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Trends and the Determinants of Korea's Official Development Aid (ODA) Allocation

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List of Acronyms

EDCF	Economic Development Cooperation Fund
DAC	Development Assistance Committee
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
KIPF	Korea Institute of Public Finance
KITA	Korea International Trade Association
KOICA	Korea International Cooperation Agency
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
OECD	Organisation for Economic Co-operation and Development
ODA	Official Development Assistance
PPP	Public-Private Partnership
PPP	Purchasing Power Parity
SDG	Sustainable Development Goals
UN	United Nations
UNDP	United Nations Development Programme
UNKRA	United Nations Korea Reconstruction Agency
WGI	Worldwide Governance Indicators
WTO	World Trade Organization

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Abstract

This study is about the determinants and trends of the Republic of Korea's Official Development Assistance (ODA). The study examines what factors drive Korea's ODA allocation to recipient nations. Motivated by a need to enhance the effectiveness of the ODA allocation system, the study examines the role of various determinants – humanitarian, economic and political – which might explain allocation of Korean aid. The paper relies on twenty years' of panel data from about 136 countries. In addition, structured interviews conducted with Korea International Cooperation Agency (KOICA) officers and Economic Development Cooperation Fund (EDCF) officers inform the study. The key findings are that Korea's economic strategy is more likely to drive ODA towards recipient nations as opposed to humanitarian concerns. Aid to the largest recipients of Korean aid, that is, Vietnam, Bangladesh, and Iraq also was explained by Korea's economic and political strategies rather than recipient nations' needs.

Relevance to Development Studies

ODA focuses on the agenda of economic and social development because it is based on the principle of stimulating a developing country's economic growth and social-welfare status. Different advanced economies have exhibited varying motives for aid provisioning, subsequent to the Marshall Plan. As an emerging donor nation, Korea has a short experience of giving ODA compared to Northern Europe and U.S. Nevertheless, Korea has an experience of receiving ODA which may have inspired its own chartered ODA trends. Therefore, by analysing the significant driving forces of Korea's ODA, Korea's efforts and actions for development can be critiqued. This project renders valuable suggestions about a way forward for Korea's design of ODA, in order to engender development.

Keywords

Official Development Assistance (ODA), Korea, aid allocation, donor, recipient, Korea International Cooperation Agency (KOICA), Economic Development Cooperation Fund (EDCF)

Chapter One

1. Introduction

The overarching aim of this paper is to identify the various factors which determine allocation of Korea's Official Development Assistance (ODA)¹. The study is motivated by a need to "improve allocation of ODA to where it can have most impact in driving poverty reduction and leaving no-one behind" (Development Initiatives 2015). In this regard, this research pursues the following sub-questions: (i) Over the past 20 years, what are the overall trends of Korea's aid distribution? (ii) What is the role of economic, geographic or political factors in affecting Korea's ODA allocation? (iii) What suggestions can be made to lead to a more effective aid distribution by Korea?

Since the Second World War, foreign aid has been used as a tool to promote economic growth and development, to support postwar reconstruction and thereby enhance peace and prosperity. Furthermore, it may be argued that, foreign aid has played a crucial role in developing countries as an important source of capital. According to Organisation for Economic Co-operation and Development (OECD) (2016), ODA is defined as financial resource flow from governments of donor nations to OECD Development Assistance Committee (DAC) list of ODA recipient nations and multinational organisations with a goal of economic and social development. In practice, the volume of international aid has increased from 1960 to the present day by approximately 330%.² Hence, it is necessary to examine: the nature of the distribution of global aid, project-implementation and aid efficacy. Indeed, there is a specific need to examine if Korean aid follows a similar trajectory and performance as global aid flows, especially over past two decades.

The United Nations (UN) recommends Sustainable Development Goals (SDGs) for a post-2015 policy to improve ODA allocation to explicitly achieve poverty elimination as the primary goal by 2030 (Development Initiatives 2015). As Alesina and Dollar (2000) argue, before examining aid effectiveness, it is important to examine aid allocation policies of donor countries. This is because without analysis of aid allocation policy it is difficult to demonstrate which sector

¹ Official Development Assistance (ODA) and foreign aid will be used interchangeably in this paper.

² According to OECD (2016), between 1960 and 2015, total net ODA has been steadily increase in real terms around 3.8 times more but a share of gross national income has declined.

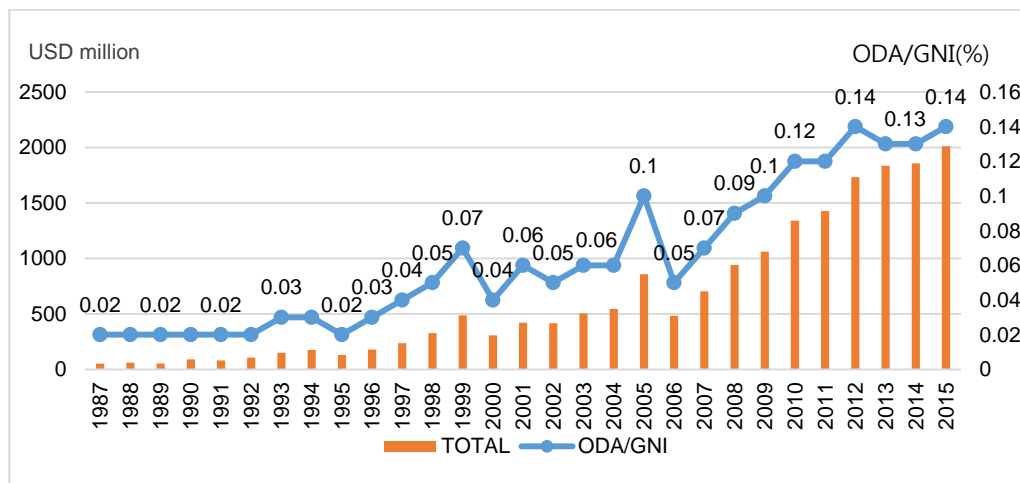
and what goals donors seek to address through aid. In other words, if allocation of aid is driven mainly by political and diplomatic imperatives, there is no point examining whether the aid has contributed to improving developing countries' economies or reducing poverty (Alesina and Dollar 2000).

In particular, many developed countries have been contributing their support to developing countries according to SDGs and they have their own development strategies. Each country's allocation of ODA targets different regions and is driven by different purposes. As a relatively new member country of the development Assistance Committee (DAC), having joined in 2010, Korea's ODA is expected to be dedicated to poverty reduction and economic development in developing countries. According to the Export-Import Bank of Korea (2016), a total of 132 countries received bilateral ODA in 2014. Upon examination of the net ODA disbursement, it is apparent that a huge gap exists among recipient nations in terms of their access to volumes of ODA. In light of this, this research seeks to probe what determines the allocation of Korea's ODA.

Interestingly, Korea has a unique experience of economic development because Korea is an example of a successful ODA recipient nation in the late 20th century. In fact, the motivation to provide foreign aid to Korea was particularly driven by geo-political strategy mostly from the United States (U.S.). Korea has developed rapidly since the 1960's and foreign aid from the U.S., Japan, and Germany were very crucial sources to boost Korea's economy in the post-Korean war period. According to Fischer (2016:22), "South Korea clearly demonstrates the crucial role that aid played in buttressing rapid late industrialization against structural financial vulnerabilities". Between 1946 and 1980, foreign aid flows of USD 12 billion provided the capital to reconstruct the devastated nation. Most of the aid was provided by the U.S. and targeted military support and humanitarian relief (Jung 2010). There is a great debate regarding the root causes for Korea's economic growth, but it is strongly emphasized that Korea has built up the new nation through foreign aid as a steppingstone toward economic growth. For example, right after the Korea War, most of basic goods and foreign investment were delivered by foreign aid grants from mainly two parties: the United Nations Korea Reconstruction Agency (UNKRA) and the United States bilateral assistance program. (Frank et al. 1975). At this time, foreign aid was utilized for "importing food and essential industrial raw materials as well as capital goods ... about 74 percent of South Korean investment was financed by foreign aid from 1953 to 1960" (Frank et al. 1975:12). Frank et al. (1975) maintains that, in particular between 1953 to 1957, Korean economic growth was substantially led by input of foreign assistance.

Officially, Korea graduated from the International Bank for Reconstruction and Development (IBRD) in 1995 (World Bank 2014) and Korea was removed from the Development Assistance Committee (DAC) list of ODA recipient nations in 2000. Officially, Korea graduated from the International Bank for Reconstruction and Development (IBRD) in 1995 (World Bank 2014) and Korea was removed from the Development Assistance Committee (DAC) list of ODA recipient nations in 2000. Subsequently, in 2010, Korea joined the Economic Co-operation and Development (OECD) DAC as the 24th member state to become an active Aid-Donor. During the transition from recipient to donor, Korea did continue to provide ODA. Since the Economic Development Cooperation Fund (EDCF) was established in 1987 under the Ministry of Finance, Korea has been giving ODA but the volume has expanded since the mid-1990s. In fact, Korea ODA system is mainly managed by two different organisations: Economic Development Cooperation Fund (EDCF), Korean International Cooperation Agency (KOICA). They have different goals of managing ODA budget, for example, EDCF pursues to achieve economic development and cooperate with recipient nations by giving concessional loans while KOICA contributes to improve social-economic development through mutual interactions by giving grants (ODA KOREA 2016). Moreover, OECD officially published Korea ODA data from 1987. In <Figure 1.1>, Korea's aid to GNI ratio shows an increase trend from 2006 onwards, buoyed by its recovery from the post-crisis expansion in South East Asia (Chirathivat 2007). However, this increase in aid to GNI ratio is still much lower than the recommended percentage of 0.7 % by DAC. In 2015, Korean ODA reached USD 2 billion and it was 0.14 % of GNI as <Figure 1.1> shown below. However, it is much less than an average percentage of ODA DAC members, 0.3%, which cannot be enough to address aid flow for poverty reduction and to enable fiscal or capital growth in countries.

Figure 1.1 Net Disbursement of Korea ODA



To support effective ODA implementation and regulate its international

Source : OECD Statistics (2016)

development cooperation policy, the Korean government “enacted the Framework Act on International Development Cooperation (Framework Act) and a Presidential Decree which came into force in July 2010, and laid the legal basis for a more effective ODA system” (ODA Korea 2016). Korea has the general goals to increase its ODA commitment and achieve greater impact of ODA. According to the legal framework, the Framework Act on international development cooperation designates objectives, principles, and tasks of the Committee for International Development Cooperation (CIDC), formulates “the Mid-term ODA Policy, roles and functions of agencies supervising international development cooperation, selection of priority partner countries, evaluation, support for civil organization, and public relations to enhance transparency and people’s participation” (ODA Korea 2016). The ODA system of Korea follows five basic principles:

- (i) reduce poverty in developing countries; (ii) improve the human rights of women and children, and achieve gender equality; (iii) realize sustainable development and humanitarianism; (iv) promote cooperative economic relations with developing partners; and (v) pursue peace and prosperity in the international community (Ministry of Foreign Affairs, Republic of Korea 2010).

As is evident from the policy documents, Korea's ODA legal framework clarifies that Korea's ODA policy aims to reduce poverty and support self-sustainability in developing countries. In other words, the five guiding principles identify Korea ODA fundamental plans, which are humanitarian reasons, economic cooperation agenda, and the need for peace and stability. In order to examine the effectiveness of Korean ODA, it is necessary to look at the pattern of aid allocation. According to Alesina and Dollar (2000) and Thiele (2007), incoherent aid allocation performance which does not comply with the aid effectiveness policy cannot realistically aim to achieve desired results. Without comprehensible aid allocation practice to meet the needs of recipient nations, ODA might not be expected to accomplish economic development of the least developed countries but only respond to donor's interest which induce aid ineffectiveness.

To examine the determinants of Korean ODA flows, the paper empirically explores patterns over the time period 1995 to 2014. Although, Korea has been providing aid since 1963, the focus is on this period as the volume of Korea ODA and share of ODA to national income has increased over the past 20 years. In recent twenty years, Korea's ODA growth in terms of amount and percentage to gross national income (GNI) has been substantially increased. For example, Net ODA flow measured as a share of GNI was 0.02%, on average, from 1987 to 1995, but between 1995 and 1999, the percentage of Korea's GNI to ODA has increased by 0.01% each year and it continued to increase by 0.005% on average until 2014. In 2014, the total ODA volume and percentage of GNI to ODA were estimated to be USD 1.856 billion and 0.13%, respectively (OECD 2016). By analysing previous twenty years, it will examine not only trends of Korean ODA but also which factors drive ODA of Korea. In addition, while Korean ODA has grown consistently, policy documents do not reveal any clear criteria used to allocate ODA budgets to specific countries.

A few studies of Korea ODA allocation to justify its motivation also did not find coherent aid patterns. In other words, there is no set guidelines to justify allocations. Although the principles of aid provisioning have been laid out in 2010, there is a disconnection between the framework and aid expenditure. For example, Sohn and et al. (2011:65) found out that there is "no single or few variables play a predominant role" to determine aid allocation of primary partner countries for grant. But, loan allocation is highly related to economic benefits such as trade volume. When it comes to total ODA allocation, all four categories appear to have equal consideration in the selection of partner nations and its budget allocation. These factors include : (i) humanitarian, (ii) politico-strategic, (iii) economic, and (iv) cultural/interactive (Sohn and et al. 2011). Therefore, there was no a specific

pattern or a factor which might inform the Korea ODA system. Thus, this thesis will examine whether Korea has been providing ODA according to DAC policies and regulations for poverty reduction and economic growth which recommend a greater focus on the least developed countries. On the other hand, the paper will also examine whether other factors such as Korea's economic interest to enter lucrative market might play a greater role in determining ODA allocation.

In addition, the paper will conduct qualitative research via structured interviews of KOICA and EDCF officials. The respondents will be a current KOICA ODA project manager to discuss the project plan and challenges to analyse the structure of ODA program. Therefore, it will give the guide how a project is implemented by the agency or the ministry to follow what kinds of objectives. Overall, the paper will explore the relationship between general ODA allocation trends and practical project performances.

