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국제학 석사학위논문

Bringing Capacity Building

Back in Aid Ownership

: An Analysis of Aid Relations

between U.S and South Korea in the 1950s and 1960s.

개발 원조 협력대상국

주인의식에 있어서 역량 강화

: 1950-1960년대 미국의 對한국 원조 관계 분석

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Abstract

Although the global aid community has made unceasing efforts to eradicate world poverty, the academic society notice the quality of aid also matters generating a series of critical studies about aid efficiency. By suggesting that recipient countries should draw up and design own economic progress path, the academic society pinpointed the importance of ownership of recipient. However, the notion of ownership contains the paradox because it's not that simple thing when it comes to empirical application.

For example, most of scholars only focus on autonomy of aid policy of Park-Chunghee administration with regard to South Korea economic prosperity, however, not only Park-Chunghee but also Rhee-Syngman claimed to participate in the allocation and disposition of the aid funds. Aid plan presented in 1950s and 1960s shared similar characteristics, which is “government intervention”. This is my first part of thesis raising question about notion of ownership because result of aid policy

of Park regime is different compared to that of Rhee's even though the fact that both regimes claimed aid policy autonomy seriously.

The second part of my research is to find decisive factors of success of aid policy if ownership was not the panacea for the aid ineffectiveness. Specifically, the hypothesis that autonomy itself can be the answer of the development is questionable, thereby; the limits of ownership need to be discussed in this point, and also what is needed to build trust between donor and recipient. I would like to suggest the fact that "capacity of nation" as key role for positive environment of aid program by building trust between donor and partner.

Third, the connection between donorship and ownership need to be examined. Unlike Rhee administration, however, Park started to recognize power of donor, which is mainly the United States; in politically and economically, he finally admitted the limits of autonomy. Then he began to change the economic strategy and aid disbursement compromising donor's suggestion within the limits of ownership. Then, the Park government started to achieve an economic growth; ironically, his government got more ownership afterward giving up the ownership. Even, after gaining trust from recipient, his regime had aid negotiation power. In this point, I focus the power relation between donor and recipient.

The notion of ownership is not a carte blanche for developing countries to draw up their development path, but rather a relative independence in the extent to which they may comply with international organizations and donors' strategic framework and requirements for aid disbursement. Although a lot of papers imply that most donor-driven policy is

evaluated as inefficient one, and has a detrimental effect on ownership although it has a good intention, but there is a paradox and complexity in ownership in terms of outcome of success empirically. The correlation between the ownership of recipient countries and success of aid program in real appears to be unforeseeable result. In this vein, the discussion about true ownership is needed.

Keywords: Official Donor Assistance (ODA), The government ownership, Paradox of autonomy, alignment of donoship and ownership, US aid organization, the 1950s and 60s, capacity building

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I. INTRODUCTION

1-1. The Notion of Aid Ownership

The critic of the effectiveness of aid presents in the work of William Easterly in his book "the White man's burden", in which he stressed on the fact that despite that US\$ 2.3 trillion has been pour down for foreign aid over the last five decades, there are rare if any cases of economic success as a consequence of these investments despite the fact global society has evolved to find a effective way to amusement for rich adults and children¹. Easterly argued that the poor are held hostage to get foreign aid from rich donors. In fact, and being a more essential critique, development aid is argued to make LDCs worse by inducing distorted motivations that encourage the perseverance of kleptocrat rule and organizations of low quality². This argument holds that aid generates enticements for rent-seeking behavior and is as such to be considered as a kind of curse similar to the well-known natural resource curse³. In this vein, academics and policy researchers continue to debate the question of whether, or under what conditions can improve the quality of aid.

In 2004, the Barcelona Development Agenda was stipulated in its

¹ Easterly. 2001. *The White man's burden (Why the West's Efforts to Aid the Rest Have Done So Much Ill And So Little Good)*. PenguinUSA. p.116.

² Martin Sjöstedt. 2013. *Aid effectives and the effectiveness and the Paris declaration: A mismatch between ownership and results-based management?*, University of Gothenburg, Sweden. P.144.

³ Hodler R 2007. *Rent seeking and aid effectiveness*, International Tax and Public Finance14.p. 525-541.

third point of priority for reform: “Countries should be free to experiment with policies suited to their specific circumstances, and international lending organizations and aid agencies should encourage such experimentation.” The Poverty Reduction Strategy Paper (PRSP) was based on the ownership principle: it aims at reinforcing the coordination of national public initiatives with the development priorities of donors, and constitutes a prerequisite to benefit from the debt relief under the Heavily Indebted Poor Countries Initiative. In the same vein, one of the main features of the Paris declaration for Aid effectiveness (2005) and the Accra Agenda for Action (2008) is elaborated the concept of ownership suggesting that poor countries need to design the appropriate their own plan by themselves to achieve progress. It shows that the recipient partner institute should take more actions and responsibilities to make the aid work better. The temporary approach of providing a hungry man with fish will solve today’s starvation, but not the one coming tomorrow. The Busan final declaration also is on the same context agreed by donors and the g7+ group infused with the original Paris spirit.

1-2. The Paradox of Ownership

Unsurprisingly, the ownership principle was adopted as one of the core principles to achieve an effective aid at the conference of Paris in 2005. However, it is difficult for Heavily Indebted countries to be very innovative as well as creative; rather, numerous the infeasible aid plans

and worldwide goals end up to be estimated as ineffective attempt in real application eventually. Although there might be better motivations in the new aid architecture, aid is by definition rather tricky in terms of its outcome. Empirically, there are a lot of cases that we can see an irony between ownership and result of aid. Ownership is suggested as the solution to enhance efficiency, but it entails a paradox of ownership intrinsically. Future investigation and policy improvement henceforth need to dedicate substantial time and effort to find effective ways to disburse aid that do not mislead ownership.

For example, the South Korean experience has been mentioned frequently as a demonstration of its successful path of economic growth by internal ownership of Park-chunghee regime and a positive nexus between U.S foreign aid. However, Not only President Park but also Rhee-Syngman raised his voice continuously to U.S aid agencies with regard to aid policy. Both regimes recognize state sovereignty seriously, moreover, there were constant tensions between both regime and the U.S aid organization with regard to ownership and autonomy of aid money; however, the process of dealing the disputes seemed different among two regimes. Interestingly, there is unavoidably a gap between the rhetoric of ownership and the influence on economic growth of recipients.

As we showed above, the notion of ownership shows that one of the main concerns today that partner countries should take more actions, but making the aid work better is not that simple thing. Besides aid-receiving countries even within the ownership principle are limited in the extent to which they can take innovative actions to eradicate

poverty. The premise that aid could be a positive influence in the emergence of the ownership is equivocal if we see lots of the empirical evidence. If we examine Korean development path, which is considered as successful case graduating from the aid-receiving country group, the relation between aid efficiency and ownership is rather complicate so that it needs to be more analyze thoroughly. Albeit most of under developed countries had common experience of colony before 1945, but different characteristic of economic policies were implemented in each nation. Focusing on this implication above, typical questions were as follows: Considering these complicate aspects, what kind of degree and range of ownership makes aid more answerable to the poor? Whether and how greater ownership leads to better outcomes in terms of poverty reduction, and if the ownership is not only the factor of key of the success of aid program, what can be the prerequisites? Building state capacity may bolster recipient power toward donor?

II. LITERATURE REVIEW

Since donor countries had begun to emphasize the methods improving the capacity of the aid-receiving countries, international aid community elaborated what is called the notion of ownership which to take an initiative of agenda-setting of aid policy and its implementation. Most recently, an academic debate has actively tried to define under what

conditions ODA encourages economic progress. Burnside and Dollar⁴ found that foreign assistance does truly spur growth, but only in countries with so-called sound policies such as low budget deficits, low inflation, and various trades.⁵ If it were not for sound social system in recipient countries, then, whether they have a strong will for build sound policy by themselves or not could be the one of the factors for success of aid policy. These worries lead to create the notion of ownership and its effectiveness.

As academic debate has been developed about ownership, a series of research is generated underlining either that ownership does lead to economic growth or that it does not. Generally speaking, since the roots of the so-called ownership era are traced to the mid-1990s and millennium, most of the articles have positively considered ownership as a remedy to the aid ineffectiveness

Given the fact that the new aid architecture connects lots of agencies with numerous, and in certain cases even competing agendas, recipient counterparts are facing serious administrative and financial restraints as regards satisfying donor demands for information, plans, reports, meetings etc.⁶ According to the many scholars such as Whitfield⁷, Bourguignon and Sundberg⁸, Manor⁹, Faust¹⁰, etc, the ownership agenda

⁴ World bank. 2004. Aid, policies, and growth : revisiting the evidence / Craig Burnside and David Dollar. Burnside, Craig. Washington.

⁵ Martin Sjöstedt, *Aid effectiveness and the effectiveness and the Paris declaration: A mismatch between ownership and results-based management?*, University of Gothenburg, Sweden, p.144.

⁶ Ibid., P.145.

⁷ Whitfield L. 2009. *The Politics of Aid: African Strategies for Dealing with Donors*. Oxford University Press: Oxford.

⁸ Bourguignon F, Sundberg M. 2007. Aid effectiveness—opening the black box, American

addresses these issue as a possible solution to negative effects of “donor fragmentation and aid chaos”. As conditionality gradually became out of fashion requiring substantial reforms in the aid architecture, the international aid community desperately needed a new instrument. Accordingly, there were lots of articles emphasizing about ‘take ownership’ as a new consensus.

