



Korea

Roles of ODA Loan for Economic Growth (The Case in Korea)

External Evaluator:
The Institute for Industrial Policy Studies (IPS)

Field Survey:
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Outline and Objectives of Evaluation

This evaluation was intended to summarize ODA loan projects implemented in South Korea during the 30-year period from the mid-1960s when ODA loans to South Korea started to 1990, and make an overall evaluation on the five evaluation criteria set by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). The impacts of ODA loan projects on the economy and society of South Korea were also evaluated. The overall evaluation covered 36 projects (total disbursed amount: 393.3 billion yen) of which ex-post evaluation had been conducted. For the evaluation of economic and social impacts, large-scale projects for infrastructure such as highway, subway, and heavy chemical industry were taken up, and the role played by ODA loans in the economic growth through the development of infrastructure was examined in terms of effectiveness as well as consistency with the government policy. Poverty reduction measures that supported the economic growth of South Korea were also examined. Finally an economic growth model of South Korea was drawn, and lessons and recommendations for future aid to developing countries were identified.

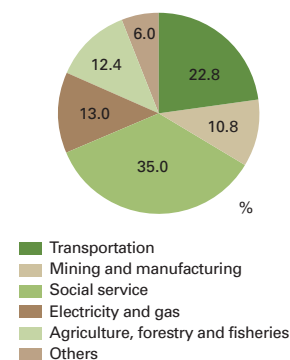
*See the full version report for the list of 36 ODA loan projects subject to this evaluation

Evaluation Result

The 36 projects in South Korea, of which ex-post evaluation had been conducted, include 23 projects for the social service sector (water supply and sewage, education, health care and medical service), 2 projects for the communications sector, 7 projects for agriculture, forestry and fisheries, 1 project for the mining and manufacturing sector, and 3 projects for the transportation sector. These projects were implemented almost as planned, and there was no problem with "efficiency". As for "effectiveness", most projects generated substantial effects such as the improvement of the technical level, alleviation of traffic congestion, and environmental improvement. Also many "impacts" were confirmed such as development of industrial technology, enhancement of the living standard, and protection of the environment. Regarding "sustainability", the results show there is no major problem in the operation or maintenance system in general.

In order to evaluate the economic and social impacts, we examined what role ODA loans played in economic growth through the development of infrastructure. For that purpose, major projects relating to highway, heavy chemical industry, multipurpose dam, and subway were evaluated in terms of project effects as well as the consistency with the national development plan and government's sector policy. The Highway Construction Project (the loan agreement was signed in 1968) was implemented with the aim of eliminating blocking factors for physical distribution and trade under the Second 5-Year Plan (1967-71), and was consistent with the objective identified in the Plan, which was to promote export-oriented manufacturing industry in full scale. It was confirmed that the project generated direct effects such as the reduction in the cost and time of transportation, decrease in damages to freight and in traffic accidents, and indirect effects such as the development of farming and fishing villages, and narrowing of regional gaps. The Pohang Integrated Steel Project (1974), which was consistent with the policy of promoting heavy chemical industry set forth in the Third 5-Year Plan (1972-1976), serves as a good example of the open-door policy. The Chung-ju Multipurpose Dam Project (1978) was implemented in

Breakdown of ODA Loan to South Korea by Sector



Highway constructed with the ODA loan has a considerable impact on the alleviation of congestion and on the physical distribution of traffic.

