

Executive Summary

The Third Mid-Term Strategy for Development Cooperation, established in 2021, states that donor countries are strengthening their pursuit of comprehensive national interests, including economic interests such as expanding investment and trade opportunities, amid the spread of nationalism. It also points out that performance-based aid is spreading to strengthen the effectiveness and accountability of development cooperation. In the midst of this, Korea has been continuously expanding its development cooperation budget since the inauguration of the new government in 22, with the goal of becoming a global pivotal state contributing to freedom, peace and prosperity as one of its six national policy goals. Korea, like other donor countries, cannot avoid its responsibility to demonstrate the effectiveness of its growing development cooperation budget. In particular, in the case of grant ODA, until recently, it was mainly understood that only the recipient country benefited from it, and there has been a continuous demand for analyzing its effects on domestic economy of Korea. Therefore, this study aims to provide objective evidence on the impact of free aid on the economic growth of donor countries.

As a follow-up to the 2022 study, 'Input-Output analysis on aid spillover effect and its implication', this study aims to develop Input-Output Tables for Bilateral-Project-focused grant ODA from 2015 to 2019 using the ODA-focused industry linkage table developed in 2022 study. It also attempts to analyze the structure of Bilateral Projects by year, derive inducement coefficients, and analyze spillover effects. This study differs from previous studies in that it utilizes the contents of the actual spending for a total of five years from 2015 to 2019 and examines time series data separating domestic and foreign expenditures.

The main objective of this study is to identify the characteristic impact of ODA on each industry, not to show the comparison between impact of ODA and that of other industries (or businesses). Also, given that Korea's GDP in 2019 was KRW

1,900 trillion, and the Bank of Korea's Input-Output Tables reflects the entire GDP, it is important to note that the size of ODA in Korea is not large enough to have a decisive impact on domestic industries. For example, it is not meaningful to compare the size of the economic impact of shipbuilding orders, a unit size is large, with that of Bilateral Projects.

Despite these limitations, it was found that the impact of Bilateral Projects on the manufacturing industry is significant. The impact of Bilateral Projects on the service industry, which creates high added value, is higher than that of other industries. From 2015 to 2019, the chemicals industry was the domestic industry that expanded its production activities the most due to the Bilateral Projects. Chemical products including pharmaceuticals, is a high-tech manufacturing industry, and relatively large impact of Bilateral Projects on the chemical products manufacturing industry suggests that it is contributing to the advancement of high-value-added manufacturing, one of national priorities. In addition, "computers, electronics, and optical devices," one of the high-tech manufacturing industries, are directly affected by the information system establishment component of the projects, which eventually contributes to the IT manufacturing sector. Among the service industries, "professional, scientific, and technical services" is the industry with the largest value-added effect, and it is confirmed that the Bilateral Projects are contributing to the increase in value added in Korea due to the high proportion of expenditure on "professional, scientific, and technical services." The value-added inducement coefficient of Bilateral Projects was the highest in "professional, scientific, and technical services" from 2015 to 2019. The hiring inducement coefficient and employment inducement coefficient of Bilateral Projects did not change significantly over the period, but its impact on labor-intensive businesses was found to be shrinking. In addition, Bilateral Projects were evaluated to have a positive impact on the revitalization of individual industries in that they generate more intermediate demand than general industries in order to produce goods and services for the recipient country. This is due to the fact that Bilateral Projects are located in the last part of the value chain (final goods, investment goods). In other words, when Bilateral Projects produce goods for a specific

industry, they generate a relatively high level of intermediate inputs and contribute to the expansion of production activities in related domestic industries.

Since the Input-Output Tables are very stable and the industrial structure does not change significantly in 3-5 years, it is necessary to create Input-Output Tables for at least 10 years to see how the impact of the Bilateral Projects on the domestic industry has changed. Therefore, it would be more meaningful to collect an additional five years of data and build an Input-Output Tables for 2015-2024.