODA. In a nutshell, it was a convention to acknowledge that ODA and assistance to North Korea were in different categories. Regardless of this conventional perception, however, the following analysis of the inter-Korean Economic Cooperation Fund will focus on how many similar characteristics EFC contains to ODA.

¹¹ The Korean Constitution does not admit North Korea as a country. Article 3 of the “South and North Korean Relationship Development Law” which was enacted on 29 December 2005 says that the relation between North and South Korea is not an inter-country relation but a provisional special relation for future reunification. According to the law, the inter-Korean trade is regarded as an “inter-regional” trade not an international trade.

3. The Inter-Korean Economic Cooperation Fund

3.1 About ECF

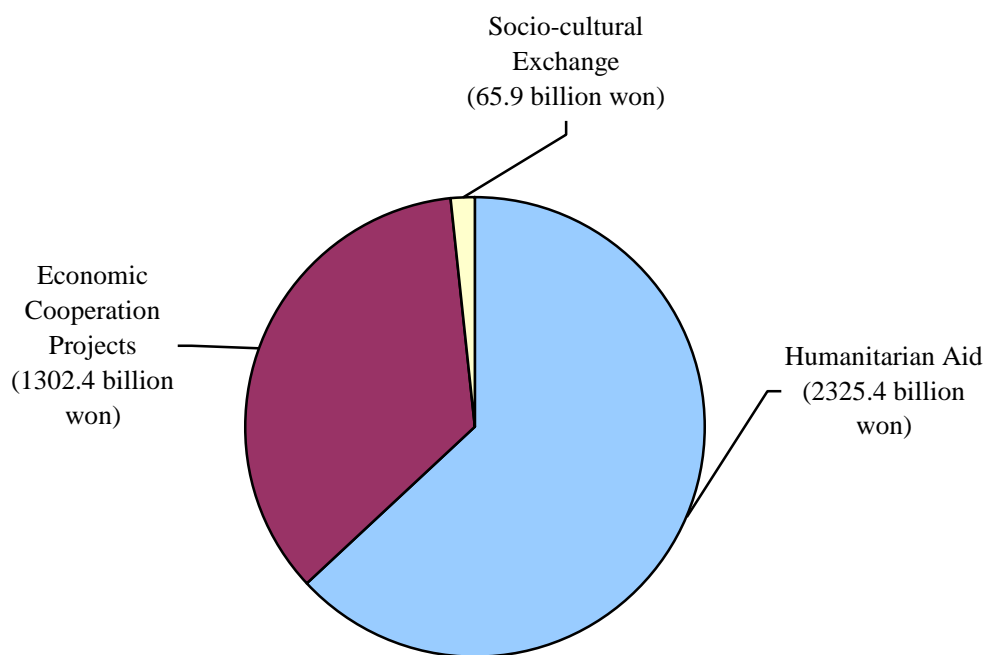
The inter-Korean Economic Cooperation Fund (ECF) was established for the promotion of inter-Korean interchange through supplying subsidies needed for inter-Korean exchanges and cooperation. It has various forms, methods, and conditions in its implementation for assisting humanitarian aid, commodities exchange, and overall cooperation. By acknowledging the importance of converting inter-Korean relationship from a face-to-face to a coexisting relation, South Korean government proclaimed the ‘7.7 Declaration’ in 1988. With this ad hoc declaration, the South and the North started exchanges and visits by opening each door.

For a better practice of the 7.7 Declaration, South Korean government announced a ‘Basic Guidelines on Inter-Korean Commodity Exchange’ in 1988. And this became a momentum for the start of substantive trade with North Korea. In 1990, the ‘Law for Inter-Korean Exchanges and Cooperation’ (Article 4239) was enacted in order to regulate and support government’s North Korean policy directions. In addition, the ‘Law for Inter-Korean Economic Cooperation Fund’ (Article 4240) was enacted. Based on the Law, the ‘Inter-Korean Economic Cooperation Fund’ was established to secure funding in exchanges and cooperation projects. Furthermore, it aimed at restoring the South-North relationship by enhancing mutual cooperation and implementing economic cooperation projects.

The Economic Cooperation Fund (ECF) is consisted of grants and loans. First, grants are composed of assistance for visiting, socio-cultural cooperation, exchange of separated families, humanitarian aid projects, and building exchange cooperation base. Second, loans for trade and economic cooperation, lending for humanitarian assistance, and loans for

restoring inter-Korean relationships are included in governmental loans. In terms of the use of ECF, however, it is classified into three categories. As shown in Figure 3, ECF is consisted of humanitarian aid which composes the largest part, economic cooperation projects which is the second largest, and socio-cultural exchange. Further study of ECF, from now on, will be proceeded upon this classification. (Refer to Appendix 2)

Figure 3. Compositions of ECF



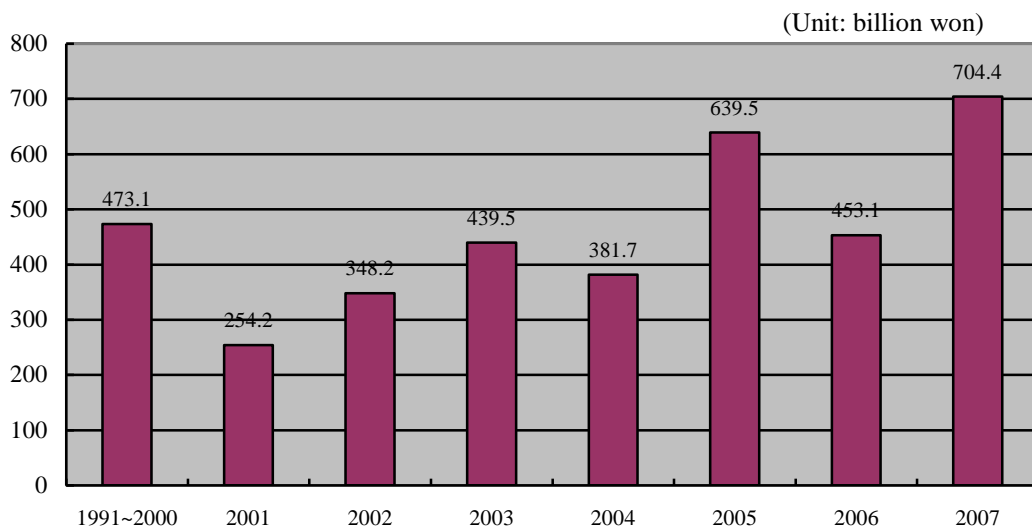
Source: Korea EXIM Bank

After the establishment of ECF, followed by the improvement in inter-Korean relationships the scale of fund assistance has remarkably increased. It is reported that the total amount of ECF used until the end of December 2007 is 3,693.7 billion won. If the total amount used from 1991 to 2000, which is 473.1 billion won, is taken into account, we can guess that the use of ECF after 2001, which is 3220.6 billion won, was dramatically expanded.

