

The Korean Aid for Trade and its Implication to Developing Countries

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Abstract

Aid for Trade is defined by combining traditional trade-related technical assistance and trade-related infrastructure developments. The objective of the aid is to help developing countries to build the supply-side capacity and trade-related infrastructure to benefit from world trading system. Thus, the international trade community and the international development community have agreed to initiate Aid for Trade. Korea is one of the few developing countries that have successfully achieved economic growth and development in a relatively short period of time. This success was derived largely from the integration of export-oriented industrialization and appropriate trade and economic policy measures into the overall development strategy of Korea.

Although there are several problems regarding the Korean Aid for Trade, Korea is trying to formulate and strengthen the network among Aid for Trade implementation agencies and organizations. By strengthening these networks, Korea will share in house expertise and implement trade related technical assistance and capacity building programs. Weak political will and fragile economic infrastructure are a major hindrance to developing a strong trade development component. Therefore, Korea focuses on improving trade capacity and increasing awareness of the importance of mainstreaming trade issues in national development strategies.

Key Words : Aid for Trade; Official Development Assistance; Economic Development; Developing Country; Korean Economy

1. Introduction

‘Aid for trade’ has increased globally as a conduit for donations to assist developing countries in accessing global markets through improved trade capacity. The concept of Aid for Trade starts with a positive relationship between trade and development as a precondition for the economic growth of the country by integrating it into the world trading system [1]. Despite the positive relationship between trade and development, there are a variety of barriers that block many developing countries’ attempts to benefit from trade.

Until the early 2000s, the efforts of the international society were focused on increasing the trade opportunity of developing countries by improving access to the market of developed nations. The scope of trade aid has been expanded toward supporting expansion of productivity as well as trade capability of these countries in the mid 2000s. However, those

efforts did not bear any fruit.

Korea succeeded in compressed economic growth through the policy on the trade-oriented economic development. Korea is the only donor country experiencing serious poverty in the international society. It means that Korea enjoys a comparative advantage in Aid for Trade, differentiating itself from other donor countries and, for that reason, the demand for benchmarking Korea's experience is increasing from underdeveloped countries.

Korea expressed the position through the 2010 G20 Seoul Development Agenda that it should support the growth of developing countries by strengthening their trade-related capability and increasing continuously the size of the aid projects. However, the country has never had any detailed policy directions and systems to push forward Aid for Trade effectively up to now.

This paper will examine the policy system of Aid for Trade and its implementation of international community and show its problems. Then, it will examine the Korean ODA and the Aid for Trade issues. Finally, it will propose the efficient Korean style in their Aid for Trade works.

2. Aid for Trade in the International Society

The WTO, the UN and its agencies, the Development Assistance Committee (DAC) at OECD and Multilateral Development Banks have agreed to initiate Aid for Trade. Even though it is a part of official development assistance (ODA), the concept highlights the specified sectoral approach—"trade". For this reason, the additional funding was more sizeable, compared with that of the previous similar sector in ODA. In this regard, investigating the developed concept of Aid for Trade and the real influence on trade in developing countries is important to justify the existence of Aid for Trade.

Yet developing countries face market failures and binding constraints that hinder their ability to exploit fully the benefits of a closer integration with the international marketplace. Aid for Trade was endorsed at the 6th Hong Kong Ministerial Conference in 2005. Since then, it has been considered as a new promising development tool for helping developing countries benefit under WTO agreements and expanding their trade.

The Aid for Trade initiative aims to help developing countries overcome structural and capacity limitations that undermine their ability to maximize the benefits from trade opportunities. The WTO defines the concept of the Aid for Trade, as follows [2];

Aid for Trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade

and increased market access.

Then, the Joint WTO/OECD Database has been identified as having the following categories [3];

- (1) Trade policy and regulations,*
- (2) Trade development,*
- (3) Trade-related infrastructure,*
- (4) Building productive capacity,*
- (5) Trade-related adjustment,*
- (6) Other trade-related needs.*

Aid for Trade is designed to enable countries to build capacity through information, policies, institutions, infrastructure and a vibrant private sector. The scope of Aid for Trade has been expanded from 'trade policy and regulation' to 'construction of trade-related infrastructure.' The scope is recently reaching to 'Capacity building' and 'trade-related restructuring' across-the-board. Regarding this issue in developing countries, The WTO system invented some aid schemes in the form of Trade-Related Technical Assistance (TRTA) and Trade-Related Capacity Building (TRCB) to respond to the concerns of developing countries. This means that trade-related aid is actually aiming at general economic activity [4]. However, there has been a lot of controversy over the implementation situation and monitoring because they do not have unified opinions on the scope between donor countries and recipient countries.