The findings suggest that a greater share of Korea ODA is allocated to countries with which Korea has stronger economic relationships. In particular, greater aid flows to countries which are also recipients of Korean Foreign Direct Investment (FDI) and who have stronger trade relations with Korea. Especially, outward FDI and exports have a positive and significant effect on foreign aid allocation from Korea. While it does seem that FDI and export patterns drive aid allocation, the analysis also shows that as countries become richer (increase in GNI) they are less likely to get Korean ODA.

This paper confronts the discourse as articulated in policy documents that allocation of Korean ODA is driven by humanitarian grounds or linked to poverty reduction. Instead, the findings raise the possibility that commercial and geopolitical factors are the main factors driving allocation of Korean aid, thereby highlighting the gap between rhetoric and reality.

The thesis is organized as follows. Chapter two contains background information on Korea's ODA history. Chapter three will debate who discuss about ODA allocations and which determinant drives donors to allocate their limited budget depends on their strategies. Chapter four will explore empirical analysis using cross countries panel data over 20 years. Chapter five examines focused countries and interviews contents. Chapter six brings discussion beyond the paper and opportunity for further study followed by conclusion.

Chapter Two

Transition of Korea from recipient to donor

2.1 Historical background of Korea's economic development

Korea is a relatively rare case of successful development and industrial transformation. Therefore, it is relevant to consider the historical background of how Korea received aid and what factors drove Korea to become a successful emerging donor.

Korea has a dynamic history in 20th century in terms of turning from one of the poorest countries in the world into the thirteenth largest OECD economy and a donor country (Jung 2010; USAID 2011). Since the Marshall Plan initiating U.S. aid to devastated European regions became successful, foreign aid flow to the least developed countries has been considered as a significant post World War II phenomena with the objective of enhancing economic development and standards of living (Maizels and Nissanke 1984). In fact, during the 1950s, foreign aid from various donors constituted a significant aspect of the nation's available capital. In the post-World War II years Korea benefited from aid. To compensate for development challenges incurred after it was ravaged by Japanese colonisation and the Korean war of 1950-1953.

Korea was colonized by Japan for 35 years, from 1910 to 1945 until the Pacific hegemon surrendered to the Allied Forces at the end of World War II. In 1945, the Korean government conceded sovereign power to the Soviet Union in North Korea and to the United States in South Korea. At an interim meeting of Foreign Ministers in Moscow Korea's foreign "allies" agreed on a 5 year trusteeship till 1950 saying "to assist the formation of a provisional Korean government and with a view to the preliminary elaboration of the appropriate measures, there shall be established a Joint Commission consisting of representatives of the United States command in southern Korea and the Soviet command in northern Korea (U.S. Government Printing Office 1950)". This declaration caused a huge rebellion against the decision by civilian society and political parties (Han 2010). Even though the Joint Soviet-American Commission was not able to complete the Moscow Declaration due to conflicts between U.S. and Soviet Unions and also between Korean political parties, it led fast division of Korea peninsula (Han 2010).

After a failure to implement Moscow Declaration, the Cold War tension between the Soviet Union and the United States was manifested as the Korean War broke out between the North and South regions. After three years of civil war, an armistice was signed in 1953, in which the Korean nation was officially divided by the line of 38th degree north latitude. The U.S. agreed to protect South Korea from future invasions, whilst the Soviet Union promised financial, technical and military assistance to the North Koreans. With the USA treating the South Korean regime as a virtual protectorate, it was not surprising that the political dictates of the U.S. prompted an obligated form of compliance from the South Korean regime. Hence, it became clear that the United States provided aid to South Korea under the purpose of keeping South Korean society from the influence of communist regime (Alesina and Dollar 2000; Maizels and Nissanke 1984; McKinlay and Little 1977; Ringen 2011). There was a concern by the US that if communism was allowed to spread in the Korean peninsula, it would set a bad precedent for the Pacific region, and adversely affect open market capitalist trade.

After the Korean War (1950-53), Korea was one of the poorest countries in the world in terms of low Gross Domestic Product (GDP) per capita, approximately, 66 U.S. dollars in 1953 (Bank of Korea 2016) and Korean life expectancy at birth was only 50 years (USAID 2011). According to John Cathie (1989), during the Korean War there was substantial property damage estimated at about USD 2 billion. In addition, GDP and agricultural production fell by 14% and 25% respectively compared to 1949. Moreover, one fourth of population became refugees and inflation soared up to 500% in 1951 (Cathie J. 1989). Lee (1984) further mentions that manufacturing facilities, electrical generating capacity, and coal mines were damaged or shattered about 43%, 41%, and 50% respectively. Moreover, one third of houses were devastated and people who fled from the North to South were not able to return to their original homes because the 38th parallel line was established with prolonged armistice (Lee 1984). Although peace was temporarily established, it effectively exiled Koreans from the North who became precariously homeless in the South, for an indefinite period, culminating in a humanitarian crisis.

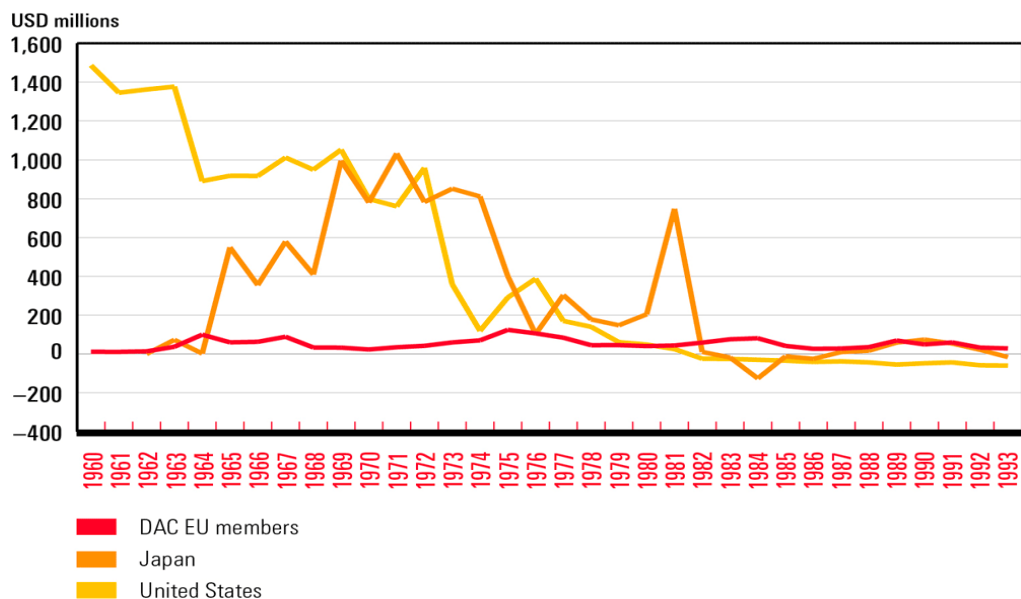
Apart from the displacement of Koreans from their homes, the loss of civilian lives may have generated a global sympathy for the South Korean public. This may influence the possible decision of international donors to rush to the aid of the Koreans. Indeed, the Ministry of National Defense (2005) states that the Korean War inflicted more civilian deaths than military deaths. It has been estimated that 621,479 Korean people died or were injured among a total of 776,360 casualties in the Korean War. Therefore, when foreign aid flew to South

Korea, it was fundamental in helping the post-war society to recover and playing an important role in the survival of the nation (USAID 2011; KIM 2011).

After the Korea War, foreign aid was the only resource the Korean government had to spend on reconstruction of a collapsed society and on military defense (Kim 2011). The total amount of foreign aid from various donors from 1945 to 1999 is calculated around USD 12.7 billion. In particular, United States and Japan had the highest percentage of total bilateral aid to South Korea, a remarkable 90 percent, which was around USD 10.5 billion. This aid was mainly spent on military defense, reconstruction, food, medical supplies, clothing, materials for light industries (Oda Korea 2016; Krueger 1979). An important motivation of U.S. aid flows to Korea can be explained by McKinlay and Little (1977) saying that U.S. security interest emphasized positive relations of aid with anti-communist regimes. Moreover, foreign aid from Japan had been driven by political strategies. According to Maizels and Nissanke (1984), Japan is one of the countries which intends to expand its political interest to former colonies and maintain relationship with neighbor nations as diplomatic necessity.

When it comes to the reason why the United States allocated large amount of bilateral aid to Korea, the geopolitical strategy plays a crucial role through the US aid. According to Toussaint (2014), the United States considered South Korea as an important base for a military strategic zone. Compared to other resource-rich countries, South Korea is far from natural resource or energy production. However, in terms of political relations, the Korea peninsula shares a border with China, and North Korea was controlled by the Soviet Union. With regard to geographical strategy, South Korea was essential for the United States to stop the spread of communist regimes across the East Asia, therefore, U.S. aid was governed by its desperation to control Communism in the Asia-Pacific region (Kim 2011; Toussaint 2014). Kim (2011) also mentions that due to the severe competitive tension between the Soviet Union and the United States, a desire for geopolitical strategic advantage encouraged the flow of substantial amounts of foreign aid. As <Figure 2.1> is shown that during the peak period of the Cold War around 1960s, aid also flew to South Korea at the peak was present in the graph. In addition, the U.S massive foreign aid for stabilization programs represents dominance of capitalism over the communist regime (Kim 2011) and “Korea economy was firmly embedded in the U.S. led-international capitalist system” (Ringgen 2011:10).

Figure 2.1 Net ODA Flows to South Korea, By Donor (Constant 2010 USD)



Source: cited in Marx and Jahir (2013)

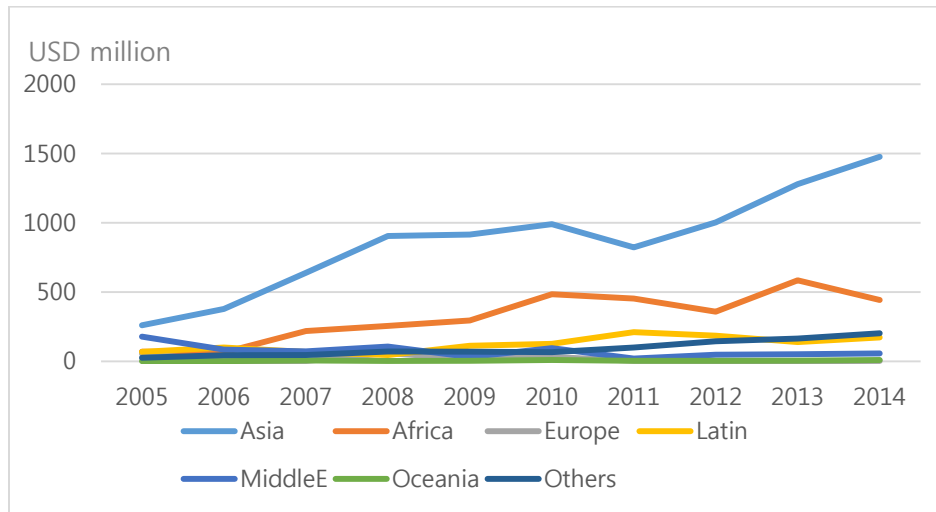
It must be appreciated that the Korean Government practiced good governance in terms of its propensity to harness aid in a non-corrupt manner. In fact, Korea utilized the aid for curbing post-war inflation, securing financial stability and making investment in new industrial facilities (Chun 2010). From Korea’s development experiences, it is expected for the government to play an important role to utilize foreign aid resources. This is because Korea also has a similar experience that “Korean government under the Park administration set out its own development path through Five-Year Economic Development Plans on which aid management can be linked to the country's planning and budget process, and thus promote policy coherence for development” (Jung 2010:3). Overall, “the government-led, outward-oriented economic strategy worked satisfactorily until recently, resulting not only in rapid growth but also in gradual eradication of absolute poverty” (Kim 1995:87).

2.2 Korea ODA Trend as a Donor

Korea has given ODA since 1963 according to KOICA (2014) and its ODA flow was officially calculated in 1987 by OECD. Total amount of ODA for the first year was estimated to be around USD 24 million and it has since increased

to USD 2.378 billion in 2014 (OECD 2016). Total ODA from 1987 to 2014 is about USD 17.7 billion. Even though this is a small outflow as compared to Scandinavian countries, in the future Korea plans to extend its ODA contribution following annual implementation plan and Mid-term ODA policy by government.

Figure 2.2 Korea ODA commitment



Source : The Export-Import Bank of Korea (2016)

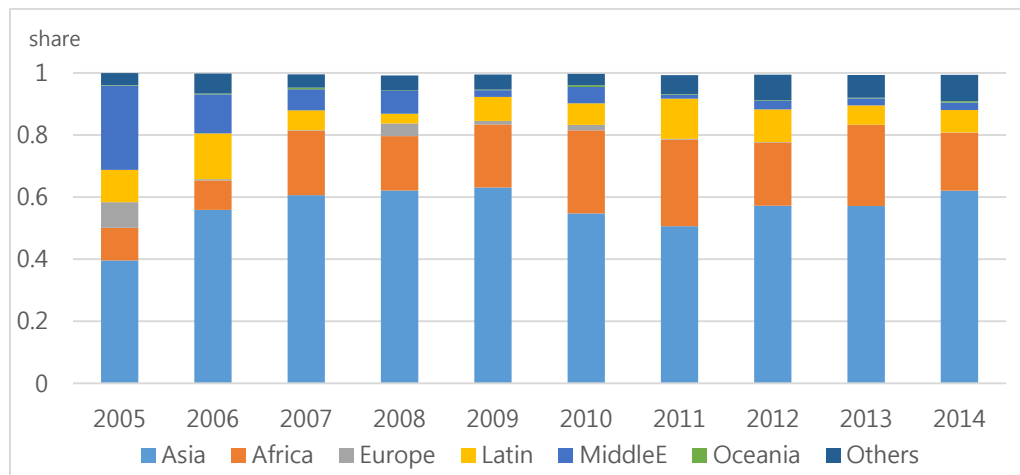
Korea's ODA flows can broadly be explained by regions to understand an aggregate ODA flow trend in recent years. As <Figure 2.2> described, Asia region is the top recipient region followed by Africa and Latin America. Even though Korea's net ODA flow has been increasing since 1990s, there is no clearly publicly articulated reason as to why Korean aid focuses on Asia's development. There may be a case of Korean ODA being motivated by geographic advantages, political relations, and economic opportunity, in order to look for a new market.