The authors of the World Bank’s 1990 World Development Report noted that projects often unsuccessful because “project beneficiaries were often not involved in decisions, and they felt that they had little stake in sustaining projects, thus plans that encouraged participation operated better”¹¹. Similarly, the 1991 Report argued that “participation enhances aid program efficiency and benefits the poor”¹². The article, New Tyranny¹³, performed a forum for interrogating the value of participation, besides, there is a requirement for more ownership of the process of achieving growth goal internationally and nationally together¹⁴.

In overall, as we can see that donors’ intentional intervention have a huge impact on partner country’s economic growth plan whether toward

Economic Review97: 316–321.

⁹ Manor J. 2007. Aid that Works: Successful Development in Fragile States. World Bank: Washington, D.C.

¹⁰ Faust J. 2010. Policy experiments, democratic ownership and development assistance, Development Policy Review28: 515–534.

¹¹ World Bank. 1990. Poverty: World Bank development report 1990.Oxford: Oxford University Press. p.131.

¹² World Bank. 1991. The challenge of development. World Development Report. p.85.

¹³ Kothari, U. 2001. *Power, knowledge and social control in participatory development*. In B. Cooke & Kothari, U. (Eds), Participation: The new tyranny (pp. 139–152).London: Zed.

¹⁴ Lancet and London International Development Centre Commission. 2010. The Millennium Development Goals: a cross-sectoral analysis and principles for goal setting after 2015. p.1014

a positive way or negative direction. Hence, the assessment of the ownership of South Korea depends on strategic intervention of the US aid organizations is needed. There is a wide consensus in the academic literature that recipient partner's ownership is a key element for endeavors to empower recipient to take effective governance over their economic path and in the most studies emphasize that top-down control from donor agency might hamper innovation and jeopardize stifling progress.

III. RESEARCH QUESTION

Most of the studies have shown the positive nexus between aid ownership and result of aid program. However, there are a lot of empirical cases that we can see an irony between autonomy of aid policy and result of aid. The South Korean experience has been mentioned frequently as a demonstration of its successful path of economic growth by internal ownership of Park-chunghee regime and a positive nexus between U.S foreign aid. However, Not only President Park chung-hee but also Rhee-Syngman raised his voice continuously to U.S aid agencies with regard to aid policy. Actually, South Korea economic aid plan presented in 1950s and 1960s shared similar characteristics, which is "government intervention", and both administrations had had continuous tensions with U.S administrations

and aid agencies. Not only Park regime but also Rhee regime recognized state sovereignty seriously in terms of aid policy, nevertheless, result of economic growth of aid policy was different between two regimes due to state capacity.

In this vein, I would like to raise three research questions.

First, both regimes claimed to participate in the allocation and disposition of the aid funds; however, the path of each regime was different. Ownership is suggested as the solution to enhance efficiency, but it entails a paradox of ownership intrinsically. This will be my first part of thesis whether state autonomy of aid policy has a positive effect on economic prosperity of poor country or not.

Second, we need to answer the fundamental question which has been awaiting a response: does government ownership have a decisive role in South Korea economic development and, if the answer is not entirely positive, what kinds of decisive elements are needed? The hypothesis that ownership could always not be a positive element in the appearance of leadership arrangements, I would like to suggest “nations’ economic capacity” as one of the answer of former question. Awareness of these problems is greater than ever before, which means that previous commonly shared notion is not inevitably a best guide to the future empirically.

Third, the connection between donorship and ownership need to be examined. Unlike Rhee administration, however, Park started to recognize power of donor, which is mainly the United States; in politically and economically, he finally admitted the limits of autonomy. Then he began to change the economic strategy and aid disbursement

compromising donor's suggestion within the limits of ownership. Then, the Park government started to achieve an economic growth; ironically, his government got more ownership afterward giving up the ownership. Even, after gaining trust from recipient, his regime had aid negotiation power.

There are power differences between donor and recipient because donor might give penalty in terms of aid reduction or suspension or give aid with conditionality to the partner countries, whereas recipient countries desire to participate in aid policy making of his own country with autonomy. Recipient even might have negotiation power whereas there are also many countries which just follow the aid regulation imposed by donor. In this point, I focus the power relation and how the outcome of aid program of recipient can affect alignment of donorship and ownership.

IV. HISTORICAL REVIEW

I will analyze of the relation between U.S aid agencies and South Korea in the 1950s and 60s to see how ownership influence on the result of aid during the process of transfer. Two administrations did not automatically follow the U.S-driven principle, interestingly; the actual influence of foreign aid could be differently shaped by varying degrees of the capacity and ownership of the recipient partner in dealing with

transferring influences of international aid.

For the empirical investigation and comparison, I will examine US aid agencies and Korean government relations, from GARIOA, ECA to FOA, ICA, and AID, etc, especially 1950s which is the period that the US started seriously to pour aid capital to Korean peninsula after Korean War, and 1960s as well, because Park regime had different characteristic with regards to feedback with U.S development aid agencies compared to Rhee regime.

This article focuses on “government ownership” when it comes to aid policy and economic growth path, and deal with the inhering paradox between government ownership and result of aid. Moreover, the purpose of article is to think what is the true ownership and capacity building considering complexity and paradox of ownership. In this vein, the assessment of the ownership of South Korea depends on strategic intervention of the US aid organizations will follow. Assessing the Rhee and Park regime government is difficult, thus, the main tasks of this analysis focus on not only how to identify a degree of ownership affecting Korea’s post-war development, mostly 1950s-60s, but also how to understand the paradox inhering the notion of ownership.

4-1. The Relation between US Aid Agencies and Korea in the 1950s

When South Korea began to getting US aid from the Economic Cooperation Administration (ECA) in 1949, the Office of Planning and

the Office of Procurement were established under the Prime Minister's Office for manage aid. Later they were placed under the President's Office by putting aid-related offices under the highest authority. The outbreak of the Korean War led to the termination of ECA aid, and the United Nations Korean Reconstruction Agency (UNKRA) took over long-term reconstruction projects,¹⁵ whereas Assistance Command (KCAC) operated short-term reconstruction projects. In 1952, the South Korean government and the UN Command jointly organized the Combined Economic Board (CEB) to guarantee effective aid coordination in accordance with the recommendations from the Special Representative of the US President for Korean Economic Affairs, Henry J. Tasca. The CEB consists of a senior Korean economic minister and a US aid official, representing the South Korean government and the UN Command, respectively. The two representatives held regular meetings to prepare and supervise economic and financial plans.

Under the CEB, there were five agencies: the Community Development Committee, the Relief and Aid Goods Committee, the Finance Committee, the Engineering Committee, and the Overall Requirements Committee. Working groups as well as special committees were also made to maneuver the CEB efficiently. All committees were consisted an equivalent number of officers from both South Korea and the UN, appointed by their separate representatives. The CEB was related in overall economic policies as well as aid disbursement.

In 1953, the US created the Foreign Operation Administration (FOA)

¹⁵ Eun Mee Kim, Pil Ho Kim & Jinkyung Kim. 2013. *From development to development cooperation: foreign aid, country ownership, and the developmental state in South Korea*, The Pacific Review, p.11.

as a government organization in Washington to oversee and raise the effectiveness of the overseas aid programs. It also established the Office of the Economic Coordinator (OEC) under the UN Command in South Korea to design, implement, and supervise economic assistance including counterpart funds and to coordinate between the US and Korean governments and aid agencies¹⁶.

The OEC focused on Rhee regime's economic progress and financial stabilization, working with the US Ambassador on a range of political issues. Since 1956, the OEC had overseen all South Korean aid programs with the KCAC and the UNKRA functioning as its implementation agencies, and The OEC managed policies on price, wage, resource allocation and labor in cooperation with the Prime Minister's Office, the Ministry of Finance and the Office of Planning¹⁷.

The Economic Coordinator in the OEC, selected by the US, played the role of UN representative in the CEB, at the same time, economic advisor of the UN command. The CEB designed aid policies and supervised their operation by the OEC and the South Korean ministries, working as a link between the domestic and the international aid-related agencies.

The aid structure monitored by the CEB and the OEC shows that there was an effort made by both the US and South Korea to coordinate aid and avoid overlapping programs during the 1950s. However, the

¹⁶ Mason , E. S. , Kim , M. J. , Perkins , D. H. , Kim , K. S. and Cole , D. C. 1980. *The Economic and Social Modernization of the Republic of Korea*, Cambridge, MA: Council on East Asian Studies, Harvard University.

¹⁷ Macdonald , 1992. *US-Korean Relations from Liberation to Self-reliance: The Twenty-year Record*. Boulder: Westview Press.

actual performance was not working properly. The CEB, supposedly the main agency of ownership exercised by the aid recipient was not proper from the beginning because the US and South Korea were not able to reach a certain agreement on its specific function. Accordingly, the CEB and the OEC played only an incomplete role in aid management. This means that there were the constant discord about coordination of aid capital between the two main aid agencies, the KCAC and the UNKRA. It definitely did not help for harmonizing and communicating with the UN organizations were all located in Seoul, whereas some of the South Korean ministries were still in Busan after the Korean War.

But, the rising number of South Korean officials joining in the CEB indicated their fervor to take ownership of aid management. In other words, the capacity to devise the Five-year Economic Development Plans in the developmental state of the 1960s did not come out of the blue; it had been built up since the mid -1950s¹⁸.

4-2. The Relation between US Aid Agencies and Korea in the 1960s

South Korea experienced speedy economic development between 1961 and 1975, and foreign capital was provided more in the form of concessional loans, graduating from grant aid¹⁹. The new aid policy of

¹⁸ Macdonald , D. S. 1992. *US-Korean Relations from Liberation to Self-reliance: The Twenty-year Record*, Boulder: Westview Press.