Aid for Trade constitutes up to one-third of all ODA works. Annual commitments to Aid for Trade increased rapidly from 2005 to 2010, reaching \$48 billion. In 2011, it declined for the first time since the launch of the initiative in 2005. Then, the volume increased again to \$55 billion in 2012 [5]. Aid for Trade commitments were made to 146 countries in 2012. In terms of its distribution across income groups, Least Low-income Countries (LLCs) are now the largest recipients of the aid. While LLCs experienced a 7% decline in commitments from 2010 to 2012, they were least affected by the overall decline, and flows to middle-income groups fell more sharply. At about \$14 billion, the commitments to LLCs are now approximately double of what they were during the baseline period [6].

Several donor countries in the international society have established the policy directions for the effectiveness of their Aid for Trade works. The introduction of Aid for Trade policy systems means that the policy directions and aims, basic guidance, advancement systems are getting settled in the leading donors. The budget, assigned main body, plan and assessment process will be clearly set up based on that.

3. The Korean Economic Development and the ODA works

Korea began to receive aid from the international community after the end of the Japanese colonial rule in 1945. Since then, the Korean economy has subsisted on foreign assistance for several decades. Between 1945 and the early 1990s, Korea received a lot of assistance from the international community. Effective use of the enormous amount of foreign aid was crucial to the sustained economic growth of Korea.

After the end of the Second World War, in the geopolitical context of the Cold War, Korea in the 1950s received emergency relief as well as reconstruction funds from the international community. Then, many development works in Korea focused on post-war rehabilitation and reconstruction. Korea used the foreign aid to curb post-war inflation, secure financial stability and make investments in new industrial facilities. The assistances were allocated to the economic restructuring and development for their industrialization [7].

In 1995, Korea graduated from the World Bank's lending list and it became a member of the OECD in 1996. Although Korea did receive an emergency financial aid package from international development banks after the Asian financial crisis in 1997, it managed to overcome the crisis and in 2000 made its way out of the OECD DAC list of aid recipients. As such, Korea was finally able to make a transition from one of the poorest countries in the 1950s to an emerging OECD country by the mid 1990s and to a G20 member country in 2009. Furthermore, Korea joined the OECD DAC in 2009.

Korea is one of the few developing countries that have successfully achieved economic growth and development in a relatively short period of time. This success was derived largely from the integration of export-oriented industrialization and appropriate trade and economic policy measures into the overall development strategy of Korea. Since then, these experiences have diffused a strong belief that trade is indeed the engine for the economic growth of developing countries. Therefore, the Korean government has tried to make the Korean ODA model, which is related to the Korean economic development story.

For the international society, it is significant because it is the first time that a recipient country became a significant donor country in a period of less than a half century [8]. The aid communities now expect that Korea will play a role of a leading donor in the future. The governmental efforts are being made to promote the Korean style projects reflecting the experiences with the economic development in the modern history [9].

Since the enactment of the Framework Act on International Development Cooperation in 2010, the Committee for International Development Cooperation (CIDC) has been playing a

key role in upgrading Korea's ODA implementation system. Led by the Prime Minister's Office, the CIDC suggests consolidated aid strategies and guidelines to promote consistency and unity in ODA policies. Major ODA policies are decided through consensus with the airing of different opinions by relevant ministries, implementation agencies and civilian experts. Then, the decisions are finally adopted by the CIDC [10]. Such coordination strengthens the relationships between different government agencies and between ODA projects.

In 2102, the government established Strategic Plans for International Development Cooperation (Strategic Plan) which consists of three core bases: 1) developing ODA contents taking advantage of Korea's development experiences, 2) enhancing Korea's ODA system, and 3) strengthening inclusive partnership for development. With the Strategic Plan, Korea tries to give recipients hope, sets a good example for the international society, and gives its citizens a sense of pride. The Strategic Plan for the Korean ODA model proposed 159 aid programs that were rated as the relative dominance Korea had in the field and selected 40 basic programs among them.