Until the 1990s, ECF was used for the purpose of North Korea's emergency and distress

relief. But with the Inter-Korean Summit in 2000 it has changed to be used for inter-Korean economic cooperation projects. This kind of change occludes with the ‘Sunshine Policy’ of the Kim, Dae Jung Administration, which was an engagement policy aiming at the restoration of the inter-Korean relationships and peace settlement through tension relieving. Precisely, it was fundamentally to establish peaceful coexistence of freer visit and exchange between the two Koreas by making the North out of the international isolation. Thus, the Sunshine Policy is regarded as a main reason that helped facilitate inter-Korean exchanges, and subsequently influenced the rise of the expenditure of ECF.

Figure 4. ECF Expenditures



The Inter-Korean summit, succeeded on June 15, 2000, has been regarded as a crucial accomplishment of the Sunshine Policy. It is because the three great inter-Korean economic cooperation projects led by the government were initiated after the summit, pulling out huge expenditures of ECF.¹² Further, externally overcoming the IMF crisis in the late 1990s, South

¹² The three major inter-Korean economic cooperation projects are the Gaeseong Industrial Complex (GIC) development project, Mt. Geumgang tour, and rail-and-road construction. These projects take about 36 percent

Korea's economy was rapidly recovered, which also widened the economic gap between the South and the North. Hence, South Korea scaled up its overall fund assistance including every non-commercial aid in order to narrow the economy gap.

The Roh, Moo Hyun Administration, started from 2003, took over the Sunshine Policy from the previous government. One remarkable fact is that the amount of aid to North Korea during the Roh Administration takes 63 percent of the total aid from 1995. In regard of this fact, the overall projects as well as the aid were considerably accelerated. Consequently, we can estimate that the promotion in every commercial and non-commercial trade according with the Sunshine Policy coincides with the increase in expenses of ECF.

3.2 ODA Characteristics in ECF

Among many conditions to be approved as official development assistance, the most important is the 'purpose' of the assistance. It is because ODA is fundamentally to help the developing countries' poverty reduction and socio-economic development likewise the purpose of the Millennium Development Goals. Therefore, all financial flows to the developing countries should have the development purpose and it should be economic resources in order to be classified as ODA. That is, the main purpose of assistance should be for the developing countries' economic development and promotion of social welfare.

Reportedly, North Korea's real economic growth rate in 2007 was -2.3 percent, and the GNI per capita was 1,151 dollars.¹³ It means that North Korea is officially a least developing country. But for the particularity in North Korea's national characteristics, the international

of the total expenditure, and the amount reaches 640 million dollars.

¹³ The Bank of Korea, "Result of DPRK Economic Growth Rate Estimation of 2007," June 2008, p8.

assistance is considerably limited. Nonetheless, besides its minus economic growth rate, because of domestic difficulties from national disasters such as flood or drought, North Korea is in a very need of the international assistance. For this reason, the purpose of the use of ECF could be considered as same as that of ODA. Namely, in the aspect of ODA's main condition, the purpose, I would like to say that, however, some projects should be excluded from ODA. Largely, those are the assistance for reunion of separated families, company loans, and socio-cultural exchange programs. The projects are not for the economic development of North Korea, but basically those are exhaustive expense or do not target North Korea.

Let's take a careful look on the composition of the Economic Cooperation Fund (ECF) to find out the ODA characteristics in it. As mentioned above, classified by the use, ECF could be largely divided into three categories; humanitarian aid, economic cooperation projects, and socio-cultural exchange. Firstly, humanitarian aid contains aid by rice and fertilizer, assistance through international organizations or non-governmental organizations (NGOs), and assistance for the exchange of separated families. The aid by rice and fertilizer is provided in the form of grants which is the typical assistance that has the characteristic type of ODA. This will be explained more precisely later. Aids through international organizations or NGOs are conducted by an indirect form. It is in a form of multilateral aid to drag out participation and assistance of the international community because North Korea's humanitarian situation does not seem to be improved sooner or later. The typical international organizations that conduct aids to North Korea are WFP (World Food Programme), WHO (World Health Organization), UNICEF (United Nations Children's Fund) and so forth. South Korea indirectly provides assistance through these international organizations or NGOs such as Korean Sharing Movement or ROK National Red Cross.

Of the humanitarian aids, the assistance for reunion of separated families seems to have little correlation with ODA. It is because the purpose of the assistance is different from that of ODA, which are for poverty reduction and economic development; the assistance for reunion of separated families is subsidy to the families and it is exhaustive expense for special events. Although the assistance is offered as grants by the ROK Red Cross and rarely has commercial trait, it cannot be regarded as ODA for it is a dissipated subsidy with rare intension for the North's economic development. Thus, the aid for reunion of separated families will be excluded in the discussion.

Table 2. Expenditure of ECF by Item

(Unit: billion won)

		'91~'00	'01	'02	'03	'04	'05	'06	'07	Total
Total		473.1	254.2	348.2	439.5	381.7	639.5	453.1	704.4	3,693.7
Humanitarian Aid	Rice	272.1	19	105.8	189.7	112.4	198.5	10.2	146.2	1,053.9
	Fertilizer	128.3	63.9	83.3	83.6	96.6	126.4	120	96.2	798.2
	Separated Families	3.8	1.3	2	3	3.2	13.3	9.9	26.9	63.4
	Remainder ¹⁴	44.9	33.7	30.2	32.9	15.5	41	86.3	125.3	409.9
	Total	449.1	117.9	221.3	309.2	227.7	379.2	226.4	394.6	2,325.4
Economic Cooperation Projects	Rail-and-road Construction	14.6	89.8	67	112.1	110.4	197.8	88.8	63.5	744
	Company Loan	-	46.1	35.7	16.2	29.8	17.1	38.9	110.2	294
	GIC	-	-	-	-	6.9	26.3	77.1	77	187.3
	Remainder ¹⁵	6.2	-	0.5	0.1	2.7	7.9	9.2	50.5	77
	Total	20.8	135.9	103.2	128.4	149.8	249.1	214	301.2	1,302.4
Socio-cultural Exchange	Visiting	0.3	0.3	23.7	1.1	1	3.8	5.3	1.7	37.2
	Socio-culture	3	0.1	-	7	3.2	7.5	7.4	6.9	28.7
	Total	3.3	0.4	23.7	1.8	4.2	11.3	12.7	8.6	65.9

Source: Korea EXIM Bank

Secondly, the assistance for inter-Korean economic cooperation contains the three major economic cooperation projects; the Gaeseong Industrial Complex (GIC) development project,

¹⁴ Flood damage restoration aid or aid through international organizations and the private sector etc.

¹⁵ Imjin river flood prevention, Mt. Baekdu, Mt. Geumgang pavement construction etc.