¹⁹ Eun Mee Kima, Pil Ho Kima & Jinkyung Kim, 2013. "From development to development cooperation: foreign aid, country ownership, and the developmental state in

President Kennedy in 1961 altered its policies to control inflation, leading policy change from grant aid to concessional loans demanding responsibility and ownership from the recipients. This policy shift accorded with South Korea's impetus for development in the early 1960s, and South Korea used concessional loans for its own economic plans. 50.7% of foreign aid to South Korea was in the form of grant aid, whereas 49.3% in concessional loans for 1961–1975. South Korea's extraordinary economic development from the 1960s was thanks to the foreign aid, because grant aid and concessional loans to South Korea acted almost like national capital, letting the South Korean government to utilize these funds to support its industrial policies. There is unceasing disagreement if we see the IMF and the World Bank suggested that South Korea needed to pursue labor-intensive light manufacturing industries

The establishing of the EPB and other agencies lead to the formation of comprehensive Five-year Economic Development Plans. Early age of the EPB during the First Five-year Plan (1962–1966) regarded as Americanization, but by the end of the 1960s, it became clear that 'the more autonomous the South Korean administration became, the more capable it was of refusing American guidance and applying its own visions of modernization and development'²⁰.

Between 1962 and 1971 more than 7000 Koreans received training overseas, and furthermore over 1500 professionals were sent to South Korea by donor. When creating the Korea Institute of Science and

South Korea", *The Pacific Review Volume 26*, Issue 3.

²⁰ Brazinsky, G. A. 2005. "From pupil to model: South Korea and American development policy during the early Park Chung Hee era". *Diplomatic History*, 29(1): 83–115.

Technology with US support, Korean project managers made a decision to have the orientation of the institute and selected the most qualified advisers, instead of waiting for experts to be sent. Lots of the senior personnel in government, academia and business, received overseas training. Investment of substantial local resources and time in project implementation signaled strong Korean project ownership and was in line with local efforts to learn ‘how to fish’²¹.

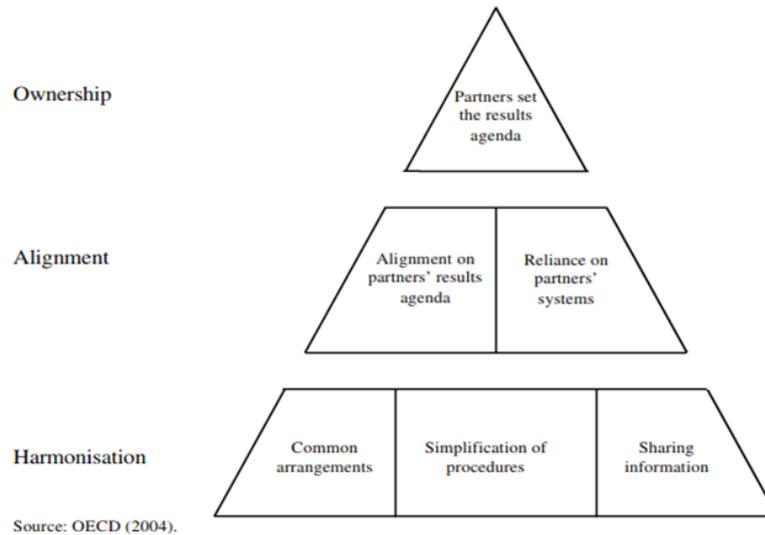
V. ANALYSIS FRAMWORK

There are intrinsic tensions surrounding policy implementation due to power difference between donor and recipient. Recipient countries demand policy autonomy while donor countries assert donor power. There are power differences between donor and recipient. Donor might give penalty in terms of aid reduction or suspension or give aid with conditionality to the partner countries, whereas recipient countries desire to participate in aid policy making of his own country with autonomy. Recipient even might have negotiation power if that country has comparable ownership, in comparison; there are the many countries which just follow the aid regulation imposed by donor. I would like to analysis about how ownership affect the result of development, consequently, how that result can affect alignment of donorship and

²¹ Kharas , H. , Makino , K. and Jung , W. 2011. *Catalyzing Development: A New Vision for Aid*, 1–37. Washington, DC: The Brookings Institution Press. P.6.

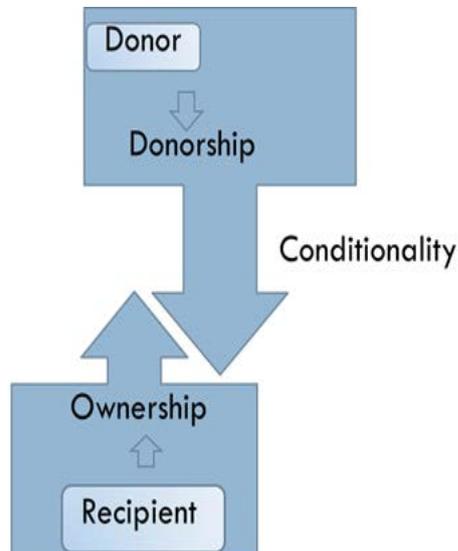
ownership.

Figure 1. Aid effectiveness pyramid



When Korean government received aid from U.S, Rhee government had little power on aid policy as well as Park regime. Rhee had many politicians to back up his policy compared to that of Park, thus he assert state sovereignty strongly although U.S continuously opposed his plan. In contrast, early years of Park regime, he recognize lacking of his follower because he seize the throne by military coup, accordingly, he knew he could be replaced by another person. Thus, he did not cross the line when U.S aid organizations pressured on his economic plan. However, Park regime had more negotiation power as the success of economic plans.

Figure 2. Aid negotiation Model



As we see above, there are inherent tensions due to power difference between donor and recipient. Donor may disappoint about performance of recipient country or may trust the recipient. When poor nations receive foreign aid from donor, recipient tends to have little power on aid policy, especially, initial stage of aid economy. Accordingly, recipient may assert more autonomous power or may follow imposition of donor's conditionality. I would like to call this process as 'Aid negotiation Model'. When times goes by recipient partner can have negotiation power or vice versa. Though this model, we can see the aspect of feedback between donor and recipient about aid alignment thoroughly as well as the process of aid negotiation.

This dissertation can be divided as three parts as I would like to assess (1) meaning of "true ownership" for aid effectiveness through Korean experience in first part of this paper, and (2) examine the

relation “state capacity” for development, then, based on previous part of paper, I would like to (3) analysis alignment between donorship and ownership as state capacity building through third part of paper.

VI. THE KOREAN EXPERIENCE OF “OWNERSHIP”

6-1. Rhee-syngman Administration

There are lots of articles dealing with notion of ownership, in comparison; there are less discussion on concrete process and analysis about complex empirical context about ownership. Some scholars recognize that the basic of government ownership is the nation’s political leadership, not some technical means such as a functioning budget process or good plan²². Similarly, with regard to Korea case, most studies focused only on strong leadership under Park-ChungHee regime when it comes to South Korea dramatic economic progress despite its dictatorial rule. Some articles show the main features emerging in the new aid industry that is a highlighting on ownership of beneficiary nations of the economic strategy. In this literature, assessments should be carried out under the beneficiary organization’s leadership in the government-ownership context, to guarantee that aid organizations can successfully self-assess in the future without the help of outside partners²³.

Unfortunately, most studies focused only on strong leadership under Park-ChungHee regime when it comes to South Korea dramatic

²² David Booth. 2012. *Aid effectiveness: bringing country ownership (and politics) back in*. *Conflict, Security & Development* 12:5. 552-553p.

²³ Jessica Goldberg and Malcolm Bryant, Goldberg and Bryant. 2012. *Country ownership and capacity building: the next buzzwords in health systems strengthening or a truly new approach to development?* BMC Public Health.

economic progress despite its dictatorial rule. And most of the articles focus on unilateral U.S influence but not complex bilateral story. However, I think that President Rhee-Syngman also raised his voice continuously and expressed disagreement about aid US policy if we see numerous evidences about constant trouble with Eisenhower administration as well as secretary John Foster Dulles. He knew John Foster Dulles who was the secretary of United State did not trust him as well if we see a letter below sent by President Rhee to the secretary dated on July 11, 1953.

As I reread your letter, and I assure you it has had my most earnest and prayerful attention, its text seems to indicate that I am a heartless wretch without gratitude and without any regard for any human values except perhaps the narrow self-interest of our own people. I cannot think that this is a true representation of your feelings. It is true, of course, that we have asked and asked, and that we have received and received.²⁴

His dissatisfaction involved two points: first, all assistance including funds was completely controlled by the American Economic Coordinator; second, the assistance was used not for reconstructions and rehabilitation, but for immediate relief.²⁵ He thought US aid flow was tied up and aid regulation is too strict as well as the management of counterpart fund under the United State' supervision. In addition, he constantly expressed the worries how aid

²⁴The Presidential Archives, 2012, *English letter of president Rhee -syngman*. 179p

²⁵ Tae Gyun Park. 2014. *What Happened Sixty Years Ago?: ROK-US Deep Distrust between President Rhee and Eisenhower*. Journal of international and area studies Volume 21, Number 1, pp.37-53, p.9.

money was used and where relief goods was bought – mostly from Japan.

The controversy continued until the end of the Rhee administration, and these series of conflicts between Rhee regime and Eisenhower decreased aid's effectiveness. It hampered the trust between donor and recipient; consequently, many feasible plans could not carry out. The fact that Rhee regime could not achieve the considerable development shows even though ownership is important; however, there is an intrinsic paradox in some extent.

