SAIS US-KOREA 2010 YEARBOOK

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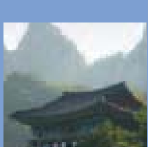

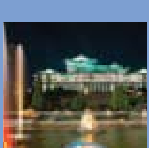
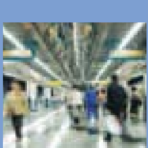

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Korea's ODA to Africa: Strategic or Humanitarian?

By Rob Folley

I. INTRODUCTION

South Korea has been actively expanding its role as a donor on the African continent. In September 2010, in front of ministers from 35 African countries at the third Korea-Africa Economic Cooperation Conference (KOAFEC), Seoul announced a plan to offer $1.09 billion in official development assistance (ODA) to Africa over the next five years, doubling the support it provided from 2005 to 2009. In November 2009, Korea entered into the Organisation for Economic Co-operation and Development (OECD) Development Assistance Council (DAC), marking the end of its half-century role as an aid recipient and the beginning of its efforts to comply with the humanitarian aid goals of the Western donor community. At the G-20 Summit in November 2010, South Korea put long-term development issues such as meeting the United Nations' Millennium Development Goals, raising agricultural production, and building sustainable infrastructure on the agenda, resulting in a new framework for the G-20's future engagement with developing countries, known as the Seoul Development Consensus for Shared Growth. Korea will continue to shape the discussion over ODA in the international community as it hosts the October 2011 Fourth High Level Forum on Aid Effectiveness (HLF-4) in Busan. But while Seoul has taken a leadership role in international development organizations, it also continues to use ODA as a tool to promote national strategic interests in resource security. While reform of Korea's ODA policy and implementation goes forward, its pressing need to secure the energy sources to fuel further economic growth may conflict with strictly humanitarian-based goals.

This paper aims to examine the goals of Korean ODA in Africa and explore the historical, political, and economic factors that shape the balance between Korea's growing dedication to humanitarian-based aid and its need to secure natural resources to further its own economic growth. It concludes that a middle ground can be reached between the two extremes of ODA policy.

II. KOREAN ODA: FROM AID RECIPIENT TO AID DONOR

As the first non-European nation to transition from aid recipient to donor, Korea is unique among OECD DAC members. Its rapid transition is in no small part due to the $12.8 billion in ODA it received from OECD countries after World War II, continuing into the 1990s. This places Korea in a unique position to take a leading role in South-South trade, aid, and investment relations between Africa and other emerging market economies in Asia and South America.

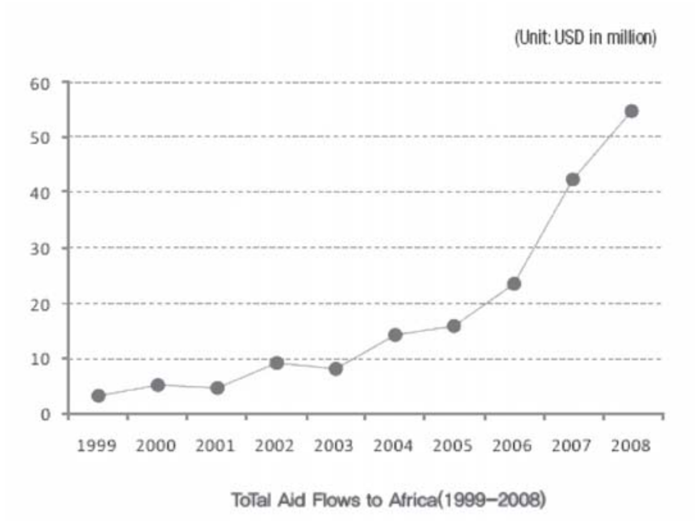
In 2010, Korea's humanitarian-based aid to Africa is growing, but in the 1980s and 1990s, ODA was often tied to national strategic interests and was used as a tool to cultivate support on global issues. In the late 1980s, the Korean government used ODA to gain diplomatic advantage in relation to North Korea as the two struggled to enter the United Nations. In 1990, Korea directed low-interest concessional loans to Nigeria and Ghana as part of a 15-country plan to curry favor from politically influential developing countries for admission to the United Nations. Surprisingly, in this time period North Korea actually had more diplomatic posts in Africa than the ROK, a clear indication of the importance of Africa in Pyongyang's anti-Seoul campaign.