Mt. Geumgang tour, and rail-and-road construction), and other projects such as for Imjin river flood prevention, Mt. Geumgang pavement construction and so forth. The three major projects include the economic cooperation business loan and loss subsidy. Although it is offered with a very low interest rate of 3.5~4.5 percent, however, because the loan of ECF targets business from South Koreans who execute the economical exchanging cooperation business between two Koreas, the ECF loan is hard to be considered as ODA. Except the loans, thereby, the overall GIC expenditures of installing facilities or machineries can be regarded as ODA.

Lastly, the socio-cultural exchanges can be classified into the non-eligible ODA activities which were elaborated in Table 1. Thus, the assistance for socio-cultural exchanges is disqualified to be ODA. DAC agreed not to include any aid for cultural programs for the donor's national resident in other countries. But the aid for exchange programs is provided by grants to almost every event that the South and the North launch together. In this regard, the aid for socio-cultural exchange programs does not meet the ODA condition, and has no relations with North Korea's poverty reduction or economic development. Thereby, the aid for socio-cultural exchange will be excluded in this study.

3.2.1 Humanitarian Aid to North Korea

One of the so-called least developing countries, North Korea, who's GDP per capita is only 1,034 dollars, was devastated by a severe flood in August 1995. Millions of people were killed by this historic flood, and this tragedy led to North Korea's economic recession that made North Korea send the official request for international aids. This was the start of international aids to North Korea. Thus, South Korean government initially sent 150,000 tons

of rice for grants and continued the following years. Afterwards, the South assisted the North indirectly through international organizations as well as by directly sending fertilizer and rice. Moreover, whenever North Korea faced natural disasters like floods or AI, South Korean government helped out by sending emergency relief assistance.

Table 3. ROK's Share in the International Aid to DPRK

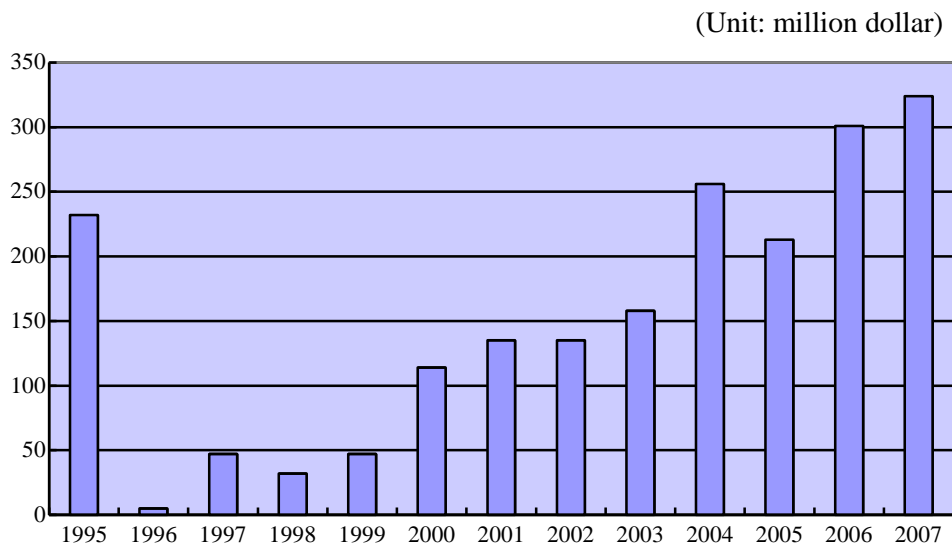
(Unit: million dollar)

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
R O K	Government	232	3	27	11	28	79	70	84	87	115	124	230	227
	Private	0	2	20	21	19	35	65	51	71	141	89	71	97
	Sum (A)	232	5	47	32	47	114	135	135	158	256	213	301	324
International (B)		56	98	264	302	360	182	357	258	139	163	-	-	-
Total (A+B)		288	102	311	334	407	296	493	395	297	419	-	-	-
A/(A+B) (%)		80.7	4.5	15.2	9.5	11.5	38.5	27.5	34.0	53.1	61.1	-	-	-

Source: Ministry of Unification

Lately, North Korea's nuclear crisis and missile crisis issues have brought negative changes in the international society that resulted in the cutback in the international aid to DPRK. Moreover, negative public opinion in South Korea about the aid to the North has been spread out. Nevertheless, so far South Korea's aid to North Korea is still likely to be influential for the improvement of North Korean's living. It is because South Korea's share in the total international humanitarian aid to North Korea has been prominent. Except 1995 when there was a huge amount of aid to North Korea due to the floods, South Korea's share was pretty small at around 10 percent until the late 1990s. After entering the year 2000, however, South Korea's humanitarian aid had increased and the share even reached up to 92 percent of the overall international aid to North Korea in 2006. Thus, it has been evaluated that the influence of South Korea's humanitarian aid was important for North Korea's economic recovery.

Figure 5. South Korea's Humanitarian Aid to DPRK



The governmental aid through the private sector was initially conducted indirectly by the Red Cross. After the agreement between the South and the North Red Cross was concluded in 1997, the form has been changed to a direct way. Starting a series of measures to diversify the routes for humanitarian aid to North Korea, in February 1999, every private organizations whoever have registered could also send assistance. The total amount of humanitarian aid by the private until 2005 is estimated around 600 billion won.

3.2.2 Economic Cooperation Projects

1) Gaeseong Industrial Complex Development Project

The Gaeseong Industrial Complex (GIC) development project has been underway with the Korea Land Corporation and Hyundai Asan since 2000. In August 2000, Hyundai reached an agreement with North Korea to begin work on the GIC. The North then legally designated

Gaeseong as a special zone in November 2002. In December of the same year, Hyundai signed off on a fifty-year land lease agreement for the 3.3km² complex. The ROK Ministry of Unification granted the necessary permission to begin inter-Korean cooperative construction on the first phase of the complex, and ground was broken in March 2003.¹⁶

This project was to develop Gaeseong city and some parts in Panmun county about 20 million pyeong.¹⁷ After the first stage of construction, launching basic facilities and machineries, was completed in late December 2007, the project stepped into the full-scale operation. The GIC development project aimed at inter-Korean benefits through integrating South Korea's resource and technology with North Korea's labor force and land. So about one thousand people and 600 vehicles come and go every day through the Gyeongui (Seoul-Gaeseong 78km distance) railway that passes through the DMZ (Demilitarized Zone), and produce goods while developing the area. Since 2003, with the ground-breaking, this project has been conducted by gradually increasing companies by which the number of fully operating companies reached 65. Including the 29 small sized companies, the 65 companies are now operating with a remarkable outcome. The total accumulated output from the first production in December 2004 to the end of 2007 is estimated to be 273 million dollars.¹⁸

The GIC project is basically to make profit by South Korea's resource and technology, plus North Korea's labor force and land. Moreover, it gives influence to the North's economic development, and expected to leverage North Korea's open-door and reform; hence, it corresponds to the purpose of ODA. Based on ECF that amounted more than 300 million

¹⁶Dae-Kyu Yoon, Moon-Soo Yang, "Inter-Korean Economic Cooperation for North Korean Development: Future Challenges and Prospects", *Asian Perspective*, Vol. 29, No.3, 2005, pp13-14.

