# THE KOREAN MODEL OF DEVELOPMENT PLANNING AND ITS APPLICABILITY TO AFRICAN DEVELOPING COUNTRIES: CASE STUDY ON ETHIOPIA

**By**

**Sunjin Kim**

**THESIS**

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

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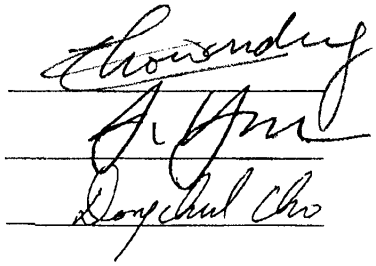

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# ABSTRACT

## THE KOREAN MODEL OF DEVELOPMENT PLANNING AND ITS APPLICABILITY TO AFRICAN DEVELOPING COUNTRIES: CASE STUDY ON ETHIOPIA

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The demand for the Korean model of development planning is rapidly growing across the world, especially from those countries which are in their take-off period. When it comes to the issue of what exactly to learn from Korean experience, however, it is rather difficult to generalize because FYEDPs have been changed with the development of the Korean economy. In this thesis, African countries are classified into three groups by utilizing economic and social indicators including the income level, degree of industrialization, and literacy ratio. The priority of the "pre-transition" countries should be the poverty eradication through industrialization and resource financing from abroad. The "in-transition" countries should focus on increasing investment resources and upgrading the production capacity with technology development as to accelerate the transition of economy. The "transitioned" countries should put the social development high on their development agenda along with economic growth since unbalanced and unsustainable economy can be led towards a "middle-income trap" with economic stagnation and low level of social development. As a case study, the Ethiopia's GTP is reviewed based on the Korea's development experience. Ethiopia has a well-designed development plan with full ownership under a strong leader. And yet, the specific implementation strategy is missing due to lack of capacity and institution and resource constraints. Four main areas are defined to be focused to enhance feasibility of the GTP: identifying the sectors by priority; building institutions; financing resources, and; establishing the roadmap towards sustainable development.

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# I. Introduction

The demand for the Korean model of development planning is rapidly growing across the world, especially from those countries which are in their take-off period. In fact, the Korean experiences regarding development planning have tended to be one of the top priorities in the demand list submitted by beneficiary countries of the Knowledge Sharing Program[1] (KSP).

The rapid development of the Korean economy for the past five decades or so was one of the wonders in the world economy. It is not so much disputable that a series of Five-Year Economic Development Plans (FYEDPs) have been an underlying contributing factor. Accordingly, it may be no doubt to witness rising demand from the least developed countries (LDCs) to learn from Korean experiences about the role of government and formulation and implementation of the development plans. As a matter of fact, the number of developing countries which adopt medium or even long-term plans are now in an increasing trend as national development plans are considered fundamental for developing countries to achieve the development goal and efficiently utilize resources during medium and long-term period.

When it comes to the issue of what exactly to learn from Korean experience, however, it is rather difficult to generalize because FYEDPs have been changed with the development of the Korean economy. For example, the focus of the 1st FYEDP was how to achieve a self-sustainable economy, which is very different from the 7th one implanted from 1992. The ways that FYDEPs were formulated and implemented differ substantially among FYEDPs as well. Besides, the socio-economic situations vary significantly. Some Korean experiences may be too premature or out-of-dated to provide current developing countries. Therefore, it would be very nice if simple criteria or check-list could be developed in identifying which specific Korean development experience is to offer to specific beneficiary countries.

That said, there must be some common qualities that constitute what is referred to Korean

[1] The Korea Development Institute (KDI) has been implementing the Program since 2004. Until 2010, KSP has been involved in research and consultations with approximately 20 countries and 200 topics (http://www.ksp.go.kr/ksp/01/bilateral.jsp).

model of development planning despite its transfiguration over the years. Every plan went through design and implementation and plans' success depends on how closely and coherently design and implementation are inter-connected, while adapting to changing domestic and foreign environment during the implementation period. Strong yet flexible approach in the process of implementation is a key to the success. Therefore, Korean model of development planning provides developing countries with meaningful implications.

