

Abstract

Joining the OECD DAC in 2009, South Korea successfully transformed into a donor country, fully committed to take the responsibility as the member. Since then, the nation has expanded its ODA volume so as to meet the required development assistance level comparable to its economy size. ODA, in pursuit of humanitarian purpose, fundamentally contributes to poverty ending and peace settlement across the world. Yet, the impact of ODA is not just limited to economic growth of the developing world as the global economy today is increasingly interdependent in ever integrated market. In short, economic growth in developing countries promoted by ODA can lead to reinforcing the level of productivity and purchasing power, which, in turn, strengthens the overall international trade revitalizing the global market. From the perspective of social and economic development, ODA reduces the poverty rates in developing countries by supporting them to transform into trading partners in the market for the economic development. Ideally ODA seeks social and economic development of developing countries in humanitarian perspective, yet it can not avoid the fact that ODA is motivated by the donors' political and economic interests. Hence, looking at ripple effects of ODA on donor countries would be of a great significance. Against this backdrop, this study examines the trends of grant aids provided by KOICA, and empirically analyzes their impacts on South Korean exports and employment.

Regarding the effects of ODA, various national, regional and industrial studies have been so far carried out using econometrics models. Most of the studies, however, have been conducted mainly from recipient countries' perspectives and little attention has been drawn to the ODA effects on donor economies. This is possibly because it is not easy to plainly present their positive impacts on donors in a fiercely debating environment over ODA effectiveness. Also, the effects of ODA, by nature, are usually

captured in a long-term period rather than in a short-term, making it difficult to demonstrate a clear causal relationship. What is more, it is almost impossible to numerically measure the ripple effects of ODA on other neighboring countries. In spite of such undesired traits, however, some studies have been made to explore the effectiveness of ODA that would be found with prerequisites or under certain conditions by using econometrics models.

This paper aims to look at the impacts of grant aids provided by KOICA on exports and employment of South Korea using the gravity model and the input-output table (inter-industry relation table). The study additionally includes ODA as a factor to the gravity model, widely used for empirical research on trade between countries, and examines the effect of ODA on domestic exports based on the elasticity. Then using the input-output table, it further analyzes employment due to the aid generated export.

Findings are that for every 1% increase in KOICA ODA, South Korean exports are expanded by around 0.04% and, as of 2015, KOICA grants contribute to the 2.6% increase in the total exports. Employment by the aid generated export accounts for approximately 0.51% of the total employment. Among them, high-skilled laborers amount to about 51.3%, indicating the labor structure of the nation. In short, grants of KOICA have an economically positive impact on domestic economy, which can be interpreted as the counter-partners or developing countries also having positive impacts on their economies.

Meanwhile, although panel-data analysis with the gravity model provides some implications, it merely shows the correlation between ODA and exports under certain constraints. The results from the gravity model just indicate the degree of elasticity which is calculated by formulating the very limited conditions under the diverse pre-established conditions. Furthermore, it usually takes a long enough time to see the impacts of ODA while there exists a large number of determinants that cannot be easily explained. Thus, it should be noted that the findings could be used to simply imply the positive effects of ODA on donors' economies in the process of ODA

policymaking, but should not be over-interpreted as real measures. The analysis of employment impact does not present the direct employment creation level but only shows the employment impacts brought by the aid generated exports. In other words, this paper conducts general equilibrium analysis based on the elasticity produced from the gravity model, academically explores to what extent the additional exports increase caused by ODA has effects on domestic employment and just assumes which industries and sectors the effects are prevailing in.

For traditional donor countries, data has been collected for more than 3 to 4 decades with their large volume ODA, allowing them to analyze their ODA with various econometrics tools. However, in the case of South Korea, it has been only 7 years to become the DAC member and its economy is relatively small in size while heavily depending on external trade, which makes it difficult to examine its ODA in a various way. Despite such an economic structure, it is of a great necessity to regularly review the effects of ODA on the domestic economy, and this paper is considerably significant in presenting basic frameworks that would guide future researches in a much more systematic way. With more massive data, future research may be significantly meaningful, analyzing in a more specific manner; effects by region, industry, and etc.

This study found that ODA contributes not only to recipients' economies but also to donors' ones as well. Recently, there has been a consensus on the expansion of ODA volume, but concerns have been also raised at the same time. Considering the positive influence of ODA on domestic economy boost, however, more active measures to provide development assistance should be taken. In particular, as South Korea achieved export-led economic growth, exports have played an important role in its economy and have been viewed as one of the main factors to job creation. The increase in ODA volume would obviously help to realize the objectives of poverty reduction and of economic growth in developing countries. Yet it is also noticeable that ODA would be used to promote domestic economy and enhance its national reputation in the international community.