

Key Development Needs in Southeast Asia and Priority Sectors of the Korean ODA

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1. Introduction

The enormous potential for growth possessed by Southeast Asia, widely touted as the next rising market, has not gone unnoticed by the international community. Eleven states, including 10 member states of the Association of Southeast Asian Nations (ASEAN) plus Timor Leste, comprise the region with much social, cultural, political, and economic diversity, as well as variations in sizes of their respective economies and levels of development. The

region also faces challenges regarding development, including income gaps, human development, industrialization, and expansion of infrastructure. There are movements to bolster efforts to achieve economic integration, with the goal of integrating the entire ASEAN community by 2015. There are also challenges most notably on the reduction in the development gap between Cambodia, Lao PDR, Myanmar, and Vietnam (CLMV countries) and others in the ASEAN.

Korea-ASEAN relations have been most characterized by a rapid increase in trade since the late 1980s when Korea embarked on overseas investments in Southeast Asia. A large share of Korea's ODA has been directed toward ASEAN members to strengthen development cooperation as a top priority. The Korean government is prioritizing poverty reduction and gap development, and has worked hard to resolve these issues through such channels as the New Asian Diplomacy, the ASEAN-Republic of Korea Commemorative Summit, and the Korea-Mekong Foreign Ministers Meeting. However, an effective utilization of limited developmental finances requires a systematic and comprehensive approach to aid, centered on 'priority countries' and areas for cooperation, in order to raise the effectiveness of the Korean ODA policy. Accordingly, this study undertook a quantitative analysis of the developmental needs of Southeast Asia, identifying areas with higher levels of need for development, and suggests measures for implementing programs for cooperation.

2. Korea's ODA in Southeast Asia

ASEAN Countries are the largest beneficiary of Korea's development assistance. In the region, Vietnam, Indonesia, the Philippines, Laos, Cambodia and Timor Leste were selected as mid-term strategic partner countries. From 1997–2008, the ASEAN was the largest destination of Korea's ODA. A total of USD 1.3 billion in cumulative terms was disbursed to the region. As far as grant projects are concerned, the Korean government has been conducting the Korea-ASEAN development cooperation program since the early 1990s and will raise the status of current development-

cooperation relations into a "development cooperation partnership," taking into account the growing importance of Korea-ASEAN ties.

Korea's Top 10 recipients accounted for 51.2% of its bilateral aid in 2011. Five of Korea's top 10 recipients are among ASEAN members (Table 1). This high level of concentration is partly due to the geographical and cultural proximity between Korea and countries in Southeast Asia. In particular, Korea has maintained close economic and diplomatic relationships with ASEAN members, which have become one of the Korea's important partner for trade and investment, together with China and the USA. Moreover, Korean firms' investment to the ASEAN has steadily grown whereas there is a continued decrease in investment to China and the USA.

There are undoubtedly common interests and potential for further cooperation between Korea and the ASEAN. Since the 1997 financial crisis, Korea and the ASEAN have launched a number of different regional initiatives, such as the ASEAN-Korea FTA and the ASEAN+3, among others. In particular, Korea has participated in the global trend of RTAs by concluding an FTA with the ASEAN, which entered into force on June, 2007. Korea is also focusing on promoting development cooperation between the relatively well-off ASEAN members and the CLMV countries (Cambodia, Laos, Myanmar, and Vietnam) to address the wide development gap within the region.

In particular, the Joint Statement of the ASEAN-Korea Commemorative Summit in Jeju Island on June 1–2, 2009 was an important testimony to the fact that this substantial bilateral relationship has garnered critical momentum. Both sides are keen to strengthen cooperation, bilateral and regional, in the

years to come. President Lee Myung-bak announced his commitment to pursuing a “New Asia Policy,” although it has yet to take

concrete shape. Korea also established the ASEAN Center in Seoul with the aim of promoting economic and sociocultural cooperation between the ASEAN and Korea.

Table 1. Top 10 Recipients of Bilateral ODA in 2011 (Net Disbursements)

(unit: USD million)

Country	Grant	Loan	Total	Share(%)
Vietnam	30.1	109.4	139.5	14.0
Bangladesh	9.2	70.8	80.0	8.1
Cambodia	23.1	39.1	62.2	6.3
Sri Lanka	11.5	31.9	43.4	4.4
The Philippines	25.8	9.9	5.7	3.6
(Top 5 Recipients)	99.8	261.0	360.8	36.4
Laos	15.5	17.9	33.5	3.4
Mongolia	32.6	-2.1*	30.5	3.1
Jordan	2.4	26.9	29.3	3.0
Afghanistan	28.0	-	28.0	2.8
Indonesia	17.9	6.4	24.3	2.5
(Top 10 Recipients)	196.2	310.2	506.4	51.2

Note: * Loan figures may be negative due to repayments.

Korea now realizes that it is their turn to give back and share their experience and knowledge with the ASEAN member states to contribute to the regional partnership for sustainable development. Korea needs to reinforce and explore the cooperative programs that target regional cooperation with the ASEAN, especially at a time when the process of the integration of the ASEAN member states is being highlighted. Furthermore, reflecting the ASEAN's needs and interests in the initial stage of designing development projects will serve the mutual interests of Korea and the ASEAN. It will also help pursue strategic cooperation.