Marx and Jadir (2013) elaborate two possible driving factors of Korean ODA allocation. First, economic interests lead Korean ODA to be motivated toward relatively high income Asian countries such as Indonesia and Sri Lanka. Second, diplomatic alliance with the U.S. is more likely to influence on Korea's ODA performance. The Korea government has emphasized on the promise of ODA increase for Africa countries to contribute to elimination of poverty and human development. "As part of its commitment to join the global efforts for timely achievement of the Millennium Development Goals (MDGs), Korea has increased its allocations to for Africa where Highly Indebted Poor Countries (HIPC)s are concentrated, with an emphasis on poverty alleviation and capacity building" (ODA Korea 2016). But as it shown in <Figure 2.2>, the average

amount of ODA to Africa during recent 10 years is estimated around USD 332 million, Asia USD 866 million, Latin USD 122 million, Middle East USD 74 million, Europe USD 71 million, and Oceania USD 4 million. African partners are relatively getting less bilateral ODA in the past ten years.

Korea shares three particular ODA distribution trends over the decade. First, Korean ODA flows are highly focused on Asia. As <Figure 2.3> below shows, Asia’s regional allocation comprises 59% of Korea’s bilateral ODA, which is the largest portion during the past ten years. ODA Korea (2016) mentions that similar culture and geographical distance motivate Korea to distribute ODA to Asian countries. In addition, EDCF (2015) is responsible to contribute concessional loans to improving economic development in least developed countries. According to Export-Import Bank of Korea (Eximbank of Korea) (2016), total aid targeting Asia regions has been estimated around USD 6.63 billion in 2014 and its proportion has been 53% on average since 2002. In contrast, the percentage of aid flow to Sub-Saharan Africa continent has been less than 15%, the total estimate for 2014 is USD 3.32 billion. The top five countries getting most of foreign aid are consist of all Asian countries (EDCF 2105; ODA Korea 2016). For example, the Korean International Cooperation Agency (KOICA) gives assistance as a grant to following top five countries in 2014: Vietnam, Mongolia, Cambodia, Myanmar, and Philippine. The Economic Development Cooperation Fund (EDCF) also provides concessional loans to following top five countries in 2016: Vietnam, Bangladesh, Sri Lanka, Cambodia, and Indonesia. It accounts for 23% and 47% of each agency’s total ODA respectively (ODA Korea 2016). And it is interesting to see Vietnam as the top country in both organisations.

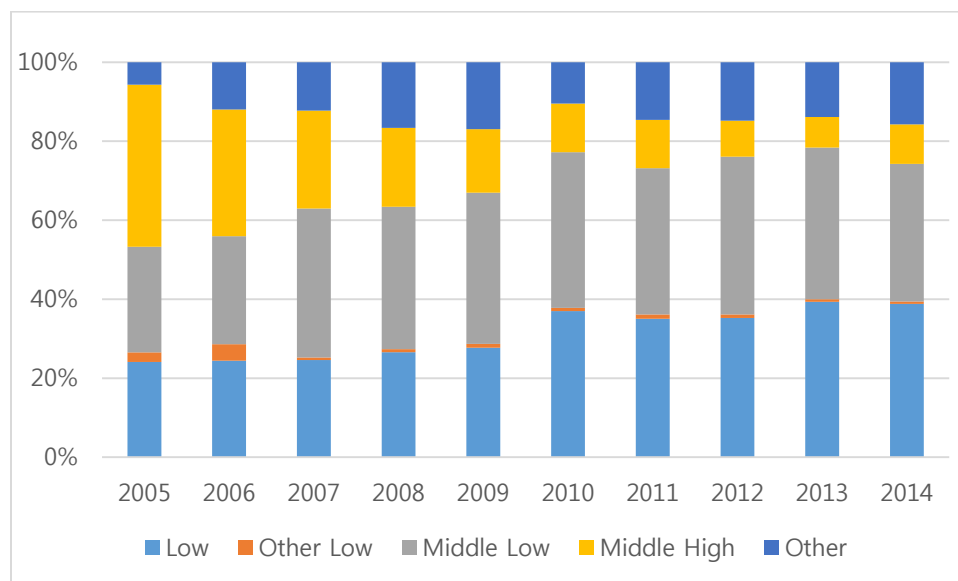
Figure 2.3 2005-14 Share ODA Commitment by regions



Source: The Export-Import Bank of Korea (2016)

A second major trend is that in the recent 10 years, the ODA trend by recipient-nations' income level shows, on average, only 32% of Korean ODA goes to low-income countries and around 50% of ODA flows to middle-low and high income countries (see Figure 2.4., ODA Korea 2016). The income group of recipient countries are divided by low, other low, low middle, and upper middle level and others³. Even though the Ministry of Government Legislation established the main objectives of Framework Act on International Development Cooperation seeks to “to reduce poverty in developing nations, improve the human rights of women and children, achieve gender equality, realize sustainable development and humanitarianism, promote economic cooperation relations with cooperation partners and pursue peace and prosperity in the international community (Ministry of Foreign Affairs, Republic of Korea 2010)”, Korea’s ODA flows are more likely to have focused on middle income countries but have constantly reduced middle-high income countries as <Figure2.4.> shows.

Figure 2.4. The level of Recipient Nations' Income



Source: The Export-Import Bank of Korea (2016)

Thirdly, the type of ODA can be divided into two categories, loans versus grants; there is no repayment required for the grants and concessional loans should have long grace periods with lower interest rate compared to the market

³ OECD (2015) publishes the DAC list of ODA recipients :
 Low income Countries : GNI per capita <\$905
 Other Low Income Countries : GNI per capita ≤ \$1,045
 Lower Middle Income Countries : \$1,046 ≤ GNI per capita ≤ \$4,125
 Upper Middle Income Countries: \$4,126 ≤ GNI per capita ≤ \$12,745

(IMF 2003). Since Korea government established two main international development agencies, Korea has committed itself to ODA: (i) Economic Development Cooperation Fund (EDCF) in 1987 to manage concessional loans, (ii) Korean International Cooperation Agency (KOICA) to manage grants in 1997. The Ministry of Strategy and Finance and the Ministry of Foreign Affairs supervise EDCF and KOICA respectively. In general circumstance of highly indebted recipient countries, “grants are increasingly preferred as an instrument of development policy” (Marx and Jadir 2013:8). In contrast, Korea “characterized by significant reliance on concessional loans” (Marx and Jadir 2013:8). Total 65 percentage of Korea aid were composed of loan in 2000 and it is larger proportion compared to an average of 22 percentages for all DAC member and only 11 percentages for EU donor (Marx and Jadir 2013).

Chapter Three

Who Give Aid for What

3.1 Theoretical Review

In this chapter, the thesis examines the driving forces of foreign aid flow, specifically, a motivation for economic and political benefits through an amicable relationship with recipient nations, so called donor's self-interest, and a motivation for humanitarianism which satisfy recipient nation's needs. While these two categories are not water-tight the idea is that the first places greater importance on aid as a tool for realizing economic and political benefits for the donor while the latter emphasizes the needs of the recipient nation. Several scholars such as Alesina and Dollar (2000), McKinlay and Little (1977), and Maizels-Nissanke (1984) have mentioned that donor's self-interest dominates aid allocation, however, in the case of Korea, which is a new emerging donor nation with a short history of giving aid and a country which has benefits from aid, it may well be that other factors motivate aid-giving.

Aid allocation could be explained by a humanitarian motivation which is willing to accomplish more recipient needs rather than donor's self-interest. "The humanitarian view considers that economic assistance is the primary rationale for aid, whereas the foreign policy view sees economic assistance as the means whereby a donor's interests can be satisfied" (McKinlay and Little, 1977:61). In fact, the main argument of humanitarian aid highlights "the economic-assistance utility, suggesting that the provision of aid is designed to promote economic development in low-income countries" (McKinlay and Little 1977:58). The humanitarian motivation is corresponding to recipient nations' needs with an aim to improve economic development and eliminate poverty. Therefore, the ODA flows should highly focus on the Least Developed Countries (LDCs) and contribute to supporting a lack of capital through the aid. McKinlay and Little (1977) also maintains the underlined hypothesis through the humanitarian aid is to emphasise that the volume of foreign aid brought into the recipient nations is proportionate to the recipient nations' major economic and welfare needs. Realistically, the humanitarian view of foreign aid is difficult to be accepted as a general idea because of disproportionate variation between level of needs by recipient nations and aid amounts, strong leverage over the aid performance held by donor nations, and a lack of aid flow through multilateral agencies (McKinlay

and Little 1977). However, Lumsdaine (1993) asserts that the humanitarian principle has primarily driven aid allocation from donor nations and “foreign aid cannot be accounted for on the basis of the economic and political interest of the donor countries alone (1993: 30)” He maintains one reason why humanitarian aid is essential rationale for aid is that net aid has increased more than net investment by multi-national companies in developing countries annually since 1950s, moreover, the amount of aid has surpassed all foreign private investment and loan combined to developing countries (Lumsdaine 1993).

On the other hand, aid allocation also could be driven more by a donor’s self-interest which brings an advantage through foreign aid as a contribution rather than satisfying recipient nations’ needs. According to Alesina and Dollar (2000), McKinlay and Little (1977), and Maizels-Nissanke (1984), foreign aid flows are mostly followed by donor’s advantageous strategies which are ranged from political and economic benefits. Alesina and Dollar (2000:55) mentions that donor’s interest explains more of “distribution of aid than the political institutions or economic policy of recipients”. Aid allocation has been strongly estimated with high correlation of donor’s foreign policy interest and it explains that foreign aid could be utilised to support diplomatic interests of the donor (McKinlay and Little 1977). In fact, the Marshall Plan, as the initial form of modern aid, is also considered “to satisfy certain foreign policy interests of the donor was recognised (McKinlay and Little 1977:61)”. In order to explain aid allocation, McKinlay and Little (1977) and Maizels and Nissanke (1984) examine the role of ‘recipient need’ and ‘donor interest’ (RN-DI) as two main modelling indicators. McKinlay and Little’s (1977) empirical analysis finds support for the foreign policy model. Maizels and Nissanke (1984: 891) also supports their conclusion and write “bilateral aid allocations are made largely or solely in support of donors’ perceived foreign economic, political and security interests”, but multilateral aid is more likely to respond recipient need.

3.2 Empirical Reviews

Allocation of foreign aid can be explained by different perspectives indicating a variety of strategies and motivations. The donor nations’ self-interest is generally accepted to explain a foreign aid motivation, but it is not necessary to become only absolute conditions of driving forces to developing countries. In addition, Lumsdaine (1993) proves that the donor nations with continuing and

strong aid programme focus on recipient nations' domestic social programmes rather than donor's economic or political interest value. Therefore, there are several possible primary rationales for aid allocation from the high-income countries to the low-income countries which includes humanitarian motives and economic-political benefits. For example, humanitarian aid has been deliberated by mainly Nordic European nations such as Denmark, Finland, Norway, and Sweden to target low income level countries, good institutions, and openness, moreover, Nordic countries has shown similar patterns of aid allocation with the highest elasticity of aid to poverty (Alesina and Dollar 2000; Berthelemy and Tichit 2004). Lumsdaine (1993) have mentioned that foreign aid has been motivated by humanitarian purposes with more significant impact than any other factors and it is difficult to explain steady commitment aid only by donor nations' self-interest such as economic and political strategies. Therefore, humanitarian reason is the main factors which makes a continuity of aid since 1950s till today. He maintains that "real bases of support lay in humanitarian and egalitarian concern in the donor countries. Such concern secure basis for world peace and prosperity in the long run lay in providing all states with a change to make progress toward a better life" (1993:69). In this regard, Thiele (2007) examines whether donor drive their aid to achieve the MDGs but aid does not target the needs of developing countries except some specific goals such as HIV/AIDS in regard to MDGs indicators. In general, "most notably primary education, there is a considerable gap between donor rhetoric and actual aid allocation (Thiele 2007:622)".

In contrast of humanitarian motivation, dominant aid theory has proven empirical researches saying foreign aid is more likely to get allocated by donor's self-interest such as trade, FDI, and political alliance. According to Kemp and Kojima (1985), foreign aid has a strong link with trade. They maintain that donors usually transfer financial resources, that is, aid and oblige recipient governments to spend more on donor's trade goods and thereby foreign aid plays a role in donor trade strategy (Kemp and Kojima 1985). Morrissey (1993) also explains that donor's economic interests rather than recipient needs have strongly motivated foreign aid to developing countries in order to protect and support their trade policy. He goes on to argue that donor nations are looking for a chance to enter frontier markets and expand trade by giving more aid. According to Lahiri and Raimondos (1995:313), foreign aid is used as a trade-promotion strategy to increase export and "donor countries may wish to mitigate the trade barriers by linking aid to the relaxation of barriers" such as tariffs and quotas. Younas (2008) also mentions that aid might be offered as a compensation to developing countries for supporting imports and getting rid of trade restrictions. He goes on to argue that OECD members are more likely to allocate larger aid to recipients who

import capital goods. Moreover, “donors can influence recipients to get preferential treatment on the goods imported from them without entering a formal trade agreement” (Younas 2008:662).

In addition to trade, foreign direct investment (FDI) could may also determine allocation of foreign aid. For instance, Wang and Balasubramanyam (2011:721), find that “aid has a positive impact on inflows of FDI”. Their analysis, which is a based on comparing 58 provinces in Vietnam shows that those provinces that receive foreign aid are also the same provinces that receive FDI. The link between aid and FDI may be explained by two reasons. First, foreign companies prefer to invest where aid has promoted infrastructure and labour skills. Second, donor nations “may have tied aid to specific projects which facilitate the operations of the firms from their countries which invest in Vietnam (Wang and Balasubramanyam 2011:736)”. This implicitly points out that comparatively richer regions are more likely to receive higher volumes of aid and FDI. Moreover, Zhang (2004) examines the donor commercial interest model and shows “a positive correlation between aid allocation and the distribution of FDI (Zhang 2004:700)”. He shows that FDI strongly focuses on the “economic sectors with high and quick returns, such as manufacturing and real estate. However, FDI cannot yield profits if the necessary economic infrastructure is unavailable” (2004:700) Therefore, donor nations would give more aid targeting their commercial interest while FDI is also attracted into same regions.