¹⁷ KIEF, "2003/04 North Korean Economy White Paper", 2004, p204, quoted from Ministry of Unification, "Unification White Paper 2003", 2003, p176.

¹⁸ Ministry of Unification, "Unification White Paper 2008", 2008, p123.

dollars¹⁹ and 9000 workers, the goods produced by the business have been exported to China, Russia and the South-east Asian countries.

South Korea's value-added that was originated from the GIC project until 2007 is estimated at 169.1~182.26 million dollars; 152.1~165.26 million dollars from import and export, plus 17 million dollars from South Korean companies and institutions. Whereas, North Korea's value-added that is originated from construction, employment wage and so forth is estimated at 22.5 million dollars. Insofar that the absolute volume of the value-added of South Korea's seems to be larger than that of North Korea's, however, the relative volume of value-added in each GNI seems to be the opposite. It means that North Korea's share of value-added in its GNI is far larger than that of South Korea's. North Korea's value-added, which is 22.5 million dollars, takes 0.38 percent in its GNI that is only 6,000 million dollars. On the contrary, South Korea's value-added takes only 0.02 percent in its GNI, even it amounts 786.8 billion dollars.

Table 4. Comparison on the Value-added by GIC Project

	South Korea	North Korea
Value-added (\$million)	152.10~165.26	22.50
GNI (\$million)	786,800	6,000
VA/GNI (%)	0.02	0.38

Source: Ministry of Unification

The Bank of Korea had analyzed the economic effect to North Korea from the Gaeseong

¹⁹ The total amount includes South Korean business investment and ECF. ECF was categorized as loan for operation cost, and the cost of infrastructure which was put in Gaeseong Industrial Complex first stage such as waste water disposal plant, waste matter disposal plant, public water facility, power and communication, and so forth.

Industrial Complex project, and the result is as follows: During the first 4 years, at the end of the first stage, the annual income revenue is estimated as 600 million dollars along with generating 84 thousand job positions. After 7 years, at the end of the second stage, the annual income revenue is estimated as 1,300 million dollars, and 194 thousand job positions will be generated. After 9 years, when the construction is supposed to be over, the annual income revenue is estimated as 6 billion dollars, along with generating 725 thousand job positions. The annual income revenue from the Gaeseong Industrial Complex project that North Korea is looking forward to reach by the 3rd stage will be 22.8 billion dollars. And after it reaches the maximum, which is likely to take about 17 years in total, it will take 12.5 percent of the GNI and be stabilized.

Table 5. Economic Effect to North Korea by GIC

	Unit	4 th year	7 th year	9 th year	17 th year
Annual Income Revenue (A+B)	\$ billion	0.6	1.3	6.0	22.8
[Per GNI by 2003]	%	0.3	0.7	3.3	12.5
Wage Income (A)	\$ billion	0.6	1.3	5.0	5.0
Corporate Tax (B) ²⁰	\$ billion	0.0	0.0	1.0	17.8
Number of Jobs	thousand	84	194	725	725

Source: Bank of Korea

The Gaeseong Industrial Complex project seems to give large contribution on the Korean unification in various ways such as easing tension in the Korean peninsula, improving inter-Korean interest relationships, giving an opportunity to North Korea to learn the market economy in advance and the like. The first reason is because the complex is adjacent to the

²⁰ It is presumed that corporate tax receives full-exemption for the first 5 years, and half-exemption for the following 3 years afterward.

DMZ so that it has a symbolic meaning of peace. In addition, because of the huge come-and-goes of people and commodities related with the GIC project, it is likely to ultimately alleviate the tension between the two Koreas.

As GIC is operated on market economy principles with South Korean developing companies' management and commercial activities of corporations, North Korea will be able to lean on the market economy by participating in the GIC project. Additionally, if North Korea promotes economic development by utilizing benefits from GIC, the economic gap between the North and South will be narrowed. Consequently, it is expected that the unification cost will be diminished. Likewise, it is obvious that the GIC business will not only contribute to the inter-Korean common prosperity and exchanging cooperation but also bring huge effects on the North Korea's economic development. Especially, at the standpoint of North Korea, the value-added through the GIC project is expected to have great impact on the economic development. Eventually, GIC will be considered as the important business which considerably corresponds to the ODA purpose of mitigating the poverty.²¹

2) Rail and Road Construction Project - Gyeongui and Donghae Line

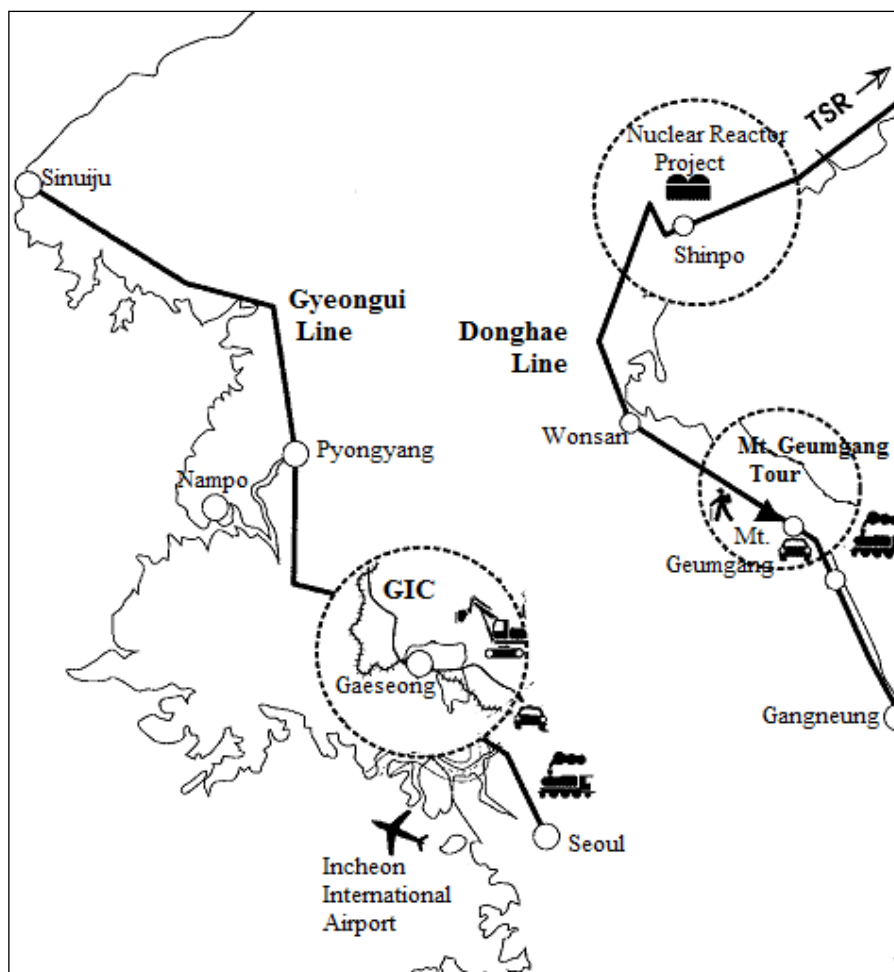
The reconnection of inter-Korean roads and rails was agreed upon during the summit of June 2000. This was followed by two rounds of ministerial talks (July and September 2000), which resulted in the agreement on the connection of the Gyeongui (in the west) and Donghae (in the east) rail lines. The project broke ground in September 2002, and construction on the road connection was completed in November 2004.²²

²¹ Institute for Monetary and Economic Research, *Analysis on GIC's economic effects*, The Bank of Korea, 2004, p9.