3. The Analysis of Key Development Needs in Southeast Asia

The five Southeast Asian countries analyzed

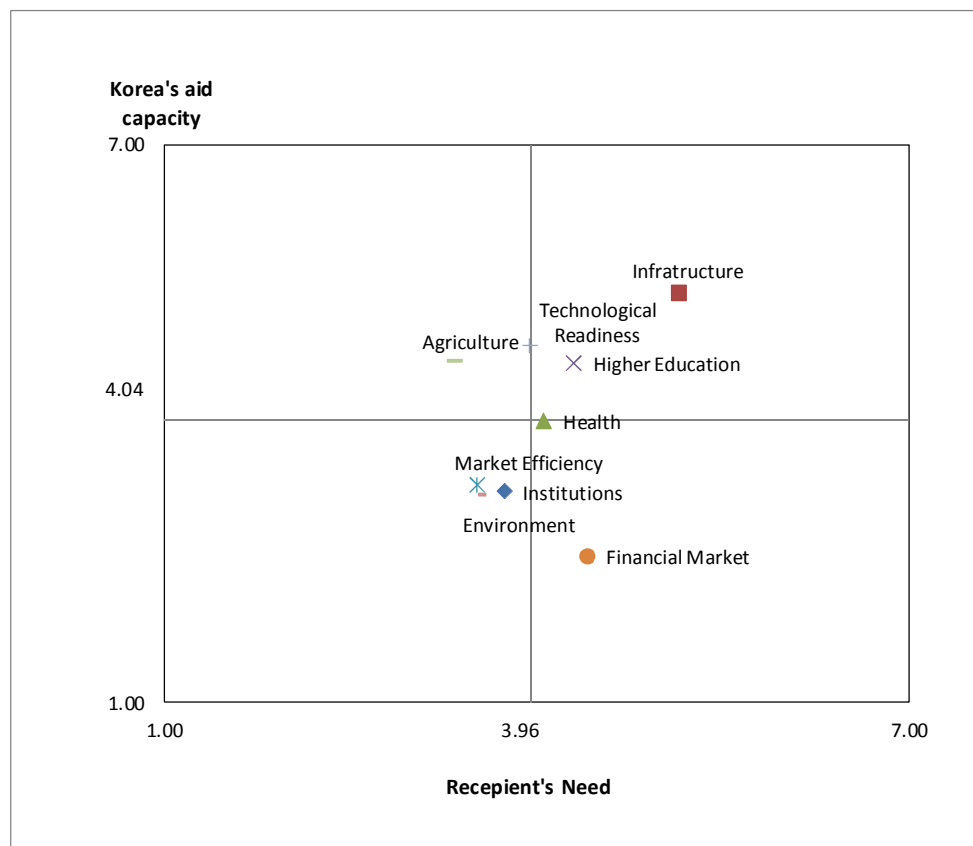
in connection to development cooperation include two countries at the early stage of development (Cambodia, Timor Leste) and three middle-tier countries (Vietnam, Indonesia, and Philippines). These countries were designated as priority countries for development cooperation, all selected based on their high potential for economic growth and developmental needs. Important indicators such as the Global Competitiveness Index of the World Economic Forum, the Environmental Performance Index, and the FAO Agricultural Index were used in calculating the development gap between the subject countries and states in higher levels of development. The calculated results were then used to evaluate the needs of the recipient countries and Korea's aid capacity.

The analysis of development needs by country using the above framework revealed that any differences between the subject countries

were slight. Instead, the subject countries were in great need of development in economic infrastructure, higher education and training, and technological readiness. Since the launch of the Master Plan on ASEAN Connectivity (MPAC) in October 2010, connectivity has been highlighted and taken as one of the priority cooperation areas in Southeast Asia in order to deepen regional integration. This had a lot to do with the fact that the most pressing need for the needed development was in infrastructure such as transportation, energy, and communication, which is a common theme that shows up in developing countries. Concomitantly, this means that economic infrastructure should be given precedence in Korea's development projects in the region.

Yet, construction-heavy projects that are undertaken at the request of recipient states often produce negative effects that must be shored up by increasing the number of participants and scope of aid, through action such as integration of soft loans/grants and public-private partnerships. Assistance in areas where Korea possesses a comparative advantage as higher education and training, and technological readiness; should be given serious consideration. Korea could also take advantage of its experience in green growth and green technologies, by providing assistance in climate control and environmental protection. In addition, with agriculture being an area where Korea was found to have a great deal of aid capacity, it could play a very significant role in boosting agricultural production in Southeast Asian countries.

Figure 1. Development needs and Priority Sectors of Korea's ODA in Southeast Asia



4. Priority Sectors of Korea's ODA in Southeast Asia

This study is largely based on the quantitative analysis of the countries and areas of assistance and focuses on Korean assistance toward Southeast Asia in four areas, including agricultural/rural development, infrastructure, education, climate change, and environment.

In developing agriculture and rural areas, Korea should formulate a package program for cooperation with strong links between different projects within a framework of an overall mid- to long-term rural development plan. It should be based on Korea's advanced agricultural technology and development experience with active utilization of regional cooperative bodies in Southeast Asia.

Second, the demand for development was found to be the highest in developing infrastructure and regional development, which would require building an operational plan based on strategic packaging of projects. Developing infrastructure is evidently the best option for the region's inclusive growth and resilience.

Third, because human resource development will be one of great issues for achieving the

ASEAN community by 2015, Korea can contribute to making up for what the ASEAN lacks, such as training skilled laborers and upgrading the educational system, which should be aligned with those by other international donors.

Fourth, climate change and the environment represent an area where Korean technology and experience can come into active play. This can be put to good use in increasing assistance to Southeast Asian countries through programs for environmental protection and climate change that are suited to their respective levels of development.

This study is significant because it was able to identify the main areas for development cooperation by quantitatively analyzing the economic circumstances and development gaps in Southeast Asia. It also revealed the inability of quantitative analysis to reflect the characteristics of each country and provide a detailed description of the developmental capacity of recipient countries in Southeast Asia. The challenge for the future will include building a more systematic analytical model by factoring in analyses of Korea's comparative advantages, which can contribute to the reduction in development gaps with respect to recipient countries in Southeast Asia. **KIEP**