Donor nations are likely to distribute more aid in an attempt to manipulate and maintain a political grip in recipient nations. Alesina and Dollar (2000) and Berthelemy and Tichit (2004) use empirical research which substantiate the bilateral aid flow has been more likely to get allocated to the former colony with socialist regime. This demonstrates that the provision of foreign aid is compiled by the strategic and political concerns. Notably, France’s pattern of aid is strongly related with former colonial experiences by political alliances irrespective of other factors such as a level of poverty or politico-economic regimes (Alesina and Dollar 2000; Berthelemy and Tichit 2004). Lumsdaine (1993) also mentions that some DAC donors such as Britain, France, Belgium, the Netherlands, and Italy continue to have “colonial connections hat affected their aid giving … their aid involvement with their former colonies, at four time” (Lumsdaine 1993:82) from 1960 to 1989. He asserts that even though it is hard to find a clear evidence to link between aid and colonial power among other donors, exceptionally, France has a strong focus on their former colonies with a very obvious motivation to maintain high influence over the colonial regions.

In addition, political and strategic motivation such as a UN vote and national security could be considered as important and highly significant than

recipient nations' policy (Alesina and Dollar 2000). In case of Japan and U.S, there are several motivations which changed over time but, except commercial interest, aid expenditures were used to keep friendly diplomatic relations. There is evidence as shown by Alesina and Dollar (2000:40) that "friends of Japan receive more aid" which means that there is a certain amount of aid is given more to a country that frequently voted with Japan in the UN. U.S also has shown significant and large coefficient of US friend in UN international relations. For example, "a one standard deviation increase in voting correlation is associated with a 78% increase in U.S. aid, and a 345% increase in Japanese aid" (2000:46). The relationship between UN vote pattern and aid allocation implicitly show that donor nations are using aid to "buy political support in the UN" and a favourable UN vote support indicates political alliances and this relationship significantly influences aid flows.

Moreover, in case of the United States, McKinlay and Little (1997) explains that the most important driving force of United States' aid programme through various international institutions had been motivated by U.S self-interest which is mainly asserted as an international power competition between Soviet Unions and U.S. (McKinlay and Little 1977). To against the spread of communism, U.S. maintained enormous financial supports to recipient nations because "the United States has become progressively aware that many of its key interests-such as security, trade, and investment-are closely tied to the economic well-being of the low-income countries" (McKinlay and Little 1977:60). Recently, Egypt and Israel have received economic and political support from the United States (Alesina and Dollar 2000). Lumsdaine (1993:102) asserts that "a half to a third of U.S. bilateral aid was given as Security Supporting Assistance, allocated on the basis not of recipient needs but of U.S. strategic objectives". Indeed, they prove that Egypt and Israel are substantially significant and have a high coefficient to determine U.S. aid allocation in order to deal with "the conflict in the Middle East" (Alesina and Dollar 2000:47) which secure U.S. geopolitical relations and anti-terrorism (Berthelemy and Tichit 2004). Similarly, Japan also has used aid as a national security objective to support in alliance with U.S. by giving more aid where U.S. aid has been provided. Lumsdaine (1993) mentions that Japanese aid to South Vietnam during wartime and aid to Egypt may be considered "as a way of building good relations with the United States, and of mitigating various U.S. annoyances by furthering U.S. goals and policies" (1993:88).

Chapter Four

Data descriptions ODA Trends and Determinants

4.1 Data and justification

This thesis uses a panel data set of ODA commitments by Korea from 1995 to 2014 to will analyse Korean ODA flows to 136 recipient countries.⁴ While Korea has provided ODA to 155 countries over 20 years at least once, for 19 recipients the data are incomplete for more than 10 years, hence the focus is on 136 countries. In addition, ODA commitments rather than actual disbursements are used to examine how much aid has been allocated by the Korean government rather than recipient nations' actual use of aid. This is appropriate as the aim is to identify the effect of various factors on the aid commitment the Korean government to recipient countries because actual distribution could be decided by recipient nations' performance regardless of Korea government motivations.

Korea's aid distribution trend reflects Korea's interest in developing countries. Aid policy as articulated by KOICA and EDCF highlights the recipient countries' needs then aid allocation should be linked to variables such as low GNI, Human Development Index (HDI) or high infant mortality rather than variables which capture commercial links such as FDI or trade (Sohn 2011). Therefore, this thesis will consider the link between Korean aid and two main factors: economic benefits and humanitarian aid. In addition, political relations along with U.S. for supporting Iraq after reformation of democratic constitution by referendum will be explained in following chapter.

First, economic benefits to Korean may play an important role in explaining Korea's aid allocation as it might help Korea to secure beneficial trade partner status, reduce barriers to entering a new market, and increase low-cost manufacturing industry in abroad (Maizels and Nissanke 1984). This may be an important motivation as Korea has been one of the top export-leading country and aid might be followed as a strategy to expand imports and reduce restrictions related to trade (Younas 2008). In addition, based on Korea's own experiences,

⁴ Actually, OECD has conducted data collection of Korean ODA since 1987 but ODA data is not consistent till 1995 because of data omission in 1994. Not only because of data consistency from OECD but also the amount of ODA committed in 1995 is five time larger compared to an average of past eight years (OECD 2016).

foreign aid loans such as from USAID were used to support Korea's heavy and chemical industry and expand shipyards and steel plants construction, which led to the success of Korea's national economic development plan (Park 1990). Moreover, FDI flows and aid flow may also be correlated as there may be a d a positive relation between countries in terms of that Korean enterprises can expand sales network and increase low-cost oversea manufacturing facility (Herzer 2010). According to Herzer (2010:476), "outward FDI enables firms to enter new markets, to import intermediate goods from foreign affiliates at lower costs, and to access foreign technology". Therefore, "increased competitiveness of the investing companies and associated productivity spillovers to local firms" bring more economy benefits from outward FDI to the whole national growth (Herzer 2010:476).

Second, aid may be driven by humanitarian purposes and by a desire to reduce poverty and achieve the sustainable development goals as has been discussed through the G20 and Busan aid effectiveness conferences in 2011. Moreover, KOICA explicitly states that its aid allocation policy is driven by humanitarian purposes. For example, KOICA has a long term policy saying that KOICA "contribute(s) to addressing global development issues by pursuing global harmony and facilitating the sustainable socio-economic development of our partner countries, aiming to reduce poverty and improve the quality of life in developing countries" (KOICA 2016).

Third, political strategy and foreign policy of Korea might have an influence on aid allocation to maintain Korea's political interest and facilitate the exercise as strong economy country. For example, on the report of evaluation and policy suggestions after the 2010 G20 Seoul summit, Korean Development Institute (2011) evaluates that Korea's Development Aid policy improve social-economic cooperation by establishing trade and foreign policy. Moreover, Korea also has political supportive ally such as U.S. in terms of national security by U.S. Armed Force in Korea Peninsula and they are aligned with diplomatic strategy together such as Korea decided to support their military force for the United States' Iraq invasion in 2003 and Afghanistan in 2001. This political strategy will be captured by a sudden increase of ODA to Iraq from 2005 in following chapter 5.

Therefore, if the humanitarian motivation dominates aid-allocation by Korea, then variables such as GNI per capita, HDI, and infant mortality rates should play a role in influencing aid allocation. Indeed, GNI per capita is a measurement of income per person and could be used to estimate the purchasing power of individuals and by extension households. Low GNI is akin to a poor

economy that needs economic stimulus or a so called big push as argued by Rostow (1990). HDI shows a need for investments in social indicators like health and education, whilst life expectancy is a potent measurement of healthcare in a country. If the economic strategy outweighs aid-allocation to recipient nations by Korea, several economy indicators such as FDI outward, FDI inward, export and import should be significant on Korea aid distribution. In case of FDI, FDI outward might capture investment friendly environment and presence of Korea's enterprise interest in low cost facility in abroad. In addition, since good governance has been emphasized by Busan 4th High Level Forum on Aid Effectiveness held in 2011 in Korea to increase aid effectiveness, World Governance Indicators such as Political Stability and Control of Corruption might observe whether Korea follows specific social indicators. In addition, the mortality rate from the World Bank has been used as one of indicator to measure social-economic development status in a country (World Bank 2016). Van Staveren (2013) also examines five different gender indices and show a decrease of mortality rate is positively related with gender equality and its significant relation with key policy variables saying "more gender equality goes together with less mortality among children under one-year-old per 1,000 live births" (Van Staveren 2013:364). In other words, the infant mortality rate examines women's health, economic, and social status in a country which can be explained as humanitarian motivation.

4.2 Empirical Specification

To examine the determinants of Korea's ODA allocation, various ODA driving factors should be considered in terms of humanitarian, political, and economic reasons. To examine the importance of humanitarian goals, Gross National Income (GNI) index, Human Development Index (HDI), and infant mortality rate will be used. To capture economic reasons (from the perspective of the donor) trade volume between countries will be used to capture how trade patterns of some countries may or may not affect their access to ODA and understand Korea's ODA flow behaviors whether it pursues to secure export markets. In addition, FDI flows will be used as FDI captures economic opportunity in frontier markets which might play an important role in determining Korea's ODA distribution. Moreover, political relation might give the incentive to increase Korea's ODA allocation. For example, the recipient's government system might be crucial to receive larger volumes of Korea's ODA. Therefore, democracy would explain the possibility that Korea gives aid to countries on the grounds of

democratization principles as part of a political conditionality aim. This could be measure by the Worldwide Governance Indicators which are control of corruption and political stability.

To examine the influence of the various factors discussed above, empirical models with: :1) share of ODA commitment 2) amount of ODA commitments as dependent variables will be used to analyse and identify the factors that drive Korean ODA. The empirical analysis is based on panel data covering a 20 year period and hence a country- fixed effect model will be used to control for each country’s time-fixed characteristics. The fixed effect model is⁵:

$$Aid_{it} = \beta_1 GNI_{it} + \beta_2 FDI\ inward_{it} + \beta_3 FDI\ outward_{it} + \beta_4 Ln(Export) + \beta_5 Ln(Import) + \beta_6 Stability_{it} + \beta_7 Corruption_{it} + \beta_8 IMR_{it} + a_i + u_{it}$$

Where

Aid	= Share of ODA commitment or Amount of ODA commitment by Korea to Recipient Country i, year t.
GNI	= Gross National Income
FDI inward	= Foreign Direct Investment Inward
FDI outward	= Foreign Direct Investment Outward
Ln(Export)	= Log of Export Volume
Ln(Import)	= Log of Import Volume
Stability	= Political Stability
Control of Corruption	= Political Rights/Power exercise by elites
IMR	= Infant Mortality Rate (per 1,000 live births)
t	= year
u	= Unobserved variables

4.3. Variable Explanation

⁵ Since the model is fixed effect regression, to estimate time-invariant characteristics of recipient nations are unique and unobserved characteristics might not be correlated with other error terms, the Hausman test result is following:

$$Prob > \chi^2 = 0.076$$

According to Wooldridge (2006), Hausman test is under the hypothesis which $Cov(x_{itj}, a_i) = 0$ should be accepted. Therefore, unless Hausman test rejects, random effect estimation would be appropriate rather than fixed effect. However, the results above rejects Hausman test at 7% level, which is still appropriate for fixed effect model “to remove the unobserved effect” which might have correlated “with any time-constant explanatory variables (Wooldridge 2006:486)”

<Table 4.1> explains the data source and definition of the dependent and independent variables.

Table 4.1 List of variables with definition and units

Variables	Data Source	Definition	Unit
Dependent Variable			
Share of ODA	OECD (2016) and author	Share ODA among Korean ODA recipient nations. ODA includes concessional loans and grants.	Percentage
Amount of ODA	OECD (2016) and author	Commitment of ODA to Korean ODA recipient nations. ODA includes concessional loans and grants.	USD million is estimated at current USD by OECD.
Independent Variables			
GNI per capita	World Bank (2016)	Gross National Income (GNI) per capita based on purchasing power parity (PPP) which is converted to international dollars and divided into population.	It is deflated by the current PPP of each year
Human Development Index (HDI)	United Nations Development Programme (2016)	The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. Higher HDI refers to longer life expectancy, higher education, and higher income per capita.	0-1
FDI inward	OECD (2016), UNCTAD (2014), Ministry of Trade, Industry and Energy of Korea (2016)	An inward investment in the reporting economy made by non-residence investors to acquire lasting interest in enterprises operating in a country (Korea).	USD Millions
FDI outward	OECD (2016), UNCTAD (2014), Export-Import Bank of Korea (2016)	An outward investment abroad made by resident investors (of Korea) to acquire lasting interest in enterprises operating outside of the economy.	USD Millions
Log of trade export	Korea International Trade Association (2016)	Logarithm of amount of export	USD thousands
Log of trade import	Korea International Trade Association (2016)	Logarithm of amount of import	USD thousands
Worldwide Governance Indicators (WGI) (1) - Political Stability and absent of violence	World Bank (2016)	Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism.	Estimate of governance (ranges from approximately - 2.5 (weak) to 2.5 (strong) governance performance)
Worldwide Governance Indicators (WGI) (2) - Control of Corruption	World Bank (2016)	Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.	Estimate of governance (ranges from approximately - 2.5 (weak) to 2.5 (strong) governance performance)

Variables	Data Source	Definition	Unit
Mortality Rate	World Bank (2016)	Infant mortality rate is the number of infants dying before reaching one year of age, per 1,000 live births in a given year.	

<Table 4.2> provides means, standard deviations, value of minimum and maximum, and number of observations for each of the variables used in the analysis.