After the end of the Cold War and Korea's entrance into the UN, the driving force behind ODA was to promote greater trade and investment with developing nations. In a November 2000 editorial in the *Korea Times*, Park Kang-ho, then director of the Development Cooperation Division of the Ministry of Foreign Affairs and Trade (MOFAT), appealed for public support of ODA on the basis of promoting economic growth, saying that "providing ODA is not a charity or a gift out of sympathy. Rather we should consider it a strategic partnership." Korea Export-Import Bank President Moon also argued that "Korean enterprises must … survive in unbounded global competition and the [Economic Development Cooperation Fund] will pave the way." During this time, Korea's ODA was channeled to Korea's trading partners and major recipients of foreign direct investment (FDI) instead of to least developed countries (LDCs), and aid was allocated by bankers in Korea Export-Import Bank's credit department instead of aid specialists as was the norm in other OECD countries. In 1998, the neediest LDCs in Africa received only 11.1 percent of Korean aid, and Korea, an OECD member since 1996, had the lowest ODA to GDP ratio of any OECD country. Scholars David Lumsdaine and James C. Schopf argue in the *Pacific Review* that the strategic nature of Korean aid in the 1990s and its low compliance with DAC norms are part of a common pattern in that "they reflected the absence of strong elements in Korean society able to advocate aid on humanitarian and principled grounds." The nature of Korea's ODA was reflected in the underdeveloped nature of civil society in the 1990s. The dearth of NGOs and a lack of volunteerism were evidence of an underdeveloped civil society that may be seen as a legacy of the authoritarian state era of Korea; as late as 2000, 57 percent of Koreans polled agreed that the government's primary concern with ODA should be strategic, with 24 percent actually preferring a reduction in humanitarian-based ODA.

This was all set to change however, as Korea prepared and successfully entered the OECD Development Assistance Committee in November 2009.

III. KOREA'S TWO-PILLAR APPROACH TO ODA

Korea's successful transformation from an aid recipient to a full-fledged member of the OECD's aid committee places it in a unique position to contribute to Africa's development. However, until very recently there was no formal framework in existence between Korea and Africa to facilitate the coordination of ODA. During a state visit to Nigeria in 2006, President Roh Moo-hyun announced Korea's Initiative for African Development (KIAD), which pledged to target all 47 countries in the African Union, plus Morocco, and would focus on five areas: investment in human capital, development of health infrastructure, expertise in administrative governance, information and communication systems, and agricultural communities. KIAD was a watershed for Korea-Africa relations as it was the first time in 25 years a Korean president had visited the continent. It symbolized Korea's growing commitment to use ODA to alleviate poverty and promote sustainable development rather than solely to promote national interests. Four years later, Korea is now a full-fledged member of the OECD DAC and continues to commit to an enhanced role in Africa, with increased ODA to Africa making up a significant part of its goal to increase ODA to 0.25 percent of GDP by 2015.



Source: Korea International Cooperation Agency

Korea's current ODA system is divided into concessional loans and grants, with loans disbursed through the Economic Development Cooperation Fund (EDCF) by Korea Export-Import Bank, and grants handled by the Korea International Cooperation Agency (KOICA), under the supervision of MOFAT. According to a report by the United Nations Conference on Trade and Development (UNCTAD), this two-pillar system has been criticized as fragmented and is in need of consolidation. The International Development Cooperation Committee (IDCC), a supervisory body under the prime minister's office that is working to establish a comprehensive national ODA plan "aimed at streamlining its assistance," is tasked with heading this reform. The latest sign of reform is a comprehensive ODA bill passed in late 2009, which established a legal and institutional framework to guide and coordinate all ODA activities.

Currently, Korea uses three channels to facilitate ODA and promote trade and investment with African countries. The main platform for dialogue is the Republic of Korea-Africa Forum, organized by President Roh to promote the implementation of KIAD. In addition to the forum, Korea established complementary frameworks to promote trade and investment. First initiated in 2006, the KOAFEC is held every two years. The second parallel framework, the annual Republic of Korea-Africa Industry Cooperation Forum was initiated in 2008. These aim to promote stronger investment and ties between the private sectors of Korea and Africa.