It casts new question on the relationship between ownership and capacity of recipient nations. It is questionable that ownership always bolsters aid efficiency of recipient country. More important thing is that ownership requires a certain level of capacity of the recipient partner to draw up and execute a national economic path on its own. The South Korean development experience illustrates the importance of the ownership and capacity combination, as we will see next chapter.

6-1-1. Disputes between Rhee regime and U.S

In 1950s, the Combined Economic Board had a full right to regulate of the US assistance money to South Korea, thus Rhee administration actually cannot use aid money freely as well as counterpart fund without the United States' approval. Albeit the Rhee government's capacity was insufficient for management of foreign aid, Rhee constantly claimed autonomous power toward aid money leading discord and distrust between donor and recipient if we see the draft letter written by Rhee.

I discovered in it two most important points and at once called their attention to it. These points are: 1/this government is asked to coordinate to Korean foreign exchange and other national resources with the aid funds given by the USA. This means all the dollar accounts in the Korean treasury and all the revenues, taxes and mine products of all kinds are to be controlled by the Combined Economic Board. This is impossible, because in the first place this government must meet its administrative expenditures as well as the military budget. …… If it all tied up with the aid fund, the Government will be closed up. We have to take care of that. Another reason is that a sovereign government cannot have its national treasury in the hands of foreign nations however friendly.²⁶

I am sorry to inform you of the fact that our position is such that we cannot sign the agreement unless the two points are cleared. We told Mr. Wood that the Korean government will continue to make every effort to spend a large sum of its own money for the reconstruction work - If necessary I will make a record what we have been doing for national reconstruction without our side help anybody's knowing and we pledge to continue to do it in every way possible....

Out of our deep gratitude to your excellency and to your government and the people of the United States we would sign any agreement or contract relating to the disposition of the fund and I do confess that we did sign every agreement proposed by the representatives of the American government without raising a question and without knowing the meaning of this and that but we have found out that such a way of signing of an international agreement without knowing what we are signing for led us to no end of trouble.

²⁶ The Presidential Archives, 2012, *English letter of president Rhee -syngman*. p.80-81.

His complaint was about a new agreement, “Combined Economic Board (CEB) Agreement for a Program of Economic Reconstruction and Financial Stabilization between the Republic of Korea and the United States of America” signed on December 14, 1953.²⁷ We can see that Rhee's strategies related to U.S economic aid was stubborn saying that he could not sign every agreement if the two points were not cleared.

Rhee had lots of interest in where and how aid funds were used, and expressed the concern about the way of aid money was used by U.S agencies if we see the letter sent by Rhee to Eisenhower²⁸.

But if anyone asked me what we have done with this amount toward the economic rehabilitation for the fund was given for that purpose, we have nothing to show for when the ECA officials arrived here saying that they are going to spend the fund they have for the economic rehabilitation....We do not underestimate the importance of this immediate relief instead for spending 20 to 30 million dollars for the importing the fertilizer annually from Japan and other countries if we spent one half of the total sum for so many year for the importation of fertilizer we would have some of our war demolished fertilizer factory rehabilitated and some new factories build so that some of these essential industries could have been set up. I say this not as a complaint but as an illustration to show why we have to come to realize unless this government is granted to participate in the allocation and disposition of the funds, we would

²⁷ Taekyun Park, 2014. *What Happened Sixty Years Ago?: ROK-US Deep Distrust between President Rhee and Eisenhower*, Journal of international and area studies Volume 21, pp.37-53, P.10.

²⁸ The Presidential Archives, 2012. *English letter of president Rhee -syngman*. p.82-83.

rather not receive any more aid funds.

As the letter implies, Rhee government desired to participate in the distribution of the funds with ECA.

Rhee government also argued economic autonomy seriously in terms with inflation policy and exchange rate. Rhee set the proactive economic recovery plan in 1951 and 1954, as well as a five-year plan in 1956 which was mainly in energy-related businesses, infrastructure and society with a focus on import substitution industrial construction plan which may occur inflation increasing government spending through monetary policy. However, the Eisenhower government pursued a policy to prevent the inflation; thus, economic policy of the Rhee government was opposed by U.S agencies. Rhee government carried out a policy of maximizing the won value to get more dollars, the difference between the exchange rate and the real exchange rate of Won value was more than twice²⁹. Albeit Rhee regime tried to minimize the amount of Korea currency, so more aid money was able to receive, the US aid agency regarded manipulating the currency as expedient by minimizing the effect of aid usage deliberately. Rhee seemed he did not interest in domestic economic growth or capacity building for progress, rather took care about quantity of dollar infusion.

Rhee also had trouble about aid quantity. Korea peninsula was important political strategic place in the wake of Cold War, because all

²⁹ Taekyun Park, 2000. *The process of economic development plan during 1956-1963 in South Korea*. Graduate school of SNU. Seoul National University. Seoul.

gloves were keeping an eye on the influences of the Communist in the region of East Asia. This made U.S. offer sizeable military assistance to South Korea in 1950s and even economic aid was expected to be partly allocated to the military purpose. Then, U.S altered the focus of assistance from military to economic aid, at the same time the United State pursued an anti-inflation policy in Third World countries including South Korea, and this brought discord between Rhee-Syngman administration and ECA. Rhee had not given up his unification policy, and Rhee thought Korean peninsula was unstable in military reason despite the Armistice Agreement was signed, thus, he did not satisfied the U.S policy which was changing military assistance to economic aid, arguing increase of military aid from U.S.

Rhee also had trouble about source of aid. The money from US aid became a main element of Korea budget considering the fact that the US economic aid proportion of the total budget to South Korea was high enough to exceed 40 percentages through the 1950s. However, the United States tried to reduce the US commitment to foreign aid by pursuing two policies; to create the conditions in which private capital can be injected to replace public capital in South Korea; to shift the burden of economic assistance to Japan. Since there was no foreign investment in spite of the fact that the foreign investment law was approved, the United States desired to alter the burden of aid assistance to the Japanese government. This caused a greater disagreement between Rhee regime and Eisenhower regime not only opposed to receive aid capital by the Korea-Japan normalization but also dissatisfied with aid goods purchased from Japan even, through his

letter sent by Rhee to Walter s. Robertson in July 2th, 1958.³⁰ He pursued “becoming another Japan” for state autonomy and ownership.

But you are also well aware that in the earlier days when our need was greatest, instead of helping us start some productive facilities to help supply our own needs and give even a bare start to economic recovery, most of the aid funds were used for the purchase of Japanese-produced consumable goods. ……But the productive facilities that could have helped build up and sustain a Korean economy were being built up in Japan with the Korean aid money to the lasting benefit of the Japanese economy…….if you would tell us how much of the \$2.5 billion total has been invested in Japan’s capacity to give trading aid and comfort to the Communists—which Japan so obviously and avidly desires to do.

6-1-2. Outcome of the Aid Program

Robert Nathan Associates were hired by the United Nations Korea Reconstruction Agency (UNKRA) in 1952 to prepare a post-war rehabilitation program, and “Nathan plan’ was made in 1953. However, it did not come into effect because of its unrealistic terms of reference, then Rhee prepared a three-year development plan for 1960-1962, but this did not work properly because Rhee regime fell down after the April Student Revolution in 1960. Moreover, Rhee pursued and adhered to his own economic strategy such as Import-Substitution Industrialization. It

³⁰ The Presidential Archives. 2012. *English letter of president Rhee -syngman*. 371p.

was not proper strategy in global capitalized market, because the ISI strategy served as a main system to realise the balanced growth theory by downplaying the role of exports in the outward economic development.

Nevertheless the government plans did not feasible for real application; the developments of the 1950s laid the foundations for later industrial growth after 1964 in some respects. Even though the fact ISI strategy was not clever decision due to lacking of interest about economy and information about capitalism, Rhee regime wanted to make plan with autonomy and kept clinging to the notion of ownership.

Rhee government and the Eisenhower administration had had continuously discord throughout the 1950s in overall, with regards to economic, military and political issues. In conclude, as a result Rhee's ISI was evaluated as failure because manufacture industry had not become a dominant sector in Korea and imports had been increasing against the theory of the ISI, and this also reflects lack of the Korean government's capability to handle ISI strategy. However, albeit Rhee regime did not success in terms of economic growth result, but as the aspect of ownership, Rhee regime constantly emphasize on state autonomy. This shows that there is a paradox in government ownership concept with regards to success of aid policy.

6-2. Park-Chunghee Administration

Initially, Park evaluated policy on the Korean Peninsula negatively emphasizing autonomy and ownership. Compared to Rhee regime as well, both regimes shared the similar characteristic, so-called, the notion of self-reliance which was very indispensable value after experiencing colonial period. In the book written by Park 'Nation and revolution and myself'³¹, he desired that U.S aid plan to be reviewed and aid funds to be given by his means. He thought that U.S should not be expected to make South Korea Americanize thorough U.S military and economic assistance. Accordingly, there were constant disagreement with U.S agencies actually about aid policies and implementation of economic plan. However, this perspective changed after facing a several political events with the United States.

However, He changed his attitude about aid policy as of "Revised Plan" in 1964 .In the early years of Park regime; he pursued the ISI strategies like the Rhee government. However, the doubts about previous economic plan of Park regime lead the public debate about promising alternative tactics in the mid-1960s as U.S agencies suggested. Park administration did not adhere to initial aid policy, rather started to admitting limits of autonomy and tried to compromise between "Donorship and Ownership". He finally changed the economic strategy from the previous ISI strategies to export-led industrialisation plan and

³¹ Park chunghee, 1963. *Nation and revolution and myself*, Hyangmunsa,

various government-initiated growth projects by revising the Five-Year Economic Development Plans, then, ironically, the Park government's economic development plans primarily aimed to realise a self-sustaining economy.