Table 4.2 Descriptive statistics

Variables	Obs.	Mean	Std Dev	Min	Max
Dependent Variable					
Share of ODA	2344	0.798	2.696	0.0004	36.491
Amount of ODA	2344	7.007	25.582	.01	308.7
Independent Variables					
Humanitarian Aid Indicator					
GNI per capita	2575	6601.421	6904.655	260	53340
Human Development Index (HDI)	2215	0.613	0.152	.118	.903
Mortality Rate	2720	43.148	30.325	3.5	153.4
Economy Strategy Indicators					
FDI inward	2473	4.006	47.180	-88.473	1337.200
FDI outward	2565	22.123	107.241	-348.526	1593.000
Log of trade export	2608	10.563	2.746	0.693	18.798
Log of trade import	2513	9.114	3.750	0	18.316
Other Social Indicators					
Worldwide Governance Indicators (WGI) (1) - Political Stability and absent of violence	2139	-0.375	0.920	-3.18	1.54
Worldwide Governance Indicators (WGI) (2) - Control of Corruption	2145	-0.473	0.634	-2.06	1.76
Year	2720	2004.5	5.767342	1995	2014

Among 136 Korean ODA recipients, average percentage of share for Korean ODA is around 0.8% and maximum share of ODA is quite distinguished

from minimum shared value; 36.49% and 0.0004% respectively. Also, amount of ODA commitment is ranged from USD 10 thousand to USD 308 million which show a huge different amount of aid between countries.

In terms of humanitarian motivation standards, GNI per capita describes the recipient nations' level of income and it captures economic performance of those nations. GNI per capital also shows a huge variation from 260 to 53,340 USD with purchasing power parity. High income level group of recipient nations indicate that Korea is interested in giving aid to countries where poverty reduction is not actual objective. In addition, HDI represents level of human development related to income, education and health. HDI average is around 0.613 between recipient nations. Moreover, average infant mortality rate indicates that 43 number of infant death per 1,000 in a year and it is a little bit higher than world average of 35.25 during recent 20 years.

As an economic strategic motivation indicator, FDI and volume of trade demonstrate a financial and trade flow between Korea and recipient countries. An average of FDI outward is estimated at USD 22 million while FDI inward is only around USD 4 million. Interestingly, an average volume of trade is similar between import and export, around USD 10 million. And a value of maximum trade volume for import and export also shows 18 USD millions approximately for both.

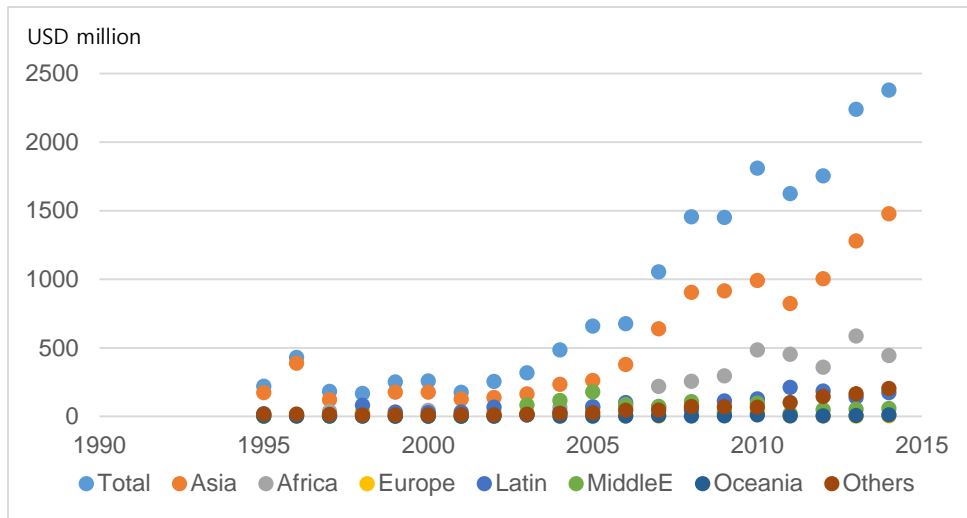
In order to estimate other social indicators, the World Governance Indicators (WGI) shows whether Korea government is willing to give more aid to democratic countries. In terms of operating foreign financial resources by recipient government, among six dimensions of governance, control of corruption and political stability are directly related to performance of foreign aid. This indicator is approximately ranged from -2.5 to 2.5. Averages of WGI for political stability and corruption are estimated at -0.0375 and -0.0475 respectively.

In general, there is quite large variation between recipient nations in terms of share of ODA, economic performance, and social development due to long period of observation. However, it will help to understand general structure of aid allocation from Korea. Nevertheless, to measure which factors drive more share and amount of aid from Korea, this paper focuses on outweighed coefficient and its significance.

4.4 Results

Empirical outcomes followed by fixed effect model specification will describe regional allocation first and focus on top ten countries. It will help this paper become more comprehensible from a broader ODA allocation trend to a specific country case. Moreover, amount of ODA soared up in 2007 till USD 1 billion as <Figure 4.1> shown. It is almost 1.5 times bigger amount of ODA compared to a year of 2006. In addition, an average amount value of ODA between 1995 and 2006 is around USD 338 million but, from 2007 to 2014, its average amount of ODA is estimated at USD 1 billion. It is three times larger, therefore, it will examine two different periods based on a sudden change of year in 2007.

Figure 4.1 ODA Commitment by regions



Source : OECD (2016)

<Table 4.3> shows results from a fixed effects model. The dependent variable is the share or amount of ODA commitment to recipient regions. The Gross National Income per capita (GNI) has a significantly negative impact on aid received. An increase of GNI per capita by US\$100 reduces share of aid provided by Korea by 0.01% or reduce USD 100 thousand amount of ODA commitment. Compared to two periods before and after 2007, GNI per capita has not changed its influence on share of ODA in both periods as (5) and (6) shows in the <Table 4.3>. This address KOICA's main principle of poverty reduction and economic growth for least developed countries.

FDI outward has a positive sign and is highly significant in equations (1), (2), (3), (4) and (6). If a recipient country attracts Korea's FDI flows, those countries are more likely to get aid commitment from Korea. It does not look like

important between 1995 and 2006 but later on and total effect shows that it has influence on the share of aid commitment. Moreover, log of export indicator shows a consistent positive and significant sign in all equations. In other words, the recipient countries where Korea export more are highly likely to receive foreign aid by Korea.

The social policy variables such as infant mortality rate under one year and Human Development Index (HDI) has negative signs. In equation (3) and (4), the HDI replaces GNI as an alternative to measure the level of human development. This is because the HDI is composed of life expectancy, education, and income per capita and it should be highly correlated with GNI (UNDP 2016). It reveals that higher HDI countries are getting less aid in terms of share and amount. Also, an increase of infant mortality rate of 1 out of 1,000 corresponds to a decrease of Korean aid received by 0.7% under equation (1). It can be explained by saying that Korean government actually has not allocated aid to regions by humanitarian motivation. Since higher infant mortality receive less aid from Korea, it is difficult to mention that Humanitarian motivation mainly drives Korea ODA allocation.

In addition, coefficient of regions demonstrates consistent significant results on Asia regions. Asia regions are composed of Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Cambodia, China, Georgia, India, Indonesia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Tajikistan, Thailand, Timor-Leste, Turkmenistan, Uzbekistan, and Viet Nam. Over twenty years, the share of Asia in Korean aid is 44% greater and more USD 16 million aid than the share of Oceania. The explanatory variable of Asia regions explicitly high and significant compared to any other regions. In terms of geographical closeness and cultural similarity, it might have effect on the ODA flows (KOICA 2016). In addition, Middle East regions also shows higher share of ODA at 77% and more USD 15 million compared to Oceania regions which is mainly driven by ODA to Iraq.

Overall, Korea aid has increased to the lower income countries and lower HDI groups. However, the economic relations such as FDI outward from Korea to recipient nations and export to recipient nations seem more significant in terms of magnitude of impact of other variables. In other words, if export from Korea has been given to the regions, those regions have more possibilities of receiving aid from Korea.

Table 4.3 ODA Commitments to recipient nations

	Share	Amount	Share	Amount	Share	Share
	1995-2014	1995-2014	1995-2014	1995-2014	1995-2006	2007-2014
	(1)	(2)	(3)	(4)	(5)	(6)
GNI per capita	-0.0001*** (0.00)	-0.001*** (0.00)			-0.0001*** (0.00)	-0.0001*** (0.00)
HDI			-1.8765** (0.898)	-50.148*** (10.318)		
FDI Inward	-0.006*** (0.002)	-0.072*** (0.023)	-0.0085*** (0.003)	-0.107*** (0.03)	-0.003 (0.002)	-0.018*** (0.004)
FDI Outward	0.0046*** (0.00)	0.088*** (0.005)	0.0045*** (0.00)	0.087*** (0.006)	0.004 (0.003)	0.005*** (0.00)
Ln(Export)	0.1677*** (0.039)	1.525*** (0.432)	0.2059*** (0.044)	2.016*** (0.508)	0.216*** (0.057)	0.137** (0.053)
Ln(Import)	0.0012031 (0.026)	0.105 (0.285)	-0.0481* (0.028)	-0.338 (0.322)	-0.031 (0.036)	0.050 (0.037)
Political Stability	0.203** (0.096)	2.725*** (1.06)	0.1047 (0.103)	1.974* (1.18)	-0.052 (0.144)	0.418*** (0.126)
Corruption	-0.3571*** (0.135)	-4.606*** (1.49)	-0.2961** (0.143)	-3.427** (1.645)	-0.44** (0.207)	-0.243 (0.176)
Mortality Rate	-0.007** (0.003)	-0.142*** (0.037)	-0.0025 (0.004)	-0.188*** (0.05)	-0.007 (0.005)	-0.007 0.0051623
Europe	1.0324*** (0.39)	4.727 (4.295)	0.5279 (0.432)	0.868 (4.961)	1.323** (0.604)	0.622 (0.495)
Asia	1.4476*** (0.29)	16.129*** (3.193)	0.9927*** (0.338)	12.985*** (3.888)	0.958** (0.461)	1.911*** (0.362)
Middle East	1.7751*** (0.385)	15.956*** (4.238)	0.2172 (0.398)	1.991 (4.572)	1.561*** (0.593)	1.565*** (0.512)
Latin America	0.4585422	3.093	-0.0797	-1.144	0.245	0.501

	(0.282)	(3.108)	(0.33)	(3.798)	(0.448)	(0.355)
Africa	0.3818342	8.053***	-0.2628	0.023	0.002	0.731**
	(0.285)	(3.141)	(0.331)	(3.808)	(0.463)	(0.348)
cons	-0.975793	-8.139*	-0.1377	21.78**	-1.154*	-1.087**
	(0.391)	(4.304)	(0.7441)	(8.554)	(0.607)	(0.50)
N. of obs	1519	1519	1377	1377	802	717

Notes: Standard errors in parenthesis. Stars denote significance levels at * p<0.1, **p<0.05, ***p<0.01

Furthermore, <Table 4.4> shows the results of the amount of Korea ODA commitment and shares of ODA between individual recipient countries. <Appendix 1> provides an entire list of countries using country specification at the end of paper, but, in this chapter, the <Table 4.4> only shows top ten country specification due to limited place to describe. Interestingly, the FDI outward is still highly significant at 1% level in both cases and GNI per capital also shows statistical significant in equations of absolute amount of ODA and shares of ODA both, but its magnitude of the impact of GNI is quite small; the increase of 100 USD and 1% share of ODA reduces Korean aid allocation by 0.01% and 0.08% respectively. In other words, the more one million FDI flows from the Korea to the recipient nations, the more chance the destination country get larger share of aid by 0.26%. In terms of individual countries fixed effect, Vietnam is the top recipient nation in both models. Moreover, the coefficient of Vietnam is much larger than other variables; 8% more share of ODA and 71% more amount of ODA. In addition, Bangladesh and Cambodia are also placed within the fifth position in both model.

Overall, bilateral trade and financial transaction of investment has a strong and significantly positive effect on Korea ODA allocation to a country. Social policy indicator such as GNI and mortality rate also show its significance in equation (2), <Table 4.4>, however, it is not statistical significant anymore when it comes to share of ODA in equation (1), <Table 4.4>.

Table 4.4 Results of cross-country regression for bilateral aid commitment of recipient countries (top 10 nations)

Share of ODA	Million USD of ODA
1995-2014	1995-2014

	(1)		(2)
GNI per capita	-0.0001 (0.000)	GNI per capita	-0.0008** (0.0003)
FDI Inward	-0.0010 (0.0021)	FDI Inward	0.0076 (0.0228)
FDI Outward	0.0026*** (0.0005)	FDI Outward	0.0719*** (0.0058)
Ln(Export)	0.1374 (0.0869)	Ln(Export)	2.0845** (0.9303)
Ln(Import)	-0.0004 (0.0369)	Ln(Import)	0.8464** (0.3952)
Political Stability	-0.2124 (0.1584)	Political Stability	-0.4757 (1.695)
Corruption	-0.1727 (0.2695)	Corruption	-0.3337 (2.884)
Mortality Rate	-0.0109 (0.007)	Mortality Rate	-0.3737*** (0.0754)
Vietnam	8.5572*** (2.1831)	Vietnam	71.6904*** (23.3634)
Iraq	4.5473** (2.147)	Bangladesh	48.4987 (23.1264)
Bangladesh	4.4778** (2.1609)	Cambodia	35.5684 (22.7377)
Cambodia	3.8233 (2.1246)	Sierra Leone	33.0485 (23.6112)
Oman	3.8168* (2.2804)	Angola	30.9662 (24.455)
Bahrain	3.6947 (2.3963)	Tanzania	26.0737 (22.5176)
Sri Lanka	3.6119* (2.0962)	Mozambique	25.9695 (22.7904)
Philippines	3.5559 (2.1722)	Afghanistan	25.9241 (23.4471)
Croatia	3.4190 (2.1297)	Chad	23.4673 (24.3368)
Indonesia	2.7981 (2.1973)	Mali	23.1069 (22.8623)

Nm of Obs 1519 1519

Notes: Standard errors in parenthesis. Stars denote significance levels at * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