²² Dae-Kyu Yoon, Moon-Soo Yang, "Inter-Korean Economic Cooperation for North Korean Development:

The restored section of Gyeongui Line is 5.1 kilometers in the South and 7 kilometers in the North. The road is now mainly used for workers and materials bound for the industrial complex under construction in Gaeseong. The line is not yet officially open. Donghae Line has already been relinked on the demilitarized zone, becoming the overland route for Southern tourists traveling to scenic Mt. Geumgang in the North.

Figure 6. Gyeongui and Donghae Line Construction



Source: The Bank of Korea

Connection of roads and railroads between the two Koreas gives significant meaning to Koreans. It symbolizes connecting arteries of the divided peninsula, and it also brings about

exchanges and cooperation between the two. Moreover, especially the huge investment from South Korean government plays a very important role to North Korea's economic development. As it is shown in Table 2, the total expenditure of ECF into the rail-and-road construction is much higher than that of the GIC project. It is shown that the total amount from 1991 to 2007 is 744 billion won, which is far larger than 187.3 billion won of the expenditure of the GIC project. Regarding the total amount until 2000 which is only 14.6 billion won, we can see that the construction went underway in a full-scale after the summit in 2000.

As the GIC project, Gyeongui and Donghae railroad construction gives the advantage to North Korea's economy in large. First, South Korea spends most of the cost that goes into the improvement of the Social Overhead Capital (SOC). The role of SOC is substantial. This does not mean directly supplying goods or services; it does involve in, however, indirectly supporting production activities and facilitating capital. Likewise, by improving SOC in North Korea, the infrastructure of the overall Korean peninsula would be improved, so that it may help prepare the reunification in the future. Thus, SOC is not a wasteful aid. It will also improve the conditions for investment in the North, as the lack of SOC is one of the main reasons that ROK and international investments in the DPRK have not expanded.²³

From a long-term perspective, the construction project is likely to help North Korea's economic growth and sustainable development. Since the two railways may facilitate other projects such as the GIC project and Mt. Geumgang tour, the completion of this project is not only limited to the inter-Korea connection, but has a huge meaning that it will ameliorate North Korea's economic development that consequently leads to the improvement of North

²³ Ibid, p25.

Koreans' living standard. Moreover, since the Donghae line is connected to the Trans-Siberian railway (TSR), the railway construction is expected to give further economic advantages to the North. By and large, we can say that the rail-and-road construction project has the characteristics of ODA, because ODA also offers disbursement for the construction of SOC to the developing countries for their sustainable development. And at the same time, it could be regarded as a form of ODA in the sense of the purpose that this project aims at.

4. Newly Revised South Korea's ODA

4.1 Increase in the ODA volume

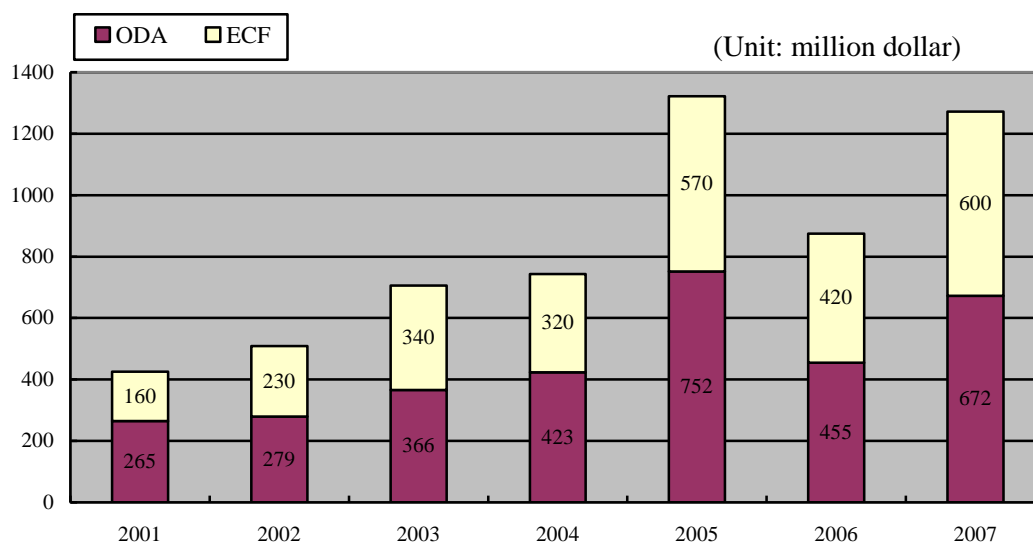
Korea has successfully developed for last 4 decades as a newly developed country and stationed in the world's 11th largest economy, IT powerhouse, and the country of the current UN Secretary General, which means that Korea's international status is on the same level to other developed countries. Now, Korea is called a major economic power with 20,000 dollars GNI per capita and admitted as a unique advanced developing country converted from a recipient to a donor country. However, Korea did not have a deep self-examination about the international roles and status matching with the international norm. Nowadays in Korean society, people become to think that Korea would have to play a role commensurate with its economic power and international status by giving back the aids which were granted to Korea in the past.

However, there are few considerations on how large Korea contributes to the global poverty reduction and prosperity as one of the rich countries in Asia. While many developing countries urgently need international assistance for their poverty reduction and sustainable development, in the aspect of ODA size, Korea is still far below the standard of the 0.7 percent UN target. Korea has been under the level of 0.1 percent ODA/GNI rate since Korea initiated ODA in 1987, but still stations at around 0.05 percent level; it means that the amount of aid per capita is merely at around 15 dollars. Comparing to the same economic level countries such as Australia or Portugal, Korea's size of ODA is relatively less. Moreover, in the situation of looking forward to joining the OECD DAC in 2010, Korea's ODA/GNI ratio is merely one fifth of the average of DAC member countries which is now 0.31 percent.

As a matter of fact, the amount of Korea's ODA stays in far lower level compared to its economic power. And there are problems which have been proceeded to achieve the target of the UN without any practical alternative. As Korea considers the plan for increasing the ratio of ODA/GNI to 0.1 percent by 2009 and to 0.25 percent by 2015, this is the very time to seek realistic alternatives for expanding ODA.