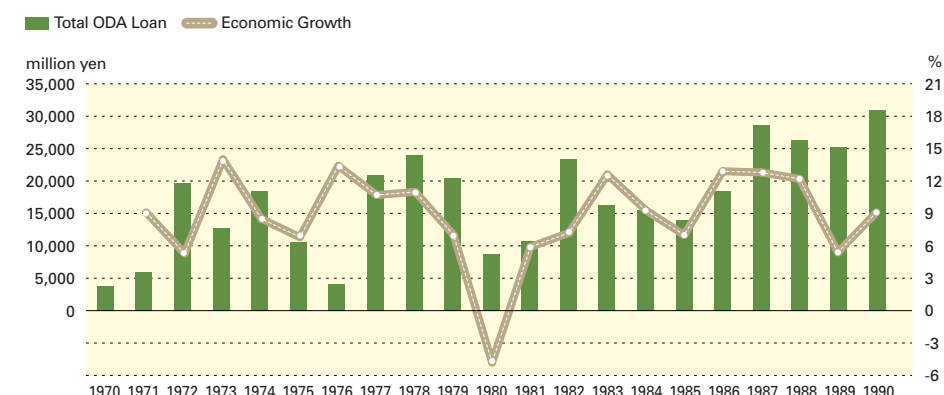
line with the Fourth 5-Year Plan (1977-1981), and contributed to flood control, increase in agricultural production, management of power demand, and tourism development. The Seoul Subway Construction Project (2) (1990) was intended to ease traffic congestion in Seoul with its growing population and improve the living environment for citizens in line with the Sixth 5-Year Plan (1987-91). The project facilitated the shift from automobile to subway, and generated such effects as a decrease in traffic accidents, improvement of air pollution, and reduction in automobile driving time, thus helping revitalize the regional economy.

The process of poverty reduction by the South Korean government is summarized as follows: Under the First 5-Year Plan (1962-66), measures were taken to secure energy supply sources, establish basic infrastructure, increase farmers' income by enhancing productivity, and balance international payments by increasing export in an effort to grow out of poverty. ODA loans were mainly used to establish the basis for economic growth by developing infrastructure. Under the Third 5-Year Plan (1972-76), mechanization of agriculture was promoted as part of the Saemaul Movement* for the purpose of addressing the decline in agricultural productivity caused by the influx of farming population into cities and maintaining self-sufficiency in agricultural products. As a result, the income level in farming villages increased and the income gap between urban and rural areas was narrowed. In addition, the government promoted various projects to facilitate industrialization led by the chemical and steel industries and using the funds provided by Japan (based on the agreement in 1965 when diplomatic relations between Japan and South Korea were normalized). Thus, advancement of an industrial structure was achieved in South Korea, and the living standard and welfare for people were improved, while population concentration in urban areas occurred.

The economic growth model of South Korea is described as follows: Up to the 1970s, high priority was given to the development of social and economic bases in strategic sectors under the government policy to prioritize economic growth. In particular, development of the basis for independent economy through the promotion of heavy chemical industry and poverty reduction through the Saemaul Movement were achieved at the same time. In the 1980s, though the country temporarily experienced negative economic growth, efforts were made to stabilize people's lives by improving social infrastructure, and the foundation was laid for joining industrialized countries. Lessons learned from this evaluation and recommendations are: 1) economic cooperation projects sponsored by more than one donor should be introduced in order to make use of technology of each country; 2) a good balance between the hardware aspects (infrastructure, etc.) and software aspects (basic technology, etc.) should be maintained in providing aids; and 3) measures to address not only absolute poverty at the development stage but also relative poverty should be taken. In the feedback seminar, the Korean Economic Development Cooperation Fund and aid institutions in Thailand also attended to discuss the necessary measures to improve ownership structure in developing countries by referring to the example of South Korea and examine applicability of the economic growth model of South Korea. It was agreed to exchange opinions and cooperate on a continuous basis.

*A movement launched in 1972 with the objective of eliminating the gap between urban and rural areas by implementing a series of projects to improve infrastructure such as houses and facilities for common use

Economic Growth in Korea and ODA Loan



Subway in Seoul constructed with the ODA loan is an indispensable means for commuting.

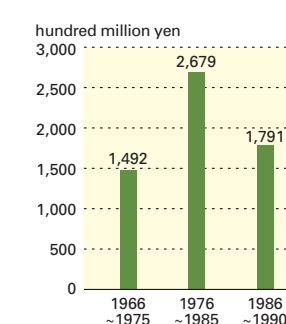


Pohang Integrated Steel Plant contributes to industrial development and creation of employment opportunities.



Chungju Multipurpose Dam constructed with the ODA loan. It assumes various roles such as preventing floods, electricity generation, and supplying water to the catchment area.

Changes in the Amount of ODA Loan to South Korea



Seoul National University Hospital constructed with the ODA loan. It plays an important role as a medical facility, which provides advanced medical care.