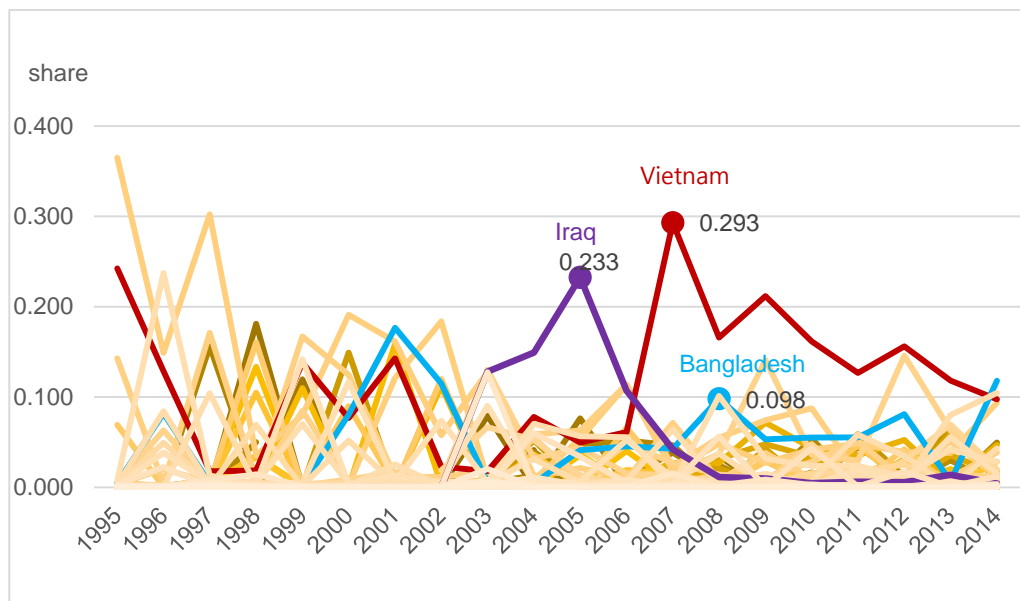
Chapter Five

Focused Countries and Reasons

5.1. Relationship with Focused Countries

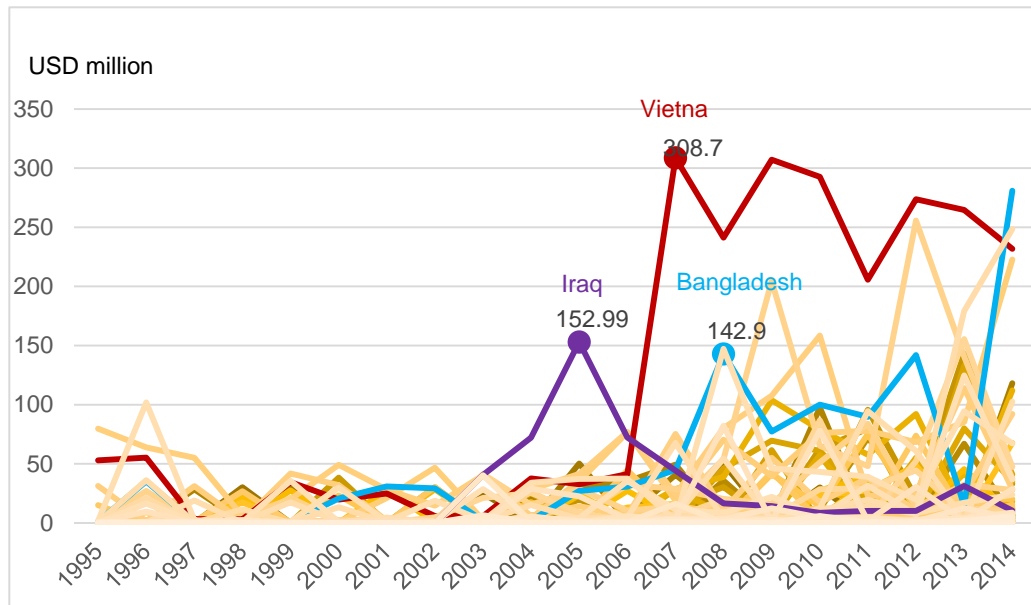
Following the results in the previous empirical outcomes in chapter 4, this research tries to find a concrete reason why some recipient nations have received more Korean aid rather than other countries. There are several countries where Korean aid amount and share of aid has been distinctively increased in specific year. Since Vietnam, Bangladesh, and Iraq has shown a striking increase in both of amount and share of ODA in specific year as <Figure 5.1> and <Figure 5.2> given, the paper examines what factors drive this change in these three countries and year. In fact, the empirical outcome of previous chapter proves that Vietnam, Bangladesh, and Iraq show not only higher coefficient of sharing Korean ODA but also indicate statistically significant. Moreover, Vietnam shows statistically significant again when it comes to allocation of ODA amount. Mainly, an increase of economic activity between countries and a favorable political relation explain a link between aid and focused countries.

Figure 5.1 Share of Korean ODA, 1995-2014



Source : OECD (2016)

Figure 5.2 ODA commitment of Korean ODA, 1995-2014



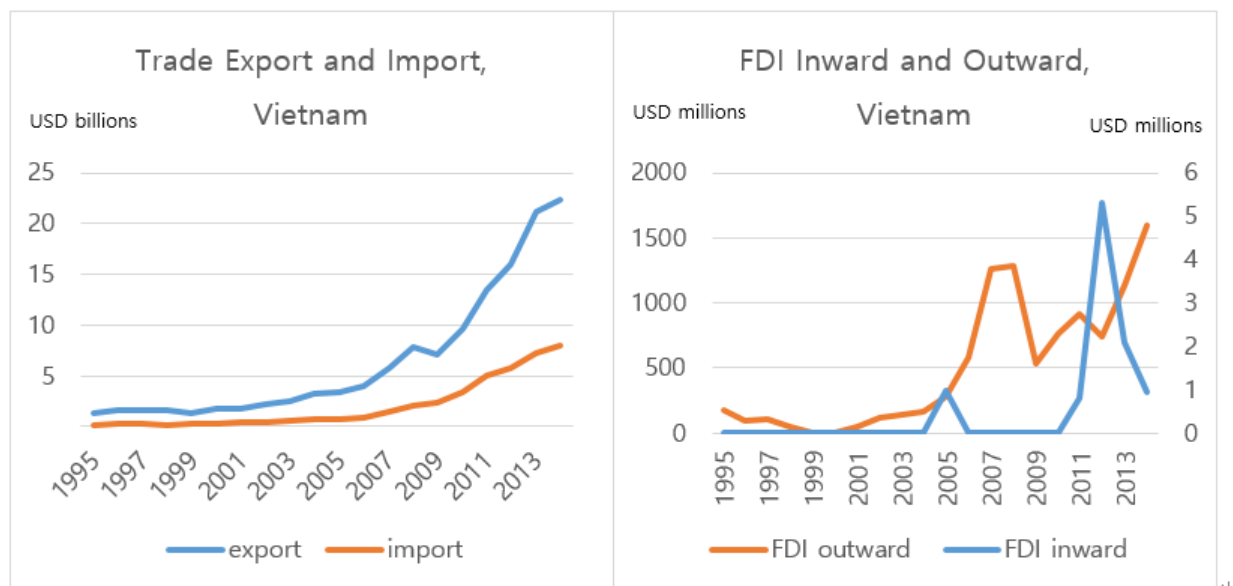
Source : OECD (2016)

Interestingly, the amount and share of Korean aid to Vietnam has shown conspicuous expansion since 2007. In terms of ODA commitment from 1995 to 2006, it has been estimated at USD 26 million on average in a year. However, from 2007 to 2014, an average of ODA commitment to Vietnam has been estimated at USD 265 million in a year. An average of ODA commitment in a year between 2007 and 2014 is ten times larger compared to previous ODA commitment from 1995 to 2006. One specific change of ODA determinants in 2007 is that Vietnam joined the World Trade Organization (WTO) and Vietnam “experienced a surge in foreign direct investment. FDI inflows and the total value of licensed projects peaked in 2008 (WTO 2013:8)”. According to Tumbarello (2007) and Cling et al. (2009), after joining WTO, Vietnam can foster their economy to integrate global market as its restriction on trade would be substantially decreased and lead Vietnamese economic growth.

Between Korea and Vietnam, they soar up trade volumes and FDI flows after 2006. As <Figure 5.3> shown below, economic cooperation between Korea and Vietnam suddenly increased from the base year of 2007. According to WTO (2016), Vietnam became 150th member of WTO since January 2007. With 11 years of preparation to join WTO, Vietnam has committed economic reforms under the *Doi Moi* (Revolution) policy and expected to increase more “its economic, trade, and investment ties with other Members” by WTO accession (WTO 2006:1). Moreover, Vietnam’s potential market and economic growth has been estimated

with a positive view as a frontier market. According to Xuan (1995), Vietnam has strong potential to achieve its economic growth with following strategies: the normalization of diplomatic relation with U.S, geographical advantage, a large labor force with comparatively higher level of education, a variety of natural resources, and fast transformation into industrialization. In fact, 2007 Korea-Vietnam Summit agreed to promote strong economic cooperation between two countries saying they promised to increase USD 10 billion trade volume for following 5-7 years and Korea addressed to join electronic, nuclear power, new city, and iron manufacture projects (Ministry of Foreign Affairs, Republic of Korea 2007). Moreover, in 2009, Korean and Vietnam issued a joint statement mentioning that Korea would promote more investment in Vietnam and requested to participate infrastructure projects such as highway and transportation for Korean enterprises (Ministry of Foreign Affairs, Republic of Korea 2009). Also, as one of the joint agreement, Korea mentioned to sustain ODA trend, especially, to cooperate with labour-related sectors such as vocational training, employment, and industry safety health (Ministry of Foreign Affairs, Republic of Korea 2009). Consequently, more liberalized trade and investment environment between Vietnam and Korea might lead more Korean aid to Vietnam followed as economic cooperation strategy.

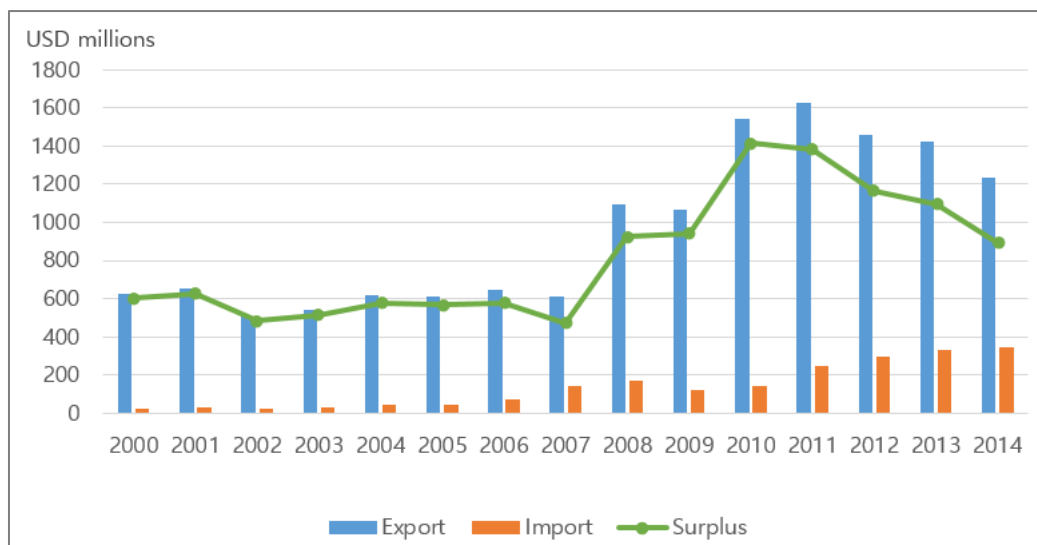
Figure 5.3 Vietnam Economy Activity with Korea



Source : OECD (2016), UNCTAD (2014), Export-Import Bank of Korea (2016), Ministry of Trade, Industry and Energy of Korea (2016)

Bangladesh’s sudden growth of amount and share of ODA in 2008 as <Figure 5.4> shown is also followed by an economic cooperation motivation as a trade surplus soared in 2008. <Figure 5.4> explains that Korea’s trade surplus reached USD 926 million in 2008 and it is twice larger compared to 2007 about USD 470 million (Korea International Trade Association (KITA) 2016). In addition, as one of the main agreements from in the Six WTO Ministerial Conference in 2005, WTO (2005) declared commitment to LDCs including Bangladesh that they “agree(d) to implement duty-free and quota-free market access for products originating from LDCs”(WTO 2005:9). Korea also increased a percentage of duty-free to 75% in 2008 and it is 41 times bigger percentage compared to 2007, which was 1.8% (Korea Institute of Public Finance (KIPF 2012). Moreover, Korea posted a trade surplus of USD 1.4 billion in 2010 since it surged from 2008 as <Figure 5.4> shown below. In fact, Bangladesh and Korea had 2010 summit in Korea, and in the joint statement, they agreed to stimulate economic cooperation such as trade, investment, transfer of technology, energy and infrastructure development (Ministry of Foreign Affairs, Republic of Korea 2010). Through the results of 2010 summit, Korea promised more expansive duty-free market access to Bangladesh products and affirmed commitment of Korea ODA, especially increasing EDCF loans (Ministry of Foreign Affairs, Republic of Korea 2010). As the final outcome of 2010 summit, they signed four MOU and one of agreement was to establish the framework of EDCF loans for the year 2010 to 2012 (Ministry of Foreign Affairs, Republic of Korea 2010). Overall results, in case of Bangladesh and Vietnam, prove that Korean government is more likely to willing to cooperate with lucrative

Figure 5.4 Korea to Bangladesh Trade Volume and Surplus



market countries and allocate aid under the condition of active economy.

Source: KITA (2016)

In case of Iraq, economic cooperation or trade performance cannot explain properly for a sudden increase of ODA share and commitment in 2005. According to KITA (2016), between 1995 and 2014, trade volume between Korea and Iraq mostly depends more on import from Iraq such as petroleum oils, oils obtained from bituminous minerals, and crude oil. But its annual trade volume is not larger than USD 300 million on annual average from 1995 to 2006 (KITA 2016). Only from a year of 2007 with reinforcements of U.S. Forces in Iraq, trade volume became USD 3.2 billion in 2007 and it recently reaches at USD 8.4 billion in 2014. Therefore, on the base year of 2005, sudden increase of ODA shared and committed as <Figure 5.1> and <Figure 5.2> present has not shown a close relationship between aid and economic performance in Iraq case. However, it is more likely to link a political strategy. After Iraq reformed democratic constitution by referendum, the Ministry of Foreign Affairs (2005) address a support from Korea for post-war construction and Iraq new democratic Constitution. According to the Ministry of Foreign Affairs (2003) Korea government sent professionals to the Coalition Provisional Authority regarding reconstruction as a key ally of the United States. In fact, Korea supported U.S. invasion of Iraq and sent a military engineers and armed forces medical services as the third largest armed forces on U.S. request to ally in 2004 (Sungshin Women's University 2006). One of objectives for dispatch of Korean armed forces to Iraq was to strengthen the solid alliance between Korea and U.S. and enhance trust of Korea government as a close ally (Sungshin Women's University 2006). Overall, Korea government promised aid to Iraq to secure political relationship with U.S. as a close ally and it might explain a reason why Korean aid flew to Iraq.