The Park regime after the mid-1960s began to maneuver foreign aid more effectively. Unlike Rhee administration, Park started to recognize power of donor, which is mainly the United States; in politically and economically, he finally admitted the limits of autonomy. Then he began to change the economic strategy and aid disbursement compromising donor's suggestion within the limits of ownership. Ironically, the Park government started to achieve an economic growth, then, his government got more ownership afterward giving up the ownership. This is the paradox about the notion of ownership. It is quite different whether the regime at that time was aware of its limitation of ownership and autonomy. In overall, Korea's experience in 1960s can be seen as the mixture of aid dependency and autonomy. For the perspective of donor, ownership and freedom of recipient might be valid after the ability building of partner counties to prevent inefficiency of aid. Thus, harmonizing donorship and ownership can be paramount factor for aid effectiveness.

6-2-1. Disputes between Park regime and U.S

It is the similarity economic development plan of South Korea under Rhee regime in 1950s and that of Park in 60s that is government

intervention. Park regime also had lots of controversies surrounding U.S aid policy, similarly with Rhee administration. ICA, AID, JCS and White House representative etc. as an interagency steering group composed was built to review military and economic assistance plan in recipient countries including Korea in 1961. There is little doubt that the South Korean economy had been heavily dependent on foreign aid until 1960, when US aid policy began to shift, but what is less well known about this period was the South Korean government's attempt to control the aid management process, including aid requirements, procurement, and allocation based on the agreement with donors.³² For example, Park pushed ahead his economic plan on heavy and chemical industry against opposition of the US, in addition, there were tensions related with the reduction of aid quantity. President Park "The Revised Plan" presented by Park-Chunghee regime in 1964 also did not entirely reflect the intention of the U.S to incorporate the Third World country into Rostrow capitalist model.

In addition, there were tensions related with the reduction of aid quantity like Rhee regime. U.S economic strategy toward Korea was affected by changing in foreign aid plan during the Kennedy regime. 1957 was the culmination year of the total sum of U.S aid assistance to South Korea, but after it was going down by then in the late 1950s. The volume of U.S aid to Korea was \$320 million in 1958, then, it was considerably diminished to \$190 million in 1961. In terms of quantity, aid to Korea was changed its characteristic; moreover, a grant- type aid

³² Macdonald DS. 1992. *US-Korean Relations from Liberation to Self-reliance: The Twenty-year Record*, Boulder: Westview Press.

focusing on assistance started to replace to a loan-type by the balance of payments of U.S came into red as the credibility of US dollar declined in 1958. U.S kept reducing aid quantities toward poor countries changing scheme from grant to credit assistance accordance with New Look policy in 1950s and Development loan fund in 1957. Kennedy abridged his budget for the aid from \$4.945 billion to \$4.525 billion in April 1963. This change in U.S foreign aid policy effected economy of South Korea which basically depended upon foreign assistance.

He also had trouble with U.S about the source of aid, especially from Japan. Park's initial attitude toward Japan was that Korea-Japan economic cooperation would be next issue after pending political subjects were resolved. However, U.S wanted capital transfer from Japan to Korea. U.S requested Japan's cooperation about economic assistance in Asia region. Park's initial attitude toward Japan was similar with Rhee regime. He asserted Korea-Japan economic cooperation would be next subject after pending issues were resulted. However, he had very different perception toward Japan compared with Rhee. This would be the common perspective on Japan among the generation experiencing the Pacific Was in domestic Korea peninsular.³³ Considering the condition that Japan would have economic growth under U.S-Japan partnership, He thought Korea-Japan cooperation is inevitable. Park believed Anti-Japan policy of Rhee regime such as "becoming another Japan" was not valid anymore, rather being incorporated in Asia capitalism market actively could be a necessary

³³ Tae-Gyun Park. 2006. "the perception about East Asia of Park-chunghee and conception of Asia-Pacific community", *yeogsabipyong*, pp.119-147, p.9.

evil for implementing the Economic Growth Plan.³⁴ The United State requested Japan's cooperation about economic assistance in Asia region as well.

Moreover, there was a discrepancy about the economic growth rate target between Park regime and U.S aid agency. Against U.S opposition, Park regime settled the target growth rate as 7.1% until 1963. Park was conscious of the radical economic growth of North Korea, accordingly he settled the goal as high enough to catch up North Korea. Actually, North Korea was successfully rehabilitating countries in 1950s; U.S assumed 7.1% was unrealistic figure to achieve.

Figure 3. ³⁵ Comparison of average growth rate between North and South Korea, 1953-1960.

Items	North Korea	South Korea
National income	21.0%	4.9%
National income per capita	17.1%	2.7%

Meanwhile, Park pushed ahead his economic plan on heavy and chemical industry against opposition of the US. U.S asserted labor-intensive industry considering deficient domestic capital and rich labor. The cities were devastated after Korean War while population in the urban area increased, and this lead skyrocketing unemployment rate in

³⁴ op. cit. p.9.

³⁵ Bank of Korea, 1962. *Economic Statistics Yearbook*, Seoul, pp.12-13.

1950s. The speed of civilization in the city was not catch up this phenomenon. Moreover, imbalance of industry structure and lack of domestic capital was problematic. Heavy chemistry industry that Park regime eager to develop under his economic plan was managed inefficiently if we see the Chungju fertilizer factories, etc.

6-2-2. Changing Perspective on Donor

The First Five-Year Development Plan (1962-1966) was hastily prepared under broad directives from the Supreme Council by the relatively less experienced staff of EPB, it could not feasible in real properly due to inflation, pressure from U.S and inhering problems of plan itself, etc. The negative assessments on the First Five-Year Development Plan lead policy maker of the Park government revise plan and made Park regime to admit limitation of autonomy and ownership for aid reimbursement and planning. The changing perception for adapting donorship was differences with Rhee regime, and within the limitation of ownership, he tried to build nation capacity as well as localization of economic transfer.

Park had changed his perspectives on donor, mainly U.S in the event of paramount political incidents with Kennedy administration such as ‘transfer of power to a civil government’ in 1963, as well as ‘Movement against Korea-Japan Treaty’ in 1964, thus, he cannot be ignored real power of U.S internationally and domestically. It affected him on the perspectives of government ownership, not only political but also

economic as well. However, Park did not have negative perception on the United States recognizing the real power of the US. He would have known that U.S is deeply involved in all the political and military course of Korea through long experience in the military.³⁶ South Korean military was in command of the operation to the UN military commander, remarkable part of South Korea's government finances, almost more than 30%, were dependent on US bilateral aid. These series of conflict with the United States was likely to raise awareness to Park-chunghee that it would be better to solve the problem through diplomatic relations with the United States which had substantial forces than just asserting state ownership.

Moreover, international factors became influential forces to the strategy of Park regime, South Korea inevitably made a decision based on the global economic environment. Owing to the “aid mix”, the Korea study shaped a overall consensus in favor of a change in emphasis from military to economic aid³⁷ if we see the article dated May 21, 1963. Not only was aid less readily available as the end of the Cold War and in the middle of global financial crisis, world economy has had many developing states wanting to break into the world market with low-cost products, and thus there is fewer room to tolerate more countries with cheap manufactured goods. When South Korea employed an export-oriented industrialization (EOI) strategy in the mid-1960s, there were comparatively few players in the global export market. However, that is

³⁶ Ibid, Taekyun park, 2006, p.7.

³⁷ Memorandum From the Assistant Director of the Bureau of the Budget (Hansen) to Robert, 1963. Washington, *foreign relations of the united states*, 1961-1963 volume ix, foreign economic policy, document 169 May 21.

no more valid. The WTO regulations and norms have made it particularly difficult to pursue protectionist strategies. South Korea's early years of economic growth were marked by the considerably protected domestic market despite government promoted export aggressively. It is likely that such a protectionist plan would not be allowed in the WTO norm.

Therefore, Park embraced advises of donor significantly when his government discussed about "Revised plan" in 1964. In the early years of Park regime, he pursued the ISI strategies like the Rhee government. However, the doubts about previous economic plan of Park regime lead the public debate about promising alternative tactics in the mid-1960s as U.S agencies suggested. Park administration did not adhere to initial aid policy, rather started to admitting limits of autonomy and tried to compromise between "Donorship and Ownership". He finally changed the economic strategy from the previous ISI strategies to export-led industrialisation plan and various government-initiated growth projects by revising the Five-Year Economic Development Plans, then, ironically, the Park government's economic development plans primarily aimed to realise a self-sustaining economy.

6-3. Comparisons between Rhee and Park regime

6-3-1. Similarity

South Korea is the distinctive country which transformed from

recipient to donor, and there are no doubts that the significant amount of bilateral economic and technical assistance from the United States had an important role for economic growth of South Korea. The United States' bilateral aid capital delivered total 3.1 billion USD, which is worth about 19 billion USD in current prices between 1945 and 1960, so it was natural that U.S aid agencies had decisive impact on the procedure of implementation of development path of South Korea.

There have been paying attention on the Park-chunghee strong leadership as a decisive factor for Korea development miracle; however, Rhee government as well did not automatically follow the opinions of the United State. Economic development plan presented in 1950s and 1960s shared similar characteristics, which is government intervention. Instead of adhering U.S stance, the frequent disputes and disagreements between the US government and Korean government surrounding aid policy had been occurred repeatedly both in 1950s and 60s. There were constant tensions between both regime and the U.S aid organization with regard to ownership and autonomy of aid money.