In this sense, the necessity for the expansion of ODA buttresses the justifiability for the claim of including ECF into Korea's ODA. In the national level, achieving the ratio for 0.7 percent of ODA/GNI in a short term period is not easy. In order to scale up the ODA amount, the Korean government has to prepare economic measures in advance while the tax burden laid on the people will be heavier. The methods for acquiring the budget for supporting North Korea are taxation, issuing national bonds, borrowing foreign currency and so on. But none of them can be assured easily, and Korea cannot completely rule out the possibility of rising tax resistance. So for a smooth budget acquiring, national consensus should be derived.

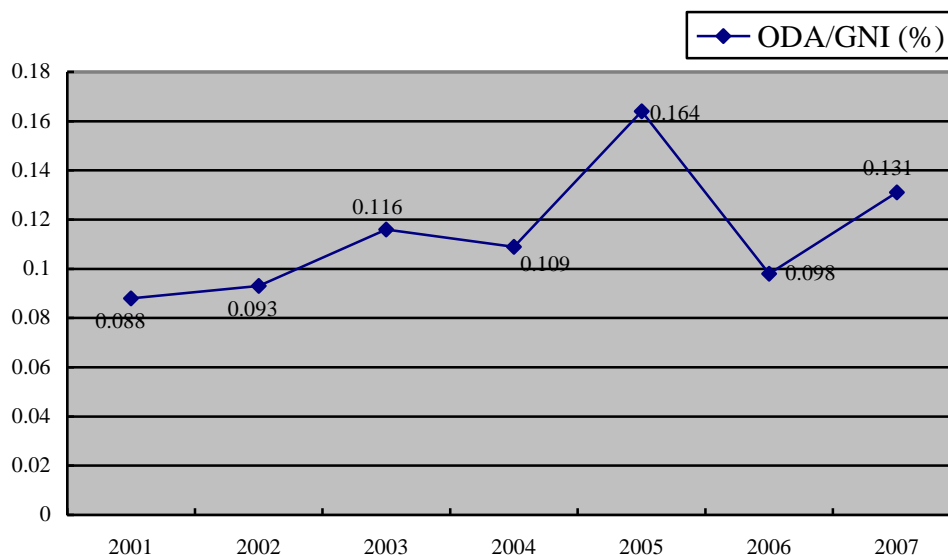
Figure 7. Estimated Total Amount of ODA with ECF



Hence, the inclusion of ECF into ODA is considered as a practical alternative to expand the amount of ODA. Then, let's have a look on the total amount change of expenditure from 2001 to 2007 if ECF is included in ODA. Here, only the compositions of ECF which were classified as ODA will be included. We will estimate the incremental amount and predict Korea's ODA per GNI ratio change as well.

Figure 7 shows the change in total amount of expenditure when ECF is included in ODA from 2001. As seen above, the total amount of ODA and ECF are similar in size each year. The amount of revised ODA in 2007 is indicated as 1,272 million dollars, and the ratio of ODA per GNI is 0.131 percent which is almost twice larger than the 0.07 percent level excluding ECF. Now, Figure 8 shows the revised ODA per GNI ratio from 2001 to 2007.

Figure 8. Revised ODA per GNI



The Korean government has planned to increase the amount of ODA to 0.1 percent of the ODA/GNI ratio by 2009 and to 0.25 percent by 2015. If it is so, it means that the Korean

government should pull up the ratio from 0.07 percent to 0.1 percent just in one year. Regarding Korea's ODA history, it is obvious that there will be hurdles in practice in the future. Moreover, including ECF into ODA right away which is being mentioned in this paper will apparently have restrictions in reality as well. Even so, Korea's ODA per GNI ratio is still less than the 22 OECD DAC members' average which is 0.25 percent. Nonetheless, it is expected that the newly revised ODA will be assessed as effective in terms of its use. It will be elaborated in the following.

As we have studied in the previous chapter, the implication of ECF for the North Korean economy was significant, and the total impact of South Korea's ECF to the North is prominent. ECF has great similarity with the purpose of ODA which is to support the developing countries in order to reduce poverty and develop their economy. Thus, it is apparent that the ODA characteristics in ECF support the effective use of ODA.

4.2 Comparison between South Korea and OECD DAC

Until 1999 from the independence from Japanese colonial rule, Korea was an ODA recipient country. During the period, ODA that Korea had received was 26.2 billion dollars in grants and 6.9 billion dollars in loans, thereby approximately 33.1 billion dollars in total. And it was provided by the World Bank and some developed countries like the US, Japan, and Germany. The Official Development Assistance was invested into social overhead capital (SOC) for the expansion of roads, transportation and communication systems, and so forth so that it became a foundation for Korea's economic development. Now it has been 20 years since Korea was changed from a recipient country to a donor country.

With the dramatic development, South Korea has arisen as a leading industrialized country. As the world's 11th largest economy and 12th largest trade volume, its share in the international community became significant. Consequently, it is demanded to compensate commensurate with its economy standing by increasing its ODA volume and participate in global affairs. Also, the internal voice claiming about the need of ODA increment is growing. Besides, there are still many things remained to be solved such as the issue of effective use of ODA or proliferation of the public awareness for the need of ODA.

Although South Korea's ODA volume now reaches at 672 million dollars, its volume in the GNI is still one fifth of the OECD DAC average, 0.31 percent. Comparing to the DAC countries that are similar in the economy scale such as the Netherlands, Spain or Australia, Korea's ODA volume is far behind. And even its ODA per GNI is far inferior to that of the DAC countries that are similar in the GDP per capita. South Korea's ODA per GNI is still under the 0.1 percent minimum standard which is a condition required to join the DAC. Thus, this is the reason why Korea cannot join the DAC even it has been in the OECD for more than 10 years.

Then, let's see what will happen when South Korea's ODA volume increases by containing the ECF amount. Will it make a huge difference in the status compared with the other DAC member states? Figure 9 shows the status of the absolute and relative volume of the DAC members, and it also shows the change in South Korea's status. What I would like to focus on here is the result how substantial the change of the absolute and relative volume of South Korea's ODA is. Currently, Korea's ODA stays below one billion dollar like Finland or Greece. But when it includes the amount of ECF, its status moves up from (A) to (B), which means that the position of South Korea among the DAC members goes up to (B). Then the ODA

volume becomes equivalent to that of Ireland or Switzerland in which the volume is more than a billion dollar. Hereby, we should focus on the fact that the change in South Korea's ODA is quite substantial in terms of its absolute volume. I would like to say that Korea's ODA volume is already appropriate enough to be one of the DAC members since it is even twice larger than that of New Zealand who is in the lowest position among DAC members. Nonetheless, the newly revised ODA volume makes change which seems substantive.