5.2. EDCF and KOICA aid allocation strategy

To examine the nature of Korea ODA system, a structured interview is conducted by EDCF and KOICA in this paper. In general, "KOICA is responsible for Korea's bilateral grant aid and technical cooperation programs while the Korea Export-Import Bank (Korea Eximbank) administers the EDCF loans" (ODA KOREA 2016). Therefore, this interview is intended to find two main Korean ODA organisation's performance in a recent year and their strategies. The interview question is composed of 15 queries and it asks about

organisation's goal, projects in a recent year, budget allocation, focused regions, focused countries, problems of projects, and suggestions.

According to an assistant manager in EDCF, the largest project in terms of budget for 2016 is 'Gore-Tepi highway improvement' in Ethiopia and USD 127 million loan is approved to this project. As following the Foreign Economic Cooperation Fund Act of Korea, she answers that promoting economic cooperation between Korea and recipient nations is one of main concerns of EDCF such as a potential market to enter for Korean enterprises. Moreover, when EDCF selects a project, main consideration is followed: recipient nations' priority, Korea's strong sector, economic cooperation potential. In case of EDCF, strongly focused sector is transportation sector which has been estimated at 36%, USD 4.3 billion from 1987 to 2016. In recent years from 2011 to 2015, Asia regions have mainly received ODA budget around 64% followed by Africa only 25%. She explains the reason why Asia is focused saying that geographical advantage and more possible cooperation. But she maintains that EDCF has pursued to expend ODA allocation more targeting to Africa regions to reduce a gap between regions.

Another two interviews are conducted by KOICA officers, one manager in Management Evaluation team under the Strategy and Planning department and one junior staff in Civil Society Cooperation team under the Public-Private Partnership (PPP) department. KOICA's one of role of ODA projects is to manage a project between stakeholders to satisfy their needs by giving various channels/networks of aid. According to their answer, the largest projects in a recent year are Afghanistan Parwan vocational training with budget, approximately, USD 25.6 million from 2008 to 2016 and Mongol energy and air pollution enhancement project with USD 867 thousand budget in 2015. Moreover, both of them answer that Asia regions are focused more than other regions. The manager in Evaluation Team explains a reason that Asia regions have two-third of poverty in the world and there is a huge gap of development within Asia regions. Therefore, KOICA distribute their 50% of grant to Asia-Pacific regions to reduce a gap. But she maintains that KOICA expends ODA budget to Africa. The junior staff in PPP department answers several reasons why KOICA focuses on Asia. This is because Asia regions are geographically close with Korea and basic infrastructure is well constructed, therefore, Asia regions have highly estimated in terms of project effectiveness. One interesting answer is that the manager in Evaluation team explains that potential frontier market might be considered as a main element of aid allocation by PPP department, but, PPP junior staff answers that they are not considering a frontier market condition.

To summarise overall answers from structured interview, both organization has highly focused on Asia regions but they explain different reasons. EDCF has a clear goal of ODA projects with cooperative economic relation while KOICA is more likely to focus on Asia with humanitarian consideration such as reducing poverty and enhancing human development.

Chapter Six

6.1 Discussion

The paper finds Korea government also follows dominant aid allocation theory explaining donor's self-interest are driving force of aid rather than recipient needs. As Kemp and Kojima (1985), Morrissey (1993), Lahiri and Raimondos (1995), and Younas (2008) prove aid is more likely to be allocated by donor's economic interest to promote trade friendly policy. Korea is also more likely to give aid to strong trade partners especially with frontier market access. Similarly, FDI outward from Korea could drive more aid to recipient nations with an expectation of return for their investment (Zhang 2004) and ease off limited access by giving more aid.

The findings in this paper have possible implications and suggestions. First of all, the empirical model could be examined to evaluate annual policy outcomes. This is because it captures which region or country is significant by which social-economic indicators. Thus, government or EDCF/KOICA could utilize for an annual plan report to understand how Korea aid have performed and match the results with annual plan strategy and evaluate its coherence.

Second, the paper can suggest a guide for future studies where it can add more various indicators or specify other strategy such as cultural attachment and strong sector performance carried by Korea-led development projects.

Third, the findings suggest a strategic change of Korea ODA allocation for various allocation system. This is because Korea has focused mostly on Asia regions with a close look as a neighbor country and larger economic cooperation with Asia regions might drive more aid. However, large export country such as Netherlands already has invested Africa regions as expecting potential rapid growth rate in Africa and new business market access (Lem et al. 2013). Lem et al. (2013) also reveal fast GDP growth in Sub-Saharan Africa from 2.4% to 5.7% as an average in a year between 2000 and 2010. Since Korea has highly concentrated on giving ODA budget towards South-East Asia because of economic opportunity, it could be suggested new regions (Africa) to give more aid than before to improve economic partnerships as Korea also strong export-oriented country.

6.2. Opportunities for improvement

The paper would be focused more on other possible strategies such as Korea's strong development sectors which is mentioned by KOICA officer. Moreover, study can examine relation of cultural intervention to aid allocation such as Korean TV shows in public or private broadcasting in recipient nations to understand socio-cultural approach by aid and relationships between Korea and recipient nations. Finally, another social indicator to capture Korea's policy strategy could be included to evaluate relevance of policy principle and actual outcomes.

Conclusion

The paper studied the main trends of South Korea's ODA and its determinants which are: humanitarian, economic and geo-political. To research the correlation between Korean ODA allocation and outweighed motivations, the paper used twenty years' empirical evidence mainly from OECD, World Bank, and Export-Import Bank of Korea.

Historically, Korea was one of the ODA recipient nations between 1950s and 1990s. After World War Second and Korean War, Korean government heavily relied on foreign aid, mostly from U.S., foreign aid fostered Korean society to develop strong economy. Therefore, Korea's own experiences as a recipient nation might be relevant to current ODA allocation. This is because as a donor country of OECD DAC now, Korea government reflects a successful strategy of foreign aid on their ODA policy.

Moreover, Korea's ODA performance can be distinguished as three main trends. First of all, Korea's ODA commitment has focused on Asia regions. During the recent ten years, Asia regions received USD 8.6 billion of ODA commitment, Africa USD 3.2 billion, Latin USD 1.2 billion, Middle East USD 0.7 billion, Europe USD 0.17 billion, and Oceania USD 0.045 billion. Secondly, in terms of proportion of aid, Asia regions have received the most compared to other regions which is more than 50% of total ODA from Korea. Thirdly, income level of targeted nations is more likely to be middle income country. Almost, 50% of recipient nations are categorized into middle income level.

In case of Korea, the main findings suggest a significant effect of Korea's self-interest on Korea's ODA allocation. While humanitarian motivation, which are captured by recipient nations' GNI, HDI, and mortality rate, is not much proportionate with amount of ODA and share, economic strategy such as export and FDI outward outweighs humanitarian motivation by Korea. Furthermore, political strategy could be explained by a sudden increase of Korea ODA to Iraq. Moreover, the findings are comparable with previous research mentioning donor's interest is more likely to affect on aid allocation rather than recipient nation's need for development.

Especially, Vietnam, Bangladesh, and Iraq show their significance in terms of amount and share of Korean ODA. Vietnam had a sudden increase of Korean ODA in 2007 and it is explained by objective of economic cooperation. In other words, economic openness and more potential market access by Korea has

motivated more aid allocation because Vietnam joined WTO in 2007 and their economic activity such as trade and FDI also presented rapid increase since 2007. Bangladesh also has similar pattern of Vietnam case. Since trade surplus soared up in 2008, more Korea's ODA also flew into Bangladesh. However, Korea has different strategy of Iraq case. Since U.S. invaded Iraq against terrorism and to project their national security, Korea placed a close ally position by sending Korean Armed Force to secure their political relation with U.S and allocating more aid to Iraq. Therefore, a rapid increase of ODA allocation to Iraq could be explained by Korea's political interest.

In addition, through structured interviews from EDCF and KOICA, the research finds out that EDCF has a clear goal of economic cooperation between recipient nations and Korea and EDCF assistant manager explains that EDCF focuses on Asia regions because of geographical advantages and more cooperative potentials. On the other hand, KOICA officers explains various objects of foreign aid by KOICA and a variety of sectors for aid projects. The reasons of large allocation of aid to Asia regions is to reduce a development gap, geographical closeness, high effectiveness due to better infrastructure.

Overall results show that Korea aid allocation is followed by Korea's economic and political strategy rather than humanitarian motivation. Certainly, humanitarian motivation to reduce poverty and improve economic growth in recipient nations could also drive Korean ODA but Korea's own economic strategy outweighs humanitarian motive. It implies that aid policy of Korea follows more economic cooperation rather than contribution of eliminating absolute poverty.

Because the Korean aid program is very disproportionately skewed in Asia, Korea should expand more aid allocation to Africa regions because Africa regions not only have suffered from higher absolute poverty but also have abundant resources and potential market access. For example, Dutch enterprises and civilian organisations have invested African regions and continue to study of Africa regions and potential business. Moreover, the Chinese investment in East and even west Africa in the past ten years have been astounding, and reveal a merger of aid and FDI. Korea may be best advised to follow from the lessons of the Chinese international cooperation in Africa.

Additionally, Korea may wish to question its political motives for supporting aid programs in countries that do not enjoy sustained trading relations, nor present opportunities for Korean captains of industry to penetrate. Most notably, aid in Iraq seems to be dictated by foreign policy diffusion. In other

words, Korea followed the peer pressure dictates of the US hegemony and to a lesser extent the UK.

Furthermore, future research should specify Korea's strong sectors that offer hope for future foreign direct investment options. Moreover, a future study can examine relationship between cultural attachment and aid allocation. Finally, another social indicator such as gender equality, infectious disease, technology, and Korean rural development paradigm policy can be studied as it is mentioned for main implementations in 2016 ODA plan.

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Appendices

Appendix 1 Results of cross-country regression for bilateral aid commitment of whole recipient countries

	Share of ODA	Million USD of ODA
	1995-2014	1995-2014
	(1)	(2)
GNI per capita	-0.0001 (0.000)	-0.0008** (0.0003)
FDI Inward	-0.0010 (0.0021)	0.0076 (0.0228)
FDI Outward	0.0026*** (0.0005)	0.0719*** (0.0058)
Ln(Export)	0.1374 (0.0869)	2.0845** (0.9303)
Ln(Import)	-0.0004 (0.0369)	0.8464** (0.3952)
Political Stability	-0.2124 (0.1584)	-0.4757 (1.695)
Corruption	-0.1727 (0.2695)	-0.3337 (2.884)
Mortality Rate	-0.0109 (0.007)	-0.3737*** (0.0754)
Albania	1.0354 (2.0819)	-4.2037 (22.2806)
Belarus	0.7869 (2.1188)	-13.5721 (22.6755)
Bosnia and Herzegovina	0.8571 (2.0572)	-4.3225 (22.0162)
Croatia	3.4190	-9.0887

	(2.1297)	(22.7921)
Moldova	0.0000 (omitted)	0.0000 (omitted)
Serbia	0.0000 (omitted)	0.0000 (omitted)
Turkey	1.5702 (2.1405)	-18.3085 (22.908)
Ukraine	-0.3261 (2.1632)	-25.2739 (23.1507)
Algeria	0.1986 (2.1177)	-14.3731 (22.6641)
Egypt	0.6456 (2.1212)	-6.8989 (22.7007)
Libya	1.3707 (2.1726)	-11.3378 (23.2509)
Morocco	-0.0279 (2.0937)	-12.3694 (22.4067)
Tunisia	0.6206 (2.0688)	-11.2592 (22.1403)
Angola	2.1304 (2.2851)	30.9662 (24.455)
Benin	0.0988 (2.1244)	6.1993 (22.735)
Burkina Faso	0.3593 (2.0994)	14.2252 (22.4683)
Burundi	-0.0897 (2.1913)	14.1885 (23.451)
Cameroon	0.3483 (2.1273)	10.2741 (22.7659)
Central African Republic	0.0000	0.0000

	(omitted)	(omitted)		(2.1506)	(23.0158)
Chad	0.3138 (2.274)	23.4673 (24.3368)	Madagascar	-0.1948 (2.0823)	-6.3817 (22.2848)
Congo	-0.2226 (2.1245)	-4.8376 (22.7369)	Malawi	0.1071 (2.094)	7.6548 (22.4099)
Côte d'Ivoire	-0.1848 (2.1587)	8.1576 (23.1029)	Mali	0.9101 (2.1363)	23.1069 (22.8623)
Democratic Republic of the Congo	0.1087 (2.1696)	20.4323 (23.219)	Mauritania	0.3976 (2.0867)	9.5465 (22.3317)
Djibouti	0.0133 (2.1753)	9.7123 (23.2798)	Mauritius	1.1711 (2.0887)	-8.4148 (22.3537)
Equatorial Guinea	2.0105 (2.3442)	17.4513 (25.0874)	Mozambique	1.1023 (2.1295)	25.9695 (22.7904)
Eritrea	-0.1277 (2.0996)	1.3895 (22.4701)	Namibia	0.9146 (2.0885)	0.9101 (22.3512)
Ethiopia	0.2114 (2.1282)	9.9246 (22.7758)	Niger	0.0966 (2.1186)	10.1609 (22.6734)
Gabon	1.4784 (2.1155)	4.3757 (22.6407)	Nigeria	-0.3182 (2.2577)	2.4945 (24.1625)
Gambia	0.1702 (2.063)	5.7656 (22.0779)	Rwanda	0.2228 (2.0782)	11.5719 (22.241)
Ghana	1.3491 (2.1054)	6.3917 (22.5317)	Senegal	0.3638 (2.088)	4.8949 (22.3455)
Guinea	-0.5149 (2.2003)	0.7936 (23.5472)	Seychelles	1.9264 (2.1153)	-0.3658 (22.6378)
Guinea-Bissau	0.3495 (2.1146)	17.5008 (22.6305)	Sierra Leone	0.7863 (2.2062)	33.0485 (23.6112)
Kenya	-0.1354 (2.1091)	-3.5053 (22.5721)	South Africa	0.4724 (2.157)	-12.8985 (23.0848)
Lesotho	0.4314	11.9579	Sudan	-0.7354	-6.8474