In 2009, Korean ODA to Africa totaled $53 million, accounting for nearly 20 percent of total bilateral grant assistance. According to KOICA, Egypt was the primary partner for grant aid, followed by Kenya, Senegal, Ethiopia, and Tunisia. The main sectors for grant ODA were education, health, governance, and rural development.

IV. KOREA'S ROLE IN SOUTH-SOUTH COOPERATION

At the most recent KOAFEC in September 2010, Minister Yoon Jeung-hyun promoted the theme of "RISING Africa, Together with Korea" (Responsiveness to needs, Inclusive policy, Sustainable growth, Integrated economy, and Global efforts), seeking to distinguish Korea's aid policy. Yoon emphasized Korea's unique ability as a recently developed country to be able to meet Africa's development needs, stating:

> From a nation torn apart by harsh colonial rule and devastating war, we struggled as one of the poorest countries in Asia. But through ceaseless efforts, we accumulated extensive knowhow in navigating our way to economic success. We hope to put our experience to good use to help African countries find their way
> to prosperity.

By emphasizing Africa and Korea's shared colonial history and Korea's own recent struggle with poverty, Yoon highlights Korea's ability to provide technical expertise and training in the Korean development model as its comparative advantage in ODA. In this respect, it parallels Japan's notion of aid as support for "self-help," where the recipient country receives aid to fill investment, foreign exchange, and technology gaps to foster sustainable growth.

The IDCC targets project-type assistance and technical cooperation in agriculture as the cornerstone of Korea's development policy for Africa, and 33 percent of gross aid disbursement went to technical cooperation in 2008. The main aid modalities for technical cooperation are the Knowledge Sharing

Program (KSP), which develops technical assistance in diverse sectors including agriculture, human resources, e-government, and export promotion, and the Korean Overseas Volunteers (KOVs) program, which dispatched 938 KOVs to Africa between 1990 and 2008, 16 percent of the total. As part of its Midterm Strategy for ODA, Korea is working to design "tailor-made" development strategies for each country it operates in. In the agricultural sector, the Korean government has actively promoted the New Community Movement (*Saemaul Undong*), an agricultural policy that is credited with the huge increase in South Korea's rural incomes in the 1970s. In 2004, a pilot *Saemaul Undong* Center was built in Kinshasa, DR Congo, and KOICA, under orders from the IDCC, has plans to expand the initiative throughout Africa.

Not everyone is as optimistic as KOICA that the *Saemaul* Movement and Korean agricultural model will work for Africa. Elijah Munyi, a researcher for African economies at the Korea Institute for Development Strategy (KDS) in Seoul, criticized the movement "as a long shot policy" ill-suited for Africa's realities, as it requires a level of government institutional capacity lacking in Africa and heavy agricultural subsidization, which today is constrained by the WTO. But the government continues to pursue *Saemaul Undong* as a model that can be adapted to suit Africa's specific needs. Work moves forward to increase the share of ODA devoted to rural development from its 2008 level of 15.6 percent. Evidence of this commitment is clear in the region, with the Korea Rural Community Corporation (under the Ministry of Agriculture) announcing plans to build a 100,000-hectare agricultural complex in Tanzania, and in July a memorandum with 16 African countries was signed to establish the Korea-Africa Food and Agriculture Cooperation Initiative (KAFACI). As it highlights agricultural development, Korea also has a strategic interest in Africa's rich endowment of oil, minerals, and land.

V. THE PULL OF RESOURCE DIPLOMACY

The humanitarian goals of Korea's ODA and the efforts of KOICA to expand into Africa coincide with Korea's quest to secure energy and other raw materials it needs to fuel and sustain the growth of its economy. President Lee Myung-bak has made energy diplomacy a central part of his foreign policy, and soon after his inauguration in 2008, targeted Russia, Central Asia, Africa, and South America as priority regions for summit-level meetings. Rising energy prices in 2008 provided a sense of urgency to Korea's ongoing quest to reduce reliance on foreign energy imports, which in 2008, stood at 84 percent of total supply.

Korea relies on oil for 50 percent of its energy needs (much higher than the global average of 38%), and stands as the world's fifth-largest importer. Adding to its vulnerability, around three-quarters of Korea's oil imports come from the Middle East, ensuring its economy would be very affected by an event akin to the oil shocks of 1973 and 1979.