The purpose of this thesis is to develop useful checklists which would help us identify Korean experiences tailored to specific needs of beneficiary countries which wish to learn from Korea. In so doing, two tasks will be undertaken. One is to identify some common qualities underlying behind the Korean model of development planning and to see how these qualities have been changed. This will provide a yardstick to figure out what area to focus in consulting beneficiary countries and in preparing their own development plans. The other task is to find simple criteria which will be hopefully useful to check Korea's experience tailored to demand of beneficiary countries with potential beneficiary in African developing countries.

In the first part of this research, the FYEDPs of Korea are researched from the take-off period to the 7th Plan, in terms of income level, industrial structure, resource accumulation, and social development. The transfiguration of the plans is studied by focusing on the main objectives and attributes in each stage as well. Common yet salient features from the 1st to the 7th are drawn to be applied to developing countries.

In the second part, economic and social indicators including income level, degree of industrialization, and literacy ratio are utilized to classify African countries into three groups. The common status quo of countries in each group is diagnosed and recommendations are made in terms of industrialization, resource management, and social development in accordance with their development stages based on the Korean model of development planning.

In the third part, the development strategy for Ethiopia is researched as a case study with

focus on creating action plans of the Ethiopian's "Growth and Transformation Plan[2] (GTP)" based on the Korean development experiences. The GTP is critically assessed and the scope where the GTP should focus is identified at the level of a pre-study. Lastly, conclusion and policy recommendations are drawn from aforementioned studies.

[2] A Five-Year Economic Development Plan of Ethiopia launched in 2010.

## II. The Korean Model of Development Planning

### 2.1 Five-Year Economic Development Plans and the Korean Economy

Korea started from a position of fundamental economic disequilibrium and government interventions in the 1960s and 1970s were designed to correct that disequilibrium (Dwight, 1997). The initial condition[3] of Korea was not favorable for economic take-off with small industrial base, no natural resources, and little capital and technology accumulation. Korean economy lagged much behind with USD 87 of its GDP per capita in the early 1960s. The mining and manufacturing accounted for 16.4 percent of the GDP and the domestic savings were around 3 percent in 1962 (see Table 2). The level of social development including education, health, and social protection was very low with poor infrastructure in the early 1960s (see Table 3).

When the 6th Five-Year Plan finished in the early 1990s, however, Korea has been magnificently evolved in terms of economy as well as society. The GDP per capita exceeded USD 10,000 and the mining and manufacturing accounted for more than 30 percent with 36 percent of domestic savings in 1992. The social development was followed by the economic growth as well. As shown in Table 3, the infant mortality rate has declined to a very low level by 90 percent, and accordingly, life expectancy has risen by about twenty years during three decades. Education was rapidly expanded by industrialization and urbanization, and then a decline in the fertility rate was accompanied.

Korean government launched the First FYEDP in 1962 and finished the Five-Year plans with the 7th since the national development plan lost its meaning in the 1990s. The FYEDPs had provided people with clear pictures and inspired them to actively participate in the process of economic development for more than three decades. The Korea's FYEDPs adjusted its priority according to the evolution of the Korean economy (see Table 1). From the First to the 7th, there is coherence among

[3] The report entitled "About Korean Economy" published in 1961 by the Japanese government argued that Korea would not advance to an independent economy due to overpopulation, lack of resources, underdeveloped industries, heavy military expense burden, poor political skills, lack of capital, and lack of administrative ability.

plans which emphasizes the growth for self-sustainable economy, whilst different priority was set given the changing domestic and foreign environment. In this sense, the planning process[4] was an important mechanism to identify national priority and share the vision and goals as well as draw public support.

In the early 1960s, Korea was a poor subsistence agriculture economy which near 70 percent of employment was created by agriculture sector. The agriculture and other primary production accounted for about 40 percent of gross domestic product (see Table 2). Subsequently, the 1st and 2nd FYEDPs emphasized industrialization through export promotion by developing labor-intensive light manufacturing industry and selective import substitution in order to achieve self-sustainable economy.

The goal of the 1st FYEDP was "Establishing the economic basis for the self-sustainable domestic economy and breaking the vicious circle of existing economic and social ties" and the 2nd's, "Modernizing the industrial structure and settling the self-sustainable economy.[5]" By 1980 when the 4th FYEDP was being implemented, the share of primary sector in GDP and employment fell into 15 percent and 34 percent due to rapid economic industrialization. Diversification of the industrial structure was accompanied by rapid transition during the implementation of the 3rd and 4th FYEDPs.