4. The Aid for Trade in the Korean ODA

The Korean Aid for Trade field is on the rapid increase since the mid 2000s. The scale of the Korean Aid for Trade projects expanded to 360% by promised amount and to 220% by executed amount during 2006-2010. It was reported that the proportion of the Korean Aid for Trade in their ODA works was 64.4% by promised amount in 2009 and was much higher than those of other major advanced donor countries. The reason is presumed to be its proportion of credit assistance that was relatively higher than those of other donor countries and a lot of supporting amount that was used to establish the trade-related economy infrastructure.

Korea takes national development policies and development needs of partner countries into account when allocating Aid for Trade shares in individual projects and programs. It actively participates in policy dialogues in order to select appropriate sectors and programs for development in each partner country. As for trade-related programs, Korea is currently providing training education, dispatching Korean experts, and holding seminars on trade. Through these programs, we encourage trade officials and stakeholders of partner countries are encouraged to improve their trade capacity and to become aware of the importance of mainstreaming trade issues.

The Korean strategy in Aid for Trade is based on the belief that a truly open trade regime should not only address market-access concerns, but also provide substantial resources and an enabling environment for the developing countries, so that they may make fully use of their

comparative advantage and actively be involved in international trade. Korea believes that the Hong Kong Ministerial Declaration, which Korea fully endorsed, provided a good opportunity for our country to reaffirm the importance of providing trade-related aid to developing countries.

Korea's concrete strategic guideline has not been prepared. Even though the Aid for Trade of economy infrastructure, on which Korea has focused, could be of much help to the economic development of recipient countries, it may not be aiming at the poverty reduction of the low-income group. This has relevance to the fact that the selection of recipient countries Korea mainly supported appears to be made preferably from the secondary underdeveloped countries not among the poorest of nations.

Korea does not have a specific medium-term financial plan for Aid for Trade. And Korea has not yet implemented programs to strengthen in-house Aid for Trade expertise. However, Korea is trying to formulate and strengthen the network among Aid for Trade implementation agencies and major trade research institutes and organizations. By strengthening these networks, Korea will share in-house expertise and implement trade-related technical assistance and capacity-building programs. Weak political wills and fragile economic infrastructures are the major hindrances to developing a strong trade development component in partner countries.

Therefore, Korea focuses on improving trade capacity and increasing awareness of the importance of mainstreaming trade issues in national development strategies. Specifically, Korea provides consultations and recommendations based on Korea's experiences, especially in the WTO, FTA, intellectual property rights, special economic zones and so on. This is expected to provide valuable and realistic input regarding export and investment policies.

5. Concluding Remarks-Suggestions for the Implication to Developing Countries

Korea became the no.1 country in OECD DAC in 2014 in terms of growth rate of ODA and was a top growth rate ODA country in DAC from the years 2008 to 2012, i.e. five years in a row. Furthermore, it became the 16th ODA country in the world with the scale of ODA assistance related tentative statistic in 2013. The proportion of Aid for Trade in ODA is also growing steadily, and this has a close connection with the fact that the development efficiency of ODA has been emphasized internationally these days. In this situation, Korea has also been increasing Aid for Trade related support steadily.

Korea has maintained cooperative relations with many developing countries in the various fields and has steadily performed its ODA works and the Aid for Trade projects. A basic goal of Korean foreign aid policy is to promote national image and to support the reinforcement of

economic cooperation with sharing development cooperation goals in international society of poverty release and sustainable development of economic society.

Although the Korean Strategic Plan has provided the Korean model based on the Korean economic development story, it did not include the details about Korea's priority and program on the development and cooperation of trade field. Because the history of Korean aid is not long unlike that in other DAC countries, it is difficult to say whether or not the mainstreaming of trade has been made official by now as a new donor country. A clear Aid for Trade practice system in overall aid system is required because it is difficult, without a clear position, to set up effective target and budget allocation, execution and post evaluation.

The fact that Korea has an experience in economic growth through trade, and the system that makes it possible means it has the advantage in diverse fields related to Aid for Trade such as vision in economic development, resource supply, trade methods and organizations, development of trade related human resources. Therefore, developing countries are expecting the leading Aid for Trade reformation of the successful Korean model with a clear Korean practice system and policy.

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