	(2.1549)	(23.0614)		(2.1135)	(22.619)
Swaziland	0.7096	6.6358	Haiti	-0.4640	1.7861
	(2.1145)	(22.6291)		(2.159)	(23.1055)
Tanzania	1.6740	26.0737	Honduras	0.1272	-12.9278
	(2.104)	(22.5176)		(2.0908)	(22.3753)
Togo	-0.2972	2.0259	Jamaica	0.1678	-11.3773
	(2.1059)	(22.5372)		(2.0499)	(21.9376)
Uganda	-0.0361	7.1192	Mexico	-0.3618	-36.1285
	(2.0959)	(22.4307)		(2.1323)	(22.8197)
Zambia	0.2584	3.5221	Nicaragua	0.5909	-3.7668
	(2.1177)	(22.6634)		(2.0714)	(22.1678)
Zimbabwe	-0.4016	-1.9437	Panama	0.6426	-26.7274
	(2.1064)	(22.543)		(2.1147)	(22.6315)
Antigua and Barbuda	2.1055	-0.5449	Saint Kitts and Nevis	2.6757	8.3134
	(2.1405)	(22.9073)		(2.2874)	(24.4801)
Barbados	1.3852	-3.0734	Saint Lucia	1.1667	-1.6262
	(2.1774)	(23.3029)		(2.1589)	(23.1051)
Belize	0.3463	-9.1952	Saint Vincent and the Grenadines	0.0000	0.0000
	(2.0426)	(21.8605)		(omitted)	(omitted)
Costa Rica	1.3098	-16.7299	Trinidad and Tobago	1.7040	-0.3209
	(2.0861)	(22.326)		(2.1255)	(22.7473)
Dominica	0.6727	-9.0305	Argentina	0.0000	0.0000
	(2.0766)	(22.2242)		(omitted)	(omitted)
Dominican Republic	0.7217	-5.8719	Bolivia	1.3149	6.6634
	(2.0877)	(22.3422)		(2.0857)	(22.3209)
El Salvador	0.0671	-12.9400	Brazil	-0.7418	-48.6134**
	(2.0636)	(22.0847)		(2.1483)	(22.9907)
Grenada	1.0091	-2.2001	Chile	0.8552	-24.4340
	(2.0776)	(22.2351)		(2.1633)	(23.1514)
Guatemala	0.9563	-10.9138	Colombia	-0.1763	-18.1025

	(2.1238)	(22.7288)		(2.1403)	(22.9051)
Ecuador	1.3435	-5.7869	Timor-Leste	0.6076	8.8608
	(2.0918)	(22.3862)		(2.110)	(22.5817)
Guyana	0.0712	-3.6542	Viet Nam	8.5572***	71.6904***
	(2.0878)	(22.3436)		(2.1831)	(23.3634)
Paraguay	0.9352	-8.3364	Afghanistan	1.5040	25.9241
	(2.0682)	(22.1338)		(2.1909)	(23.4471)
Peru	-0.0027	-20.8236	Armenia	0.0283	-8.4864
	(2.115)	(22.6348)		(2.0441)	(21.8758)
Suriname	1.0215	-0.6692	Azerbaijan	0.7673	7.7783
	(2.0883)	(22.3491)		(2.0785)	(22.2445)
Uruguay	1.0662	-13.3034	Bangladesh	4.4778**	48.4987
	(2.1026)	(22.5016)		(2.1609)	(23.1264)
Venezuela	0.2549	-16.8248	Bhutan	0.7680	4.6172
	(2.1158)	(22.6435)		(2.0736)	(22.1914)
Cambodia	3.8233	35.5684	Georgia	-0.2728	-13.0637
	(2.1246)	(22.7377)		(2.0822)	(22.2837)
China (People's Republic of)	0.0000	0.0000	India	-1.3103	-33.4280
	(omitted)	(omitted)		(2.227)	(23.8336)
Indonesia	2.7981	-5.4620	Kazakhstan	1.0485	-17.9801
	(2.1973)	(23.516)		(2.1021)	(22.4969)
Lao People's Democratic Republic	1.6744	20.4474	Kyrgyzstan	-0.2551	-11.2777
	(2.1125)	(22.608)		(2.0696)	(22.149)
Malaysia	0.3707	-42.5669	Maldives	0.6321	-4.3060
	(2.1625)	(23.1435)		(2.0611)	(22.0583)
Mongolia	2.0550	9.3312	Myanmar	0.0000	0.0000
	(2.0759)	(22.2159)		(omitted)	(omitted)
Philippines	3.5559	20.5847	Nepal	0.3559	4.1851
	(2.1722)	(23.2466)		(2.0736)	(22.1919)
Thailand	-0.2776	-33.7396	Pakistan	0.8378	17.0925

	(2.2223)	(23.7833)		(2.0531)	(21.972)
Sri Lanka	3.6119*	22.2563	Kiribati	0.8067	8.3141
	(2.0962)	(22.4337)		(2.0895)	(22.3622)
Tajikistan	-0.4505	-2.5537	Marshall Islands	-0.6999	-23.2082
	(2.1028)	(22.5043)		(2.2217)	(23.7765)
Turkmenistan	0.0000	0.0000	Micronesia	0.3237	-3.7992
	(omitted)	(omitted)		(2.0987)	(22.4609)
Uzbekistan	1.1488	3.5134	Nauru	0.0000	0.0000
	(2.1449)	(22.9547)		(omitted)	(omitted)
Bahrain	3.6947	3.4056	Palau	1.3768	0.4334
	(2.3963)	(25.6449)		(2.1816)	(23.3472)
Iran	0.2550	-21.2815	Papua New Guinea	-0.2481	-6.3544
	(2.147)	(22.9776)		(2.1363)	(22.8633)
Iraq	4.5473**	14.8335	Samoa	0.3348	-7.9574
	(2.147)	(22.9776)		(2.0417)	(21.8498)
Jordan	1.5713	-0.6389	Solomon Islands	-0.0839	-9.5720
	(2.0897)	(22.3643)		(2.1141)	(22.6249)
Lebanon	0.3226	-14.3569	Tonga	0.5200	-4.7330
	(2.0811)	(22.2717)		(2.0892)	(22.3588)
Oman	3.8168*	-1.3911	Tuvalu	1.0073	5.8799
	(2.2804)	(24.405)		(2.1499)	(23.0085)
Saudi Arabia	2.7345	-7.6445	Vanuatu	0.1874	-8.2319
	(2.2595)	(24.181)		(2.1378)	(22.8788)
Syrian Arab Republic	0.0000	0.0000	cons	-0.4520	-2.7106
	(omitted)	(omitted)		(2.1011)	(22.486)
West Bank and Gaza Strip	0.0000	0.0000	Notes: Standard errors in parenthesis. Stars denote significance levels at * p<0.1,		
	(omitted)	(omitted)	**p<0.05, ***p<0.01		
Yemen	0.2824	-8.8568			
	(2.1424)	(22.9283)			
Fiji	0.3127	-10.6376			

Appendix 2 Structured Interview Questions

본 설문지는 현 네덜란드 에라스무스 로테르담 대학(Erasmus Rotterdam University) 소속 기관인 국제사회학 대학원(International Institute for Social Studies)에서 석사 논문 자료로 사용될 예정입니다. 논문 주제는 “Trends and Determinants of Korea’s Official Development Aid (ODA) Allocation”이며 한국의 공적개발원조(ODA)에 대한 전반적인 특징과 흐름에 대해 분석할 예정입니다. 또한 설문지 분석은 익명으로 처리되어 비밀이 보장 되오니, 본 설문지에 응해주신다면 의미있는 자료로 사용될 것임을 약속드립니다. 질문 언어는 영어와 한국어로 작성되었습니다. 편한 언어로 작성해주시면 좋겠습니다. 감사합니다.

2016 년 9 월 17 일

김수정 드림

17 September 2016
Kortenaerkade 12
2518 AX The Hague
The Netherlands

Dear Sir/Madam

This survey will be used for my Masters in Development thesis which is being pursued at the International Institute of Social Studies, Erasmus University Rotterdam, The Netherlands. The subject of the thesis is: “Trends and Determinants of Korea’s Official Development Aid (ODA) Allocation”. The project seeks to unravel the characteristics and main aspects of Korea’s ODA disbursement. You are kindly asked to answer the questions in this survey questionnaire. Your personal identity will not be disclosed. I assure you that your answers will be objectively analyzed. The survey questions are written in Korean and English. Please use your preferred language. Thank you.

Yours respectfully,
Sujung Kim

Research interview questions for KOREA ODA projects

Name 이름

Position 직급

Organisation 기관

* 설문조사는 최근 년도 자료를 기준으로 작성해주시면 감사하겠습니다.

* With reference to the most recent year of available data, please fill out this questionnaire.

Question

1. 현재 귀 기관에서 ODA 사업과 관련한 역할은 무엇입니까?

What is your organisation’s role in terms of ODA projects?

2-1. 올해 수행하고 있는 ODA 사업들은 무엇이 있습니까?

Please describe some details of your ODA project this year.

2-2. 올해 수행한 ODA 사업들의 특징(장단점 혹은 어려웠던 점)은 무엇입니까?

Describe the details of your ODA project this year

3-1. 올해 귀 기관에서 수행하고 있는 ODA프로젝트는 몇 개입니까?

What is the total number of projects your organization has been responsible for in this fiscal year?

3-2. 예산 규모가 가장 큰 프로젝트는 어떤 프로젝트 인니까?

What is the budget for the largest project that your organization is responsible for?

3-3. 올 해 ODA 프로젝트 예산안 편성에 대한 전반적인 특징은 무엇입니까?

Could you please give me an idea about the total budgetary allocation for projects in this year?

4. [여러 지역 프로젝트일 경우] 어떤 지역 (예_아시아, 아프리카, 아메리카, 오세아니아)에 ODA 예산이 가장 많이 분배되었습니까? 그 이유는 무엇입니까?

[In case of several regions project] To which continent do you give the most ODA and why?

5. 현재 수행하고 있는 ODA 사업의 중점국은 어디 인니까? (여러국가일 경우 상위 3 개국 이상)

Which country has been most focused on your projects? (If several countries, mention 3 more countries)

6. 위 질문에 해당하는 국가의 배정된 예산과 프로젝트 개수 등의 기준을 명시해주세요.

Estimate the number of projects and budget on each recipient nation.

7-1. ODA 수혜국의 “Good Governance” 가 프로젝트 선정 혹은 예산의 편성하는데 있어서 중요한 기준으로 작용합니까?

Do you focus on the good governance as a criteria of planning ODA?

7-2. 위 대답이 “그렇다”면 이유는 무엇입니까? 몇 퍼센트의 사업(예산)이 안정적 정치시스템을 유지하고 있는 국가에 배분 됩니까? (프로젝트 수 혹은 예산 명시)

If your answer to the prior question was “yes”, what is the reason for it? And how much percentage of your project would be applied to the countries with stable politics? (the number of project or budget)

8-1. 귀 기관은 ODA 프로젝트를 선정 혹은 예산을 편성하는데 있어서 저개발국가의 새로운 시장(frontier market)을 중요하게 생각합니까?

Does your organisation have a preference for directing aid in emerging frontier nations?

8-2. 위 대답이 “그렇다”면 이유는 무엇입니까? 몇 퍼센트의 사업(예산)이 새로운 시장 가능성이 있는 국가에 배분 됩니까? (프로젝트 수 혹은 예산 명시)

If your answer to the prior question was “yes”, what is the reason for it? And how much percentage of your project would be applied to the countries with frontier market? (the number of project or budget)

9. 7 - 8 번 질문이 해당하지 않는다면 ODA 수혜국을 선정하는데 있어서 가장 중요하게 작용하는 기준은 무엇입니까?

If the question number 7 is not corresponding to your case, what is the most important criteria to select the ODA recipient nation?

10. 본 기관은 다른 기관과 협업하여 ODA 사업을 실시하고 있습니까? 그렇다면 어떤 기관과 무슨 사업을 진행하고 있습니까? (관련 부처 혹은 기관명 명시)

Describe your specific case of coordination work with other organization/ ministries (MOFA/MOSF)

11. ODA 에 사용되는 예산은 외교부 혹은 기획재정부에서 지원(배분)을 받습니까? 받는다면 어느 부처 인니까?

Does your organisation receive the ODA budget from the Ministry of Foreign Affairs or the Ministry of Strategy and Finance? If it is, which Ministry is it?

12. 본 기관에서 ODA 사업 수행에서 가장 중점적으로 다루고 있는 원조분야에 대해 설명해주시시오. (예.. 교육, 젠더, 경제, 식량, 농업, 건강) 또한 총 몇 개의 분야별 원조 사업의 이루어지고 있습니까? 해당 분야에 가장 큰 지원이 되고 있는 이유는 무엇입니까?

Describe which sector is most specialized in and estimate the number of total sectors of your project (For example, Education, Health, Economy). Why is there greater funding in this identified sector?

13. 본 기관에서 수행하는 혹은 예산을 지원한 원조사업은 해당 기관의 목적과 부합합니까? 그렇다면 어떠한 목적이 원조사업을 통해 성취되고 있습니까?

Does ODA project address your organisation's goal? What kind of goals have been achieved through ODA?

14. ODA 사업을 수행하는데 있어서 가장 어려운 점은 무엇입니까? (예.. 예산, 인력, 다른 국가와의 소통)

What are the most challenges when your organization promote ODA projects? (For example, budget, human resources, and communication with other countries)

15. 귀 기관에서 ODA 사업을 수행하는데 향상될 수 있는 점은 무엇이 있습니까?

What do you think can be done to improve the performance of ODA delivery by your organization?

설문에 응해주셔서 진심으로 감사드립니다.

Thank you for your time and effort.