With energy security an imperative of the Lee administration, an editorial in the *Korea Times* during the September KOAFEC meeting highlights how ODA flows would be used to secure natural resources, namely oil:

> The Seoul government seeks to transfer its growth experience to African countries by drawing up a development roadmap that is tailored to the needs of each country. It is ready to finance the projects it suggests with the doubled official development aid. *This in turn will facilitate the advance of Korean companies into African nations.* It is truly a win-win approach. It is hoped that Korea can further expand its support for African nations and solidify its ties with them. The continent's *strategic importance* is growing due to its *rich natural resources* and vast growth potential. (Emphasis added.)

The explicit pairing of aid with strategic goals of expanding Korean trade and investment and securing natural resources is seen as mutually beneficial for Africa and Korea. To facilitate this, Korea has reopened a mission in Cameroon, which it was forced to close in 1998 in the wake of the Asian Financial Crisis, and is actively expanding into oil-rich countries such as Nigeria, Congo, Sudan, and Libya. In May, the Ministry of Strategy and Finance identified Algeria, Ethiopia, DR Congo, South Africa, and Tanzania as "strategically important" countries in its economic cooperation with the continent and plans to fund infrastructure projects in northern and southern Africa, and mining and agricultural investments in eastern and central Africa.

VI. OIL

Securing oil reserves is seen as critical to Korea's continued economic growth. Korea National Oil Corporation (KNOC) has taken its mandate and actively pursued investment in African oil-rich countries. Nigeria, as the world's eighth largest exporter of oil, stands as one of KNOC's most important forays into the continent. Responding to Nigerian President Olusegun Obasanjo's recruitment of Asian national oil firms in 2005, KNOC acquired the rights to two offshore oil blocks purported to contain as much as one billion barrels of crude. In the oil-for-infrastructure deal, Korea would build a gas pipeline with two integrated gas power stations en route, and rebuild the Port Harcourt-Maiduguri railway line. In total, KNOC promised an investment of nearly $6 billion in exchange for the two oil blocks, and according to a Chatham House report, the South Korean government called it "a win-win project where South Korea's technology and Nigeria's resources are swapped." The project did not live up to the high hopes placed on it, however. The Nigerian government revoked KNOC's rights to the oil blocks, citing failure to pay part of the signature bonus, and promptly gave the rights to India's Oil and Natural Gas Corporation (ONGC).

VII. AGRICULTURE

Oil is not the only resource South Korea lacks. As a major importer of grains, food security is a major issue of concern for Korea, and it has been involved in high-profile land investments in Sudan, Madagascar, and Tanzania. With a still highly protected farm sector, in 2008, South Korea was 99 percent self-sufficient in rice and 53 percent in barley, but imported 86 percent of its soybeans and nearly all (99%) of its wheat and maize. The UN Food and Agriculture Organization recommends that each country secure 18-19 percent of its annual grain consumption for its year-end stock to ensure food security. Due to the global shortage and surge in grain prices in 2007-8, Korea was unable to meet this goal, and it set up a government taskforce as well as the Overseas Agricultural Development Forum in 2008 in an effort to cultivate agricultural cropland overseas.

Korea's recent investment in land has received criticism from the media, drawing calls of neocolonialism and sinister portrayals of Korea's competition with other Southern neighbors in a desperate "land grab" on the continent. Korean officials have countered, highlighting the benefit of the agricultural projects for the host countries. In Sudan, Korean firms plan to take advantage of the country's access to the Nile River to grow wheat on 700,000 hectares of land. In Madagascar, the 2008 announcement of a 99-year contract to lease 1.3 million hectares to Daewoo Corporation to grow five million tons of maize and produce palm oil helped to spark a revolution that toppled the government. The new leader, Andry Rajoelina, promptly canceled the contract and is quoted in the *New Zealand Herald* saying, "Madagascar's land is neither for sale nor for rent."