Figure 9. OECD DAC members' ODA Status in 2007

	Country	ODA volume (\$ million)		Country	ODA/GNI (%)
1	US	21,753	1	Sweden	1.02
2	Germany	12,267	2	Norway	0.89
3	France	9,940	3	Luxemburg	0.89
4	UK	9,921	4	Netherland	0.81
5	Japan	7,691	5	Denmark	0.8
6	Netherland	6,215	6	Ireland	0.54
7	Spain	5,744	7	UK	0.51
8	Sweden	4,334	8	Belgium	0.5
9	Italy	3,929	9	France	0.47
10	Canada	3,922	10	Austria	0.47
11	Norway	3,727	11	Finland	0.4
12	Denmark	2,563	12	Switzerland	0.39
13	Australia	2,471	13	Germany	0.36
14	Belgium	1,953	14	Spain	0.32
15	Austria	1,798	15	Australia	0.3
16	Switzerland	1,680	16	Canada	0.29
-	South Korea (B)	1,272	17	New Zealand	0.27
17	Ireland	1,190	18	Japan	0.25
18	Finland	973	19	Portugal	0.21
19	South Korea (A)	672	20	Italy	0.2
20	Greece	501	21	US	0.18
21	Portugal	403	22	Greece	0.17
22	Luxemburg	365	-	South Korea (D)	0.13
23	New Zealand	315	23	South Korea (C)	0.07

Source: OECD, International Development Statistics Online DB

The relative volume of South Korea's ODA remains far less than the average of DAC which is 0.31 percent. Even worse, the ODA per GNI is lower than that of Greece that has the lowest ODA/GNI ratio. As we can see in Figure 9, however, though the newly revised ODA over GNI becomes twice larger as much as 0.131 percent, the thing is that the change in the relative volume of Korea's ODA, which is from (C) to (D), is still insignificant.

The change in the absolute volume of Korea's ODA is quite suggestive in some extent when compared with the DAC members'. Yet, the change in the relative volume is not that substantive. In other words, the quantitative increase is not the only issue that we should focus on in regard of South Korea's ODA.

4.3 Effective Use of the Revised ODA

This study tried to estimate the revised South Korea's ODA by including ECF into ODA. And by analyzing, we have found that the quantitative increase of ODA is insignificant. Thereby, South Korea should more focus on the effective use of ODA rather than only concentrating on the expansion of the amount. In this sense, it is expected that the newly revised ODA of South Korea will be assessed as effective and efficient since the use of ECF is integrated. I would like to say that South Korea's ODA is now in high time to reconsider its use and evaluate the effectiveness. Thereby, the focus of evaluation that was only on the quantitative expense should be broadened.

Then, through what kind of channel or mechanisms could the revised ODA take concrete and effective action? Regarding the principles and purpose of ODA, preferentially, ECF should be used for North Korea's welfare promotion and sustainable development. Since ODA had

classified the eligible and non-eligible ODA activities, basically ECF would also be operated in the extent of eligible activities. Besides these theoretical methodologies, however, it should introduce more coherent and logical system of ECF procedures which can be reconcile with international norms and practice, and strengthen cooperation with other donors and promote wider public participation.

Korea actively supports and participates in the collective efforts of the international society in promoting humanity and protecting the human rights of those in crises caused by hunger, diseases, and natural and manmade disasters. Korea uplifts all internationally agreed humanitarian principles such as humanity, impartiality, neutrality and independence. And it tries to apply them into its ODA policies and related activities.²⁴ In this context, Korea should arrange development priorities in accordance with North Korea's need in the direction for poverty reduction. Yet, the development priorities would have to be limited in education, health, rural development of North Korea, ICT (Information Communication Technology), industry, energy and others. Accordingly, with this macro approach, there should be sector-wide approach so that ECF could be enabled to provide integrated and more reliable assistance to the North. Besides, shifting the loans which were provided in forms of rice or fertilizer to grants would also help promote the effectiveness. Since some parts in ECF still have commercial characteristics, converting those items into grants will help promote its effectiveness.

Making ECF multilateral aid and diverting the assistance channels could be another way to enhance the effectiveness. ECF has been provided only by South Korea. That is, it was the sole mechanism only for Korea to aid North Korea. But if the mechanism diverts and other

²⁴ www.odakorea.go.kr [Searched on July 21, 2008]

countries' assistance to North Korea is included, the amount of ECF will be scaled up which means that the total ODA volume expansion will be followed. It is also expected to fundamentally accelerate progress in the implementation. Thereby, applying the international partnership to ECF toward North Korea would not only improve the aid effectiveness in the short-run, but also make North Korea open and reform itself so that it could facilitate the inter-Korean cooperation and unification in the long-run.

As this study insists on the inclusion of ECF to ODA for an alternative measure to supplement the defect of South Korea's ODA, there may be some competing hypotheses, or encountering alternatives. However, we should consider two assumptions; first, the target nation of ECF is North Korea, and second, the purpose of ODA is for the economic development and welfare of the developing countries. Since the target country of ODA is North Korea, a country under severe poverty that urgently needs international assistance, the ECF from South Korea gives and will continually give great impact on North Korea's economy. This takes justification for the effective use of the Inter-Korean Economic Cooperation Fund, which also fits the objective of ODA. On the one hand, the relationship of the South and the North is defined not as different country but as one nation heading for reunification, according to the "South and North Korea Relationship Development Law." Hence, the ECF could not be counted in as ODA so far. On the other hand, however, it is important to focus on the adequate use and the right target of ODA. As we have assumed in this study, if ECF is counted in as ODA, it will apparently enhance the effectiveness of the use of ODA as well as it increases the relative and absolute volume of it. Therefore, this study aims to focus more on the practical and effective use of ECF and ODA.

5. Concluding Remarks

After the mid 1990s, there have been tons of warnings from the international organizations that North Korea will face the most chronic food shortage. The Food and Agriculture Organization (FAO) forecasted that North Korea's grain shortage would reach at 2 million tons, while the grain production is only 3 million tons. Thereby, the FAO classified North Korea as a 'country in food crises' last year.²⁵ The food shortage seems to be a severe agony to the North Koreans due to the recent flood and winter drought, plus external factors such as high international grain price and less aid from other countries. The World Food Programme (WFP) reported that 25 percent of the North Koreans, which is about 6 million, were in suffer from extreme food shortage.

Thus, North Korea as one of the least developing countries is now in an urgent need for international assistance. And South Korea undertakes most parts of the aid to North Korea. The total expenditure of ECF from 1991 to 2007 is 4,268 billion won. Regarding the total ODA amount that is quite similar to the ECF expense amount, it is obvious that there should be evaluations on the execution and operation of ECF, whether it has been useful, or how substantial the aid has been to North Korea's economic development so far. Furthermore, it should be evaluated how large it has devoted to maintain peace and stability of the Korean peninsula and to drag out North Korea's open-door and reform. This leads to the discussion about the effective use of ODA when it contains ECF. Thereby, this study has examined how the purpose of ECF and ODA coincides with each other, and how important the inclusion of ECF to ODA is.