6-3-2. Differences

According to the letters of Rhee to Eisenhower, and interviews or memoirs of Park, the conflict between the two nations was much more serious than it had been already assessed. However, the process of handling the disputes with U.S agencies was different among two regimes. Rhee tended to stick stubborn attitude toward U.S policy in the wake of armistice in 1953, which almost induced the

Eisenhower regime to revive the Ever-ready Plan in 1954. Along with the Marching North for Unification policy, the incident in 1953 provoked serious discord and doubt between South Korea and America, and the legacy of the tension between two allies in 1953 was greater than expected, even though the war is now becoming forgotten among the young generation.³⁸ He was willing to refuse the US assistance “as a price for our acceptance of the armistice,” because the armistice would be a “fatal blow” to South Korea.³⁹

In contrast, Park recognize U.S real power in the national and international community, he finally tried to comprise with U.S stance instead cling to ownership and autonomy, after experiencing ‘transfer of power to a civil government’ asked by Kennedy administration in 1963, as well as ‘Movement against Korea-Japan Treaty’ in 1964. This series of political incidents cannot be ignored considering the effect on the perspectives of government ownership toward nation policies, not only politically but also economic. Considering this facts, my investigation mainly focus on comparison after the Korean War between the Rhee-Syngman period in the 1950s, regarded as the aid economy and state-building, and the Park-ChungHee period in the 1960s when the Korean government changed of its economy from aid-dependency to an independent economic development.

³⁸ Taekyun Park. 2014. What Happened Sixty Years Ago?: ROK-US Deep Distrust between President Rhee and Eisenhower, *Journal of international and area studies* Volume 21, P.16.

³⁹ Ibid., P.5.

6-3-3. Implication

South Korea's economic development has been regarded as one of the most phenomenal in world history. Considering South Korea's achievement in achieving economic growth, in part thanks to foreign aid, it is not surprising that many under developed countries consider South Korea as a model for development.

Rhee government and the Eisenhower administration had had continuously disagreements throughout the 1950s in general, with regards to economic, military and political issues. The Rhee government tried to promote reconstruction projects independently without the aid agency of the United States if we see Van Fleet File translated in 2012 related to apartment construction projects. According to James Van Fleet case in 1962 and if we see Van Fleet File translated in 2012 related to apartment construction projects, although economic plan using foreign aid did not accept due to opposition of U.S aid organizations, Rhee eager to pursue aggressive economic plan enthusiastically.

Even though the fact that President Rhee had no interest and showed a negative attitude for their reconstruction plans by US aid agency, he asserted state autonomy and ownership strictly. For example, Rhee had controversy with the US aid agencies, particularly, Economic Coordination Administration. In addition, US aid organizations dissatisfied about Rhee regime because Rhee administration did not manage aid efficiently. Moreover, the economic

policy pursued by Rhee, such as monetary expansion policy, was quite against Eisenhower's New Look Policy as well as the other U.S aid policy. For the perspective of donor, recipient only claimed ownership and freedom without the ability building, whereas, Rhee felt assertion of sovereign was restricted by foreign powers. He disappointed about the United States' attitude toward Korean peninsula, for instance, conclusion of armistice agreement and strict regulation on aid funds, consequently there were tension and distrust continually between donor and recipient.

The aid was controversial in the late 1950s, because there was a concern of waste and inefficiency about foreign aid program, as a result, many feasible plans could not carry out. Instead of adhering U.S suggestion, there are discrepancy between the US government and Korean regime surrounding aid policy had been occurred repeatedly both in 1950s and 60s. Rhee government's opinion did not ignore by U.S agencies entirely, so that the Eisenhower administration's key policies were not put in the practice in real. However, in the long term, this series of incident led to the issue of trust between the two parties.

To conclude, the actual influence of foreign aid could be differently showed by varying degrees of the capacity and ownership of the recipient partner in dealing with transferring influences of international aid. The creation of 'ownership' had regarded as a kind of panacea before, however, the discrepancy between how ownership is assumed and how it work empirically indeed ought to take into account. It is clear that state autonomy and capacity are closely

attached as a matter of outcome of economic growth.

In contrast, Park recognize U.S real power in the national and international community, he finally tried to comprise with U.S stance instead cling to ownership and autonomy. He changed the perception toward U.S adjusting the economic strategy and aid disbursement within the limits of ownership. Ironically, the Park government began to achieve a positive economic outcome, then; his government got more ownership afterwards once recognizing limits of ownership jumping on the bandwagon in political and economic trends. In fact, Park's other strategies with his leadership possibly could be carry out after the cooperating U.S agencies after mid-1950s. This is the paradox about the notion of ownership. It is important to build capacity and rise own innovative competence within the global trend.

VII. THE KOREAN EXPERIENCE OF “STATE CAPACITY”

This is the Second part of dissertation, and I will examine the relationship between state capacity and ownership as well as success of economic policy. Whether recipient partner has strong ownership or not is not always critical factor for the real influence of ODA and the hypothesis that autonomy itself can be the answer of the aid effectiveness is questionable, then, what can be the decisive factors of success of aid policy? This is the second part of my research to suggest the fact that “capacity of nation” as key role for positive environment of aid program by building trust between donor and partner. Concepts about capacity building have been well developed in the business sector, but not in non-profit social sector.

7-1. Degree of the state capacity building in 1950s

In 1950s, the quantity of U.S assistance fund was substantial during Rhee regime to assist in maintaining Korean military and to reconstruct damage from Korean War. Aid was given to finance reconstruction projects, mostly emphasis on essential commodities, agriculture and transportation services. A significant amounts of American surplus agricultural products, for instance, barley, wheat, and cotton, was given to South Korea under agricultural trade development and assistance act of 1954 , so called public law 480. Huge amounts were also made available for building a new industrial

base and for the rehabilitation of existing industries.

Although huge aid was disbursed on agriculture and industrial part, however, this fund was wasted in some aspect due to lacking of state ability. In spite of Korean economic run into extreme trade imbalance and most of people were under the low standard of living, foreign aid funds encouraged imports of luxury or semi luxury materials such as high quality wool and nylon yarns. Although ICA-financed fertilizer imports averaged in \$40 million annually, fertilizer specialists did not exist enough. The functions of such a technician in the aid program included instruction on the types of fertilizer to procure, crop distribution, and fertilizer handing and allocations as well as advice to farmers as to the advantages and use of various categories of fertilizer such as potash and phosphate which was not traditionally used by Korean. These jobs called for a wide-ranging communication with farmers throughout the nation as well as officers at the Korean Ministry of Agriculture. Nevertheless, lack of communication with fertilizer technician and Korean government hindered the program considerably. For example, United States aid funds was wasted because of Korean persistence on purchasing too high a amount of nitrogenous fertilizer, and the Korean administration did not allocate ICA-financed fertilizer to the Korean soybean crop, then, as a result, the short of soybeans yield made the U.S to finance significant soybean imports for support of the army and civilian of Korean population. In spite of enormous aid was poured since the end of the Korean was as we can see the figure below, this make the donor lost trust toward recipient citing there were insufficient data available in

Korea on which to make basic determinations concerning Korean fertilizer necessities as a fertilizer consulting team employed by ICA in 1956 reported.⁴⁰

Figure 4.⁴¹ ICA by major field of activity, for 1954 through 1961.

<u>Activity</u>	<u>Obligations at 6-30-61</u> (millions)
Agriculture	\$ 27.6
Industry and mining	175.0
Transportation	183.5
Health and sanitation	17.2
Education	18.2
Public administration	5.4
Community development	17.9
Other	<u>28.1</u>
Total commodities and con- tract services	472.9
United States technicians	17.5
Technical support	8.6
Participant training	<u>5.6</u>
Total project assistance	<u>\$504.6</u>

In addition, economic development was retarded due to laxity of Korean bank and financial system. Abnormal high interest rates in South Korea on agricultural as well as industrial loans also hampered efforts to connect aid funds into productive uses. According to examinations conducted by the Bank of Korea and the Tax Bureau of the Korean Government, enterprises depended highly on private loans than bank loans. ICA informed that about 50 billion hwan (old Korean won) was usurious debts. This shows that financial structure of Rhee

⁴⁰ Ibid., p119.

⁴¹ GAO (Government Accounting Office), 1962, Report on Examination of economic and Technical Assistance Program for Korea, International Cooperation Administration, Department of State, Fiscal Years 1957-1961, Part1. Washington, D.C.: Government Printing Office, p56.

regime could not allocate people's savings to each economic sector sufficiently nor accumulate it efficiently. Slackness by the Bank of Korea in the allocation of aid moneys had fostered speculation and led to a number of procurement irregularities, such as collusion between importer and supplier transporting of flawed merchandise, overpricing and kickbacks.

Figure 5.⁴² ICA activity and obligations at June 30, 1961

	<u>Obligations at June 30, 1961</u>		
	<u>Total</u>	<u>Fiscal years</u>	
		<u>1954-56</u>	<u>1957-61</u>
	(millions)		
ICA and predecessor agency:			
Commodity imports	\$1,342.7	\$425.1	\$ 917.6
Project assistance	504.6	290.7	213.9
Cash grant	20.0	-	20.0
Overseas administration	9.5	2.1	7.4
Emergency relief and assistance	9.0	9.0	-
Ocean freight on voluntary agency shipments	4.8	2.7	2.1
Total	\$1,890.6	\$729.6	\$1,161.0
Development Loan Fund:			
Development loans	\$ 22.0	\$ -	\$ 22.0
Public Law 480:			
Title I	\$ 214.6	\$ 61.7	\$ 152.9
Title II	28.4	-	28.4
Title III	104.5	28.7	75.8 ^a
Total	\$ 347.5	\$ 90.4	\$ 257.1
Department of Defense:			
Armed forces assistance to Korea	\$ 27.9	\$ 22.0	\$ 5.9

^a1961 data not included.