Is ODA following the agricultural investments? It appears the quest for food security is at least in part driving allocation of ODA to the continent. The investment by Daewoo Corporation was solely a private venture, but the Tanzania project that followed it in 2009 was an example of food security tied to aid. The project plan ceded half the land to produce processed goods such as cooking oil, wine, and starch for export to Korea, with the other half going to create a Korean Rural Community Corporation (KRCC)-built "agricultural complex" featuring an agricultural technology center and agricultural export center; upon completion it will rank as the largest single piece of agricultural infrastructure Korea has ever built overseas.

VIII. IS AID TIED TO STRATEGY?

In 2009, the EDCF had concessional loan arrangements in Angola on seven projects worth $222 million. Those represented 4 percent of the total EDCF budget; the next-highest African countries were Tanzania at 3 percent, Mozambique at 2 percent, and Mali and Ghana with 1 percent each. As one of Africa's oil-rich countries, Angola is a key theater for resource competition among China, India, and other developing countries engaged in energy expansion in the region. That Angola receives such a large amount of ODA is an important sign of how much national strategic interests still factor into Korea's ODA policy. Angola, a country with a per capita GDP of $8,400 in 2009, is arguably much wealthier than other nations ranked by the United Nations as LDCs. But as Korea looks to *quid pro quo* deals such as the failed oil-for-infrastructure deal in Nigeria, it sends aid to relatively richer resource-endowed countries like Angola. The fact that China has cornered the market in Angola increases the urgency for Korea to find a foothold, and ODA is a powerful tool.

The rise of China in Africa and Central Asia is an important factor in reinforcing the use of aid for commercial interests in Korea. Within the two pillars of Korea's ODA framework, the *Korea Times* quoted KOICA's president saying that his agency and the Korea Export-Import Bank are often "at each other's throats" over allocation of the development assistance budget. KOICA, responsible for grant aid, and the Export-Import Bank, which oversees the EDCF's disbursal of concessional loans, don't always have the same philosophy about what the goal of ODA should be. The relatively new emphasis on humanitarian aid in support of the Millennium Development Goals conflicts with a long history in the 1980s and 1990s of using aid solely to promote commercial and strategic interests. In this regard, Korea's ODA implementation structure resembles Japan's in the 1990s, during which time the Ministry of International

Trade and Industry focused on ODA as a tool for promoting Japan's economic growth, while the Ministry of Foreign Affairs associated Japanese aid with more traditional social and political factors highlighted by international aid agencies. This internal debate is further compounded by the exponential growth of China's presence on the African continent, which has led to fearful statements such as the one issued by a state auditor of MOFAT and quoted last summer in *JoongAng Daily*. The statement criticized Korea's small number of African embassies (13 compared to China's 42 and Japan's 25) and warned of the "gap in the government's efforts to engage the continent for business opportunities and energy and mineral sources." As China's aid to Africa grows rapidly, its East Asian neighbors feel pressured to counter China's growing influence with their own increases in aid.

IX. CHINA PROMOTES ITS SOFT POWER

China has played an active role on the African continent since 1949, with aid to the region as high as 6 percent in 1971 as China engaged in geopolitical rivalry with the United States and vied for Taiwan's seat in the United Nations. With the first China-Africa Forum in 2000, China switched tacks, using aid as a tool for soft power and to meet increasing demand for natural resources, new markets, and investment possibilities. According to UNCTAD, with $2.3 billion in estimated aid flows to Africa in 2006, China accounts for 83 percent of aid from developing or recently developed countries, dwarfing second-place Brazil, with $96 million, by a factor of 20. China's major focus for ODA in Africa is infrastructure development, with 70 percent of infrastructure aid aimed at Nigeria, Angola, Ethiopia, and Sudan. According to an article in *Development Policy Review* by Peter Kragelund, China bases its aid on principles of mutual benefit, noninterference in other countries' internal affairs, and the equal standard of living of Chinese experts in the recipient country, with the goal of differentiating its aid from other Western donors. It prefers to work on the bilateral level, eschewing multilateral cooperation with other donor countries or agencies, and ties its aid to non-policy conditions (e.g., access to natural resources or the purchase of goods and services by firms in the recipient country). China's ODA policies elicit a broad spectrum of reactions from other donor countries, from fear to praise to condemnation. Its unique status as both a donor and a recipient of ODA frustrates those who call for compliance with DAC standards, and as it is unlikely to renounce its developing status for political and economic reasons, it seems unlikely to reform its ODA policy in the near future.