Hitherto, South Korea's ODA has been criticized for its ODA volume that is required to

²⁵ Food and Agriculture Organization, "Crop Prospects and Food Situation", No.1, February 2008, p2.

upraise to meet the 0.7 percent target. But there were no arguments of how effective South Korea's ODA was. As we have estimated above, if ECF is included in ODA, the total ODA volume almost duplicates. In terms of the use of ODA, when it gives considerable help to the North, the effectiveness issue also becomes clear. For that reason, though it is quite provocative, the result of this study is very suggestive in regard of the effectiveness as well as the expansion of the volume of South Korea's ODA.

Chapter 2 explained the concept of the official development assistance, and elaborated the history and status of South Korea's ODA. This chapter showed the criteria to be regarded as ODA, and explicitly, stressed on its purpose; poverty reduction and economic development of the developing countries. On this base, chapter 3 introduced the inter-Korean economic cooperation fund (ECF) and scrutinized the ODA characteristics that ECF has. By giving two reliable examples, the humanitarian aid to North Korea and the Gaeseong Industrial Complex project, this chapter found the reason of ECF to be regarded as ODA. Chapter 4 estimated the newly revised South Korea's ODA by including the amount of ECF to that of ODA. It also showed the dramatic increase in South Korea's ODA volume by giving a comparison to the other OECD DAC countries. Further, it showed ways for the effective use of the revised ODA.

This study does not go in depth such as for the further increase or decrease in the total amount of the revised ODA. It only suggests a practical and reasonable way to remedy the drawback of current South Korea's ODA. The very point we may consider is the characteristics of ECF which are considerably similar to that of ODA. As long as the Inter-Korean Economic Cooperation Fund holds the role as ODA, which means it corresponds to the purpose of ODA, and gives economic influence to North Korea, here are suggestions that

we may consider.

First, the inter-Korean relationship should be regarded as a diplomatic relation rather than an inter-regional relation. The current inter-Korean relationship defined in the Constitution has been putting limits on the use of ECF even it has the characteristics of ODA or has been provided in considerable size to North Korea. But if North Korea is considered as a diplomatic partner and regard ECF as a part of ODA, the ECF would be likely to justify in its use as well as enhance the effectiveness of the use of ODA. In the long-run, moreover, ECF could be a good investment into North Korea, which will contribute to lessen the cost of reunification in the future, since it helps North Korea's poverty reduction and economic development. It is axiomatic that South Korea's ODA has been influential to the improvement of North Korea's devastated socio-economic situation. Thus, for a strategic approach in the use of ECF and ODA, the inter-Korean relation should be redefined as a diplomatic relation.

Second, based on the first suggestion, there should be some changes in the role of KOICA, which largely takes charge in ODA, and the Ministry of Unification of South Korea, which takes charge in ECF. In other words, the independent realm of each unit may be extended so that the execution of ECF and ODA could be integrated. There have been many difficulties in the use of ECF due to the weak justification attained from the public because the process of implementing ECF projects has been too blurred so far. Therefore, it is important to construct the obvious purpose and process of assisting North Korea upgrading it on the diplomatic level. Based on this point, the change is expected to improve the effective use of ODA as well as ECF in the long-run.

As we have seen so far, the main purpose of this study is mainly to suggest the inclusion of

ECF into ODA to scale up the ODA volume, and finally find ways for South Korea's aid effectiveness. However, there may remain some doubts and limits on the analysis. On the process of the analysis, it was not easy to calculate the accurate amount of the total assistance volume when combining the two volumes of ECF and ODA. Also, the classification of the programs in ECF to be regarded as a part of ODA was very rough. Thus, further studies to estimate the substantive effectiveness of the use of ODA when it includes the aids to North Korea are needed. Responding to the expansion of ODA scale, there should be many substantive discussions in advance to better execute the revised ODA as well. Yet, this study is worthwhile for it gave one pragmatic approach to the effective use of ODA and ECF.

APPENDICES

[Appendix 1] Elaboration on Non-eligible ODA Activities

[Appendix 2] Expenditure of ECF by Item

[Appendix 1] Elaboration on Non-eligible ODA Activities

Social and cultural programs	As with police work, a distinction is drawn between building developing countries' capacity (ODA-eligible) and one-off interventions (not ODA-eligible). Thus, the promotion of museums, libraries, art and music schools, and sports training facilities and venues counts as ODA, whereas sponsoring concert tours or athletes' travel costs does not.
Assistance to refugees	Assistance to refugees in developing countries is reportable as ODA. Temporary assistance to refugees from developing countries arriving in donor countries is reportable as ODA during the first 12 months of stay, and all costs associated with eventual repatriation to a developing country, are also reportable.
Nuclear energy	The peaceful use of nuclear energy, including construction of nuclear power plants and the medical use of radioisotopes, is ODA-eligible. Military applications of nuclear energy are not.
Research	Only research directly and primarily relevant to the problems of developing countries counts as ODA. This includes research into tropical diseases and developing crops designed for developing country conditions. The costs may still be counted as ODA if the research is carried out in a developed country.
Civil police work	Expenditure on police training is ODA, unless the training relates to paramilitary functions such as counter-insurgency work. The supply of the donor's police services to control civil disobedience is not reportable.

Peacekeeping	<p>The enforcement aspects of peacekeeping are not reportable as ODA. However, ODA does include the net bilateral costs to donors of carrying out the following activities within UN-administered or UN-approved peace operations: human rights, election monitoring, rehabilitation of demobilized soldiers and of national infrastructure, monitoring and training of administrators, including customs and police officers, advice on economic stabilization, repatriation and demobilization of soldiers, weapons disposal and mine removal. (Net bilateral costs mean the extra costs of assigning personnel to these activities, net of the costs of stationing them at home, and of any compensation received from the UN.) Similar activities conducted for developmental reasons outside UN peace operations are also reportable as ODA, but not recorded against the peacekeeping code. But activities carried out for non-developmental reasons, e.g. mine clearance to allow military training, are not reportable as ODA.</p>
Exclusion of military aid	<p>The supply of military equipment and services, and the forgiveness of debts incurred for military purposes, are not reportable as ODA. On the other hand, additional costs incurred for the use of the donor's military forces to deliver humanitarian aid or perform development services is ODA-eligible.</p>

Source: OECD

[Appendix 2] Expenditure of ECF by Item

	Unit	1991~2000	2001	2002	2003	2004	2005	2006	2007	Total
Humanitarian Aid	Million dollar	380~590	93	180	250	220	370	240	420	2,153~2,363
Economic Cooperation		17~28	110	85	110	140	240	230	320	1,252~1,263
Cultural Exchange		2.8~4.4	0.3	20	1.5	4	11	14	9	62.6~64.2
Exchange rate (Average of the year)	won	-	1,274	1,208	1,203.6	1,047.9	1,036.3	929.9	929.6	-

Source: Korea EXIM Bank

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