Many programs were not feasible due to lack of state capacity of Rhee regime. The aid fund from ICA was not geared to specific long-

⁴² GAO (Government Accounting Office), 1962, Report on Examination of economic and Technical Assistance Program for Korea, International Cooperation Administration, Department of State, Fiscal Years 1957-1961, Part1. Washington, D.C.: Government Printing Office, p58.

term goals or carried out within the structure of comprehensive program. After devastating war experience, it is motivated for Rhee-Syngman to maximize his reliance on foreign aid fund. His regime was eager to have strong ownership on aid fund; however, the process of using those huge aid funds was not irrational as restraining the coherent planning, and sustaining ambiguous discretionary power on various policy implements in early 1950s. Plans designed by Rhee regime were impracticable because of insufficient specialists, infeasibility of the plan itself, and opposition of U.S for approval of the plan.

Later on, the demand for settling a plan was recognized by ICA as well as by the Korean administration. According to the GAO report, the U.S authorities believed that the aid program did not in act well due to the lack of rational plan. Thus, the attempts toward developing a 5-year plan was made by the Rhee regime in 1960, and ICA supported via a university contract, however, it was unsuccessful and the contract was allowed to terminate by coup in May 1961, moreover, ICA had not been able to obtain a suitable replacement at the time they completed their field work.⁴³

Rhee wanted to boost Korean economy without specific and plausible scheme and method, whereas ICA and U.S austerities assessed the Korean situation as unstable in terms of exchange rate, tax regulation and the environment for entrepreneur in early 1950s. The Korean administration was trapped between its partisan interest of Rhee regime and economic stabilization pressured by U.S in developing

⁴³ Ibid., p11-12.

political support⁴⁴ as well as stabilization of exchange rate.

Underlying political structure was susceptible to mislead the allocation of aid resources and deter a more balanced planning procedure. Disagreement between U.S and Korea around exchange rate was continuing during Rhee regime. The Mission Director of ICA pointed out that foreign exchange rate available to South Korea was inadequate for capital investment even though the need for that purpose was acknowledged.

This is the evidence that lacking of state capacity hamper aid efficiency, which is regarding electricity power plants. Power rates charged by generating firm, cf, KEPCO, to the distributing firms are subject to manage by the Korean Ministry of Commerce and Industry, and rates charged by the distributing firms to consumers were set by the Korean National Assembly. The problem is that the power rates established by the Rhee regime which was enable self-sustaining was one of the difficulties to improve electricity production. Despite the large amount of ICA aid on power plants, generating capability has not kept pace with demand. The electricity system had consisted of a generating corporation, the Korea Electric Power Company (KEPCO), and two distributing corporations, the South Korea Electric Company (SKECO) and the Seoul Electric Company (SECO). They bought the power produced by KEPCO and resell to citizen consumers. In 1957, the government significantly increased power rates; accordingly all other direct and indirect power-generating costs brought damage to

⁴⁴ Stephan Haggard and Chung-in Moon, January 1990, *Institutions and Economic Policy: Theory and a Korean Case Study*, Cambridge University Press, *World Politics*, Volume 42, Issue 02, pp 210-237. P.215.

the company. The continuous unsuccessful level of business was lead to the failure of profits to recover depreciation and other maintenance and operating costs.

Another example about wasting aid fund was unsuccessful expansion of government-controlled shipyard, the Dae-Han Shipbuilding Corporation (Pusan Iron Works, DHSC) which received sponsored equipment and device amounting to about \$2 million, yet operating on a very limited scale. The DHSC was a former Japanese company, but later operated by the Korean government which owns about 97 percent of the company's stock. In 1955, ICA financed \$2 million to procure equipment due to the expansion of the shipyard, but some device could not be used even due to lacking of electricity. DHSC run into financial problems thus was not able to pay the duty on the equipment, and the Korean Government had waived payment of the duty on it afterwards.

The economic bureaucracy and technocrats was progressive in terms of reforming economic agenda, however, they only dominated a peripheral position in the policy system during early 1950s. The vocational education plan was scarce, and even the curriculum at the College of Engineering at Seoul National University was developed without understanding of the engineering and science which was desperately required in Korea. Accordingly, economic development may not receive the full potential benefits of this high education. Moreover, high proportion of the equipment provided by ICA for more than 50 schools had not been used efficiently due to shortage of country cooperation, poor planning and implementation.

7-2. Building State Capacity in 1960s

Park made the best use of the economic means to attaining legitimacy of his regime for political ends. The beginning of the Park regime, as a consequence of the military coup directed by General Park on 16 May 1961, desired to be treated proper government, thus, Rhee regime regarded prompt economic development as state top priority with strong government ownership to build political support. Park was more susceptible than Rhee to U.S pressure to solidify the position of his presidency. Because of these background reasons, his government tried to spend ODA more efficiently by pursuing the transformation of American aid from the short-term emergency relief to long-term economic engine by organizing the Economic Planning Board (EPB) in 1961 within nation capacity although Park administration undoubtedly exercised dictatorship.

It is important that there were atmosphere for recognition about specific economic plan and need for learning and training in view of the highly significant role of education in the economic development of Korea. This recognition go back in late 1950s and it culminate after 1960s. There were active debates going on industrial strategy for industrialization, for instance, discussion about imbalanced growth, ISI strategy, mercantilism, or government intervention and corporation-centred strategy in order to enhance state capacity. These environments lead to heated discussion about the export-push

strategy and the necessity for the directed credit. This made technocrat and political elites trained, for example, the education program had been significantly improved in March 1962, including stress on vocational and technical training programs.

Throughout technical assistance can create abundant labor population which was well trained and educated in aspect of technic, there were skillful labor pools utilized for economic development as well as accomplished important role of economic engine. Moreover, the electric power condition had been upgraded. The junta allocated the new figures in the Economic Planning Board specifying annual growth rate and targets. After the coup, the reform members had submitted the strategy for an Economic Planning Board (EPB) and established a system for monitoring and evaluating performances. The EPB was the wheel of the bureaucracy co-working with the Ministry of Commerce and Industry as well as the Ministry of Finance.

Ownership requires partner nations to take responsibility for development path indicating a recipient will be more likely to allocate the adequate resources to ensure the implementation of foreign aid plan. However, the emphasis of state-owned capacity building should be to give skills required to solve problems, respond to difficulties, and build capacity autonomously. Theoretical difficulties are need to be discussed in achieving country-ownership given the heterogeneity of interests among key stakeholders in the counterpart nations, and challenges to designing a representative consultative procedure in

organizing and applying aid programs.⁴⁵

In the early presidency of Park regime as well as Rhee regime, balanced growth theory by Nurke was helm of the many developing nations' path such as Nathan plan in 1952, Three-Year Economic Plans in 1960 as well as First Five-year Development Plan in 1961 and 1962. After recognizing failure of the "First Five-Year Development Plan", Park administration was engaged to revising the Five-Year Economic Development Plans, and changed methodologies embracing the demand of donor. Throughout enhancing capacity, ODA opportunities for foreign technical training in industrial sector surged.

7-3. Implication

As we can see through second part of the paper, it is critical for policy application to have state capacity with strong will to carry out the plan. The consolidation of adequate ownership and enhanced capacity building made Korea gain a foothold for future economic prosperity. Successful capacity building indicates the recognition on the importance of comprehensiveness in the planning procedure and harmonizing working connections between donor and partner administrations that create true partnerships. More evidence as to

⁴⁵ Jessica Goldberg and Malcolm Bryant, Country ownership and capacity building: the next buzzwords in health systems strengthening or a truly new approach to development? 2012, Goldberg and Bryant BMC Public Health, p.3.

how state capacity building plays a role in practice and it might be the guidance for future interventions. Donor has an obligation to empower recipient to build capacity by coaching them to recognize areas of needed intrusion to plan and implement a capacity building progression and to assess the effectiveness of their endeavors. Recipient nations are expected to take the responsibility for state capacity building vice versa. In this vein, I would like to expand my studies to analysis on relations between donor and recipient.

VIII. ALIGNMENT BETWEEN DONOR AND RECIPIENT

8-1. Relation between Alignment and Paradox of ownership

Park administration recognized limits of ownership. The United States required Park regime to revise his way of economic policy decision to make direct participation of U.S. He accepted the U.S stance, thus he established 'a Joint United States-Korean Economic Cooperation Committee' as the replacement of 'Combined Economic Committee'. However, his regime had started a positive outcome; Korea could have more autonomy in terms of aid program policy. After giving up ownership for some aspect, then, ironically, his regime began to achieve a positive economic outcome; consequently, it gave more ownership afterwards.

Positive results give trust between donor and recipient, and it helps for positive alignment of donorship and ownership. Rather than in the abstract definition of the notion, empirical application and ironical aspect of ownership are needed to be considered. In practice, ownership connects a variety range of political influences. The paradoxical characteristic of ownership suggests the important fact that the consolidation of adequate ownership and enhanced capacity building made Korea gain a foothold for future economic prosperity.

8.2. Mutual Trust and Aid negotiation power

The dominant literature on aid negotiations processes are following, such as using principal-agent models⁴⁶, game theory⁴⁷ and institutionalist approaches⁴⁸, etc. As we can see this paper, I would like to analysis the process that successful stories based on aid project are able to become a source of leverage after achieving economic goal. Trust toward recipient nation may bring negotiation power in the procedure of control that they have been able to exercise over the plans. Due to increasing rapid foreign capital infusion and a cumulative emphasis on US and European foreign policies, so called, western values, on the aid architecture are obstacles. Meanwhile, ignorance about exact local situation and economic level about own country by recipient also hurdle of highway of economic development path. Hein, mutual trusts building though enhancing nation capacity is hard but meaningful strive for solve the pending abstruse aspect about foreign aid.