Through the export-oriented industrialization from the 1st FYEDP, export was increased by an average annual rate of 38.8 percent. Subsequently, the production was expanded and the employment opportunity was created. Based on the capital accumulation, the government started promoting heavy and chemical industries (HCIs) in the early 1970s in order to establish domestic defense industry, avoid trade barrier to Korea's export items, and reduce dependency on Japanese capital goods.

In this respect, the 3rd FYEDP put emphasis on promoting HCIs while attempting to reduce the gap between urban and rural area caused by rapid growth during the 1960s. The 3rd FYEDP outlined "balanced approach for growth", "establishment of self-sustainable economy", and "regional

[4] With regards to planning process it normally took two years and there are three stages to complete: preparatory stage (3-6 months); preparation of sectoral plans (12 months); and compilation and finalization of the plan (3-6 months).

[5] Government of Korea, 1967 and 1972

development" by emphasizing rural development, export expansion, and HCIs promotion. These priorities were set by considering the vision and the situation of the Korean economy.

As the size of economy expanded, however, the government-led development strategy became less effective. The nature of plan became more indicative and perspective oriented rather than target-oriented since the 5th FYESDP in the sense that the Plans began to focus on the overall picture of the economy and policy directions for both public and private sector's decision-making (EPB, 1982). The planning process changed from top-down approach to bottom-up because the government started to respect the initiatives and the creativity of the private sector for the successful implementation.

In addition, the dimension of the Korean model of development planning was expanded from the economic development to overall socio-economic progress from the 4th FYEDP. The name of the development plan itself changed from the Five-Year Economic Development Plan (FYEDP) to the Five-Year Economic and 'Social' Development Plan (FYESDP) since the 5th Plan. Social development was recognized as a prerequisite for the sustainable development in a longer perspective and promoting welfare was emphasized unlike the previous investment- and production-oriented development strategy. The Plans focused on social problems and inequality issue caused amid the industrialization. One of main objectives of the 5th FYESDP was "Promoting the welfare through the balanced growth across all regions and citizens."

The 6th Plan focused on institutional improvements and adjustments needed to resolve structural problems. The government planned to simplify licensing systems that unnecessarily regulate the free business activities of the private sector to establish a new free-market economic order based on autonomy, competition and internationalization. The 7th Plan was designed to evaluate the results of all previous plans and to find and rectify unfair practice and system.

As discussed, a series of FYEDPs enabled the Korean economy to achieve not only the quantitative targets including exports expansion, employment creation, income increase, and industrialization but also qualitative aspects by widening the scope of plans to social development. The way that the FYEDPs were implemented changed as well. In the earlier plans, government tended

to have a firm grip during the implementation as there were plenty of resources under government's control. But in the later plans, government's grip was loosened. And yet, characteristics of FYEDPs have changed over time in parallel with the development of the Korean economy. Consultation at the formulation stage became the process of vision-sharing in the later FYEDPs rather than one of target-setting in the earlier plans.

**Table 1. Main objectives from the 1st to 7th Five-Year Plan**

| Period | Main theme | Specific Objectives |
|---|---|---|
| 1st FYEDP (1962-66) | Self-sustainable economy | · Develpoment of basic industry<br>· Expansion of SOC<br>· Export promotion |
| 2nd FYEDP (1967-71) | Self-sustainable economy | · Self-sufficiency in food<br>· Establishment of chemical, steel, machinery |
| 3rd FYEDP (1972-76) | Growth, stability and balance | · Rural development<br>· HCIs Promotion<br>· Export promotion |
| 4th FYEDP (1977-81) | Growth, equity, and efficiency | · Enhancing self-sufficiency in investment resources<br>· Impoving BoP<br>· Social development<br>· Technology development |
| 5th FYESDP (1982-86) | Economy stability | · Price stability<br>· Enhancement of efficiency & competitiveness through institutional reforms<br>· Promotion of welfare through balanced growth |
| 6th FYESDP (1987-91) | Advanced economy<br>Efficiency and equity | · Enhancemen of economic efficiency<br>· Improvement of technology<br>· Redistiribution of income<br>· Balanced regional development |
| 7th FYESDP (1992-96) | Socio-economic growth<br>Unification | · Education reform<br>· Technology innovation<br>· SMEs promotion<br>· Balanced development<br>· Acceleration of globalization |

Source: The Five-year Economic Plan, government of Korea (various issues)