There are key similarities between Korea's and China's model for aid. Both utilize regular high-level summit meetings as a mechanism to make pledges and commitments, increasing the predictability of aid and providing a built-in monitoring mechanism to ensure commitments are fulfilled. Both also continue to rely on project-based aid as the primary aid modality, and both countries have emphasized the positive hope for technical cooperation on agriculture and climate change as avenues for further development in South-South cooperation.

But China's model for Africa is not realistic for Korea, now a member of the OECD DAC. China is in a unique position, as it is able to use aid to support its commercial interests and natural resource procurement, and its presence in Africa is many times greater than Korea's because it sees Africa as an important market for exports and a source of support on global issues. Its FDI stock in Africa reached $7.8 billion in 2008, compared to Korea's $516 million, which ranks lower than FDI from Singapore, Hong Kong, Malaysia, and India. In 2009, China secured one-third of its oil supply from the African region. By linking official flows with FDI, China uses its export-import bank as a channel for providing financing and promoting trade and investment in ways that Korea as a liberal democracy cannot.

X. FUTURE PROSPECTS FOR ODA: TOWARD A MIDDLE GROUND

In order to examine Korea's role in Africa, it is necessary to understand the debate over reforms in ODA that are currently being carried out in Korea. In 2008, leading up to its formal application to the DAC, Korea commissioned a special review of its ODA policy and institutional framework. The study identified major areas in need of reform, including a low ODA/GNI ratio, a high percentage of concessional loans compared to grants, a high portion of tied aid, regional bias, and a relatively large number of recipients. Korea has taken steps to address these weaknesses and come into line with DAC policies, but these deficiencies are still a problem in its ODA to Africa. With an ODA/GNI ratio of 0.1 in 2009, Korea falls below the OECD/DAC average of 0.48 and the UN target of 0.7. It is important to understand, however, that the large amount of aid provided to North Korea isn't included in official ODA amounts because South Korea's constitution identifies the North as part of state territory, and therefore aid to the North is classified as an internal matter in ODA accounting.

The tension between Korean strategic interests in energy, minerals, and grain must be better balanced with Africa's development needs. Several scholars, including Elijah Munyi of the Korean Institute for Development Strategy, have criticized President Roh's Korean Initiative for African Development (KIAD) as doing little more than paying lip service to Africa's development needs while providing the majority of funding to relatively rich, resource-abundant countries such as Egypt, Nigeria, Algeria, and Morocco. As Munyi recommends, Korea must separate its funding for energy diplomacy from any future development initiatives. In 2009, Ethiopia and Senegal were the only two of the top five recipients of KOICA project grant assistance that were LDCs. Korea must direct a higher percentage of its ODA to LDCs, and aim for a better balance between strategic needs and African development needs. Further, Korea should continue to develop its core strength of technical cooperation as its development "niche." As it does this, however, Korea must ensure its Knowledge Sharing Programs in agriculture are tailored to African needs instead of focusing on dogmatically promoting the Korean development model through *Saemaul Undong* or other initiatives. Finally, Korea should address the transaction costs caused by the three-channel framework it now employs for interaction with the African region—namely the Korea-Africa Forum, KOAFEC, and the Korea-Africa Industry Cooperation Forum—as it places a heavy burden on the already weak human and financial capacity of African countries. One option identified by UNCTAD is to use the New Asia-Africa Strategic Partnership as a joint forum for engagement with region. As Korea streamlines its own channels for aid distribution it should also strengthen support for regional integration within the African region. Targeting aid to regional projects such as regional infrastructure development will reap dividends by reducing transaction costs, boosting trade, and encouraging growth.

As Korea prepares to host the Fourth High Level Forum on Aid Effectiveness (HLF-4) in October 2011, it must work to consolidate its Africa ODA policy and continue to take the lead on implementation of the Seoul Development Consensus at future G-20 meetings. Ongoing reform of its ODA implementation framework will continue to be met with pressure domestically from those who support ODA as a strategic rather than humanitarian tool and may face criticism from those who see a rising China's presence in Africa as a call to ratchet up resource diplomacy. If a middle ground can be reached, Korea can offer its unique technical expertise as a recently developed country to African partners while maintaining a balance with a pressing and real need to secure access to natural resources.

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