We can see this process more thoroughly with ‘Aid Negotiation Model’ as I suggested above. Afterwards the recipient have state capability to enact and implement aid plan, they start to have the sources of leverage they have been able to exert in aid negotiations. This model is shown

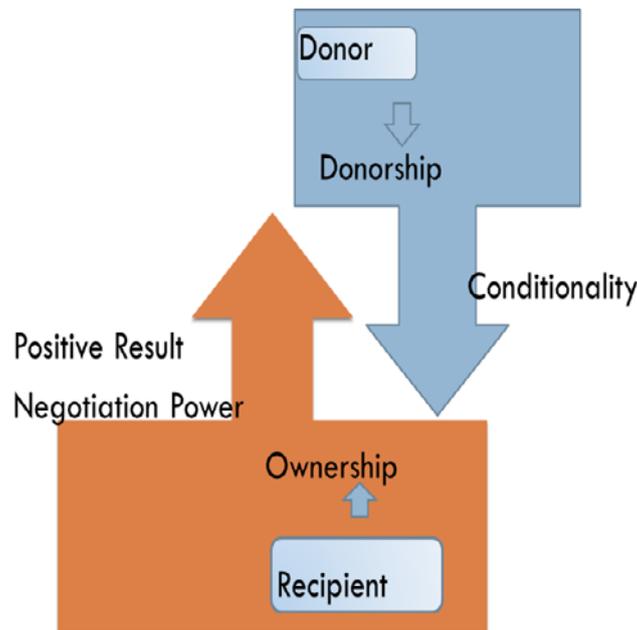
⁴⁶ Kilick, T., with R. Gunatilaka and A. Marr, 1998, aid and the political economy of policy change. London, UK, Routledge.

⁴⁷ Mosley, p., J. Harrigan and J. Toye, 1991, Aid and Power: The World Bank and Policy-Based Lending First Ed. Vol. one. London, Uk, Routledge.

⁴⁸ Gibson, C., K. Andersson, E. Ostrom, and S. Shivakumar, 2005, The Samaritan’s Dilemma: The Political Economy of Development Aid. Oxford, UK: Oxford University Press.

more in detail if we see the below figure.

Figure 6. Aid Negotiation Model – after building state capacity



Afterwards the donor can believe that recipient will use aid money in proper place, the donor need to reduce the conditionality and give more room to the recipient competence. Mostly, initial procedure of aid negotiation cannot even be said as ‘negotiation’ if we consider the unilateral characteristics of feedback and strong conditionality of the donor. This is the reality that only after the experiencing series of encouraging feedback among donorship and ownership, the recipient can have louder voice when it comes to aid policy setting than the beginning of the aid negotiation procedure.

The main sources of aid negotiation leverage are the state capacity

combining aid ownership as we examine through this dissertation. The state capacity is highly related to economic policy outcome, and it will bring positive feedback not only for donor but also recipient itself in terms of state competence. Self-confident can effect on proper ownership constructing mutual trust. In order to have positive bilateral feedback, state capacity building might be key element to proper alignment between donor and recipient when we see the Korean experience of economic development meticulously.

VIII. CONCLUSION

If the ownership principle boils down to the establishment of successful development strategy in practical terms, then it looks like an important endorsement of the South Korean development experience, especially when it made a transition from an aid-dependent country in the 1950s to a developmental state with a clear-cut development strategy in the 1960s. As we can see the Korean experience in 1950s-60s, there were disagreements between Korea administration and US aid agency throughout both regimes. But the process of comprise of Rhee-Syngman regime and Park-Chunghhee regime is unlike each other.

Even though Rhee regime was stick to autonomy value, it was difficult to achieve economic leadoffs whereas Park admits limits of ownership trying to accordance with donor. After compromising and recognizing the current trend, Park regime could get more ownership afterward as well as economic outcome. Simply put, donors are likely to respect recipients' ownership as long as they see desirable results coming out of it. After achieve reasonable results of development strategy, the South Korean government managed to deliver 'results' the benefactors could support although they did not always agree upon the details of its development policy and the way it was deployed. Then, this dovetails with the concept of 'true ownership' that refers to 'the capacity of a developing country to select from

alternative policy prescriptions even if they are not granted by the international aid community.⁴⁹

Whether or not the ownership principle is intended to bolster state autonomy of the recipient country vis-à-vis international donors is questionable. This is not to even mention those critics who are extremely skeptical about the IMF/World Bank-defined ‘ownership’ and its political-economic ramifications in the developing world.⁵⁰ This article casts new light on the link between ownership and capacity. That might be so if the question was simply a matter of accordance with donor-approved plans. Going against donors’ wishes, however, would require more than just incentives in the narrow sense; the leadership of the recipient country should possess not only strong political will but also enough bargaining power to handle the discontent of the agencies of donors.

However, asserting ownership and strong leadership cannot be panacea of the aid effectiveness. From the donors’ perspective, the problem of ownership, or lack thereof, has been often considered in terms of political-economic incentives on the part of the recipient partner. As the OECD/DAC provides policy guidelines for aid, the capacity building needs to be considered as a priority of national development. Capacity development would be solution to promote leadership and ownership of the recipient in the process of

⁴⁹ Shimomura and Ohno, 2005. “Introduction and overview”. In True Ownership and Policy Autonomy: Managing Donors and Owning Policies, *National Graduate Institute for Policy Studies*. Tokyo. P.1-19.

⁵⁰ Cammack 20046. Cammack , P. 2004. “What the World Bank means by poverty reduction, and why it matters”. *New Political Economy*, 9(2): 189-211.

development. ⁵¹What distinguishes the OECD/DAC guidelines from developmental state practices in the twentieth century is the emphasis on good governance and the participation of civil society. For achieve this, harmonizing donorship and ownership is prerequisite though capacity building and recognizing the paradox of ownership. The Paris Declaration was a result of a major international effort to improve aid effectiveness, with more than one hundred donors and partner countries still need to commit to major reforms in aid delivery.

These fundamental tensions have far-reaching empirical and theoretical application. A key element to this sort of conundrum may be found in the ironical aspect of ownership, rather than in the abstract definition of the notion. Whether it is over a goal or a procedure, ownership does not automatically indicate complete authority even if it means the accountability to take final choices. In practice, ownership involves a wide range of political factors and is inherent in paradoxical characteristic.

⁵¹ In order to achieve capacity development, six priority areas were identified: (1) country systems capacity; (2) enabling environment for capacity development; (3) capacity development in fragile situations; (4) integrating capacity into sector/thematic strategies; (5) role of civil society and the private sector in capacity development; and (6) relevance, quality and choice of capacity development support by Pearson , J. 2010. "Seeking Better Practices for Capacity Development". In *Training and Beyond*, Paris: OECD/DAC.

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개발 원조 협력대상국 주인의식에 있어서 역량 강화

: 1950-1960년대 미국의 對한국 원조 관계 분석

국문초록

빈곤 퇴치를 위한 세계적인 노력에 힘입어, 원조의 효율성에 대한 논의가 계속 되었다. 이러한 논의는 스스로 경제 발전과 원조의 사용에 관해 주인의식을 가지고 결정 과정에 참여하는 원조 협력 대상국의 주인의식에 관한 고찰로 이어졌다. 그러나 주인의식의 개념은 원조의 실질적인 효과성에 비추어 볼 때 역설적인 결과를 가져올 수 있다.

기존의 연구가 1960년대의 원조를 통한 능동적인 경제개발에 주로 초점을 맞추었다면, 이 논고는 1950년대 또한 한국은 원조의 자율성을 강하게 주장하였고 그에 따른 마찰을 빚었다는 사실을 간과해서는 안 된다는 것을 보여준다. 1950년대 이승만 정부를 거쳐 1960년대의 박정희 정부에 이르기까지 한국의 경제발전을 살펴보면, 두 정부 모두 원조에 대한 자율성을 주장했다는 공통점을 지닌다. 이승만 정부도 미국의 원조 기관과 끊임없는 마찰을 빚었고, 박정희 정부 역시 모든 원조와 경제 정책에 대한 결정을 것을 미국의 제안대로만 결정한 것이 아니었다. 두 정부 모두 자율성과 주인의식을 주장했음에도, 경제적 성과는 다르게 나타났다고 평가된다.

이러한 점에서 원조를 통한 경제발전의 성공의 발판은 자율성과 주인의식 그 자체보다는 자율성에 대해 책임을 질 수 있는 역량과 주인의식의 올바른 방향성임을 이 논문을 통해 강조하고자 한다. 이 논고는 주인의식이 실질적 적용에 있어서는 복잡하고 모호한 개념일 수 있다는 점을 역설한다. 주인의식도 물론 중요하지만, 자율적으로 결정할 힘에 올바른 방향성을 부과하는 것은

수혜국의 역량강화임을 밝히고, 진정한 개발 주인의식에 대한 논의를 하고자 한다. 원조 협력 대상국의 역량이 향상되어 자율성에 대한 책임감을 질 수 있을 때 원조 협상 파워를 지니게 되는 과정 역시 원조협상모델을 통해 밝히고자 한다.

중요어: 주인의식, 개발원조, 미국원조기관, 역량강화, 남한 경제 개발,
1950년대-60년대, 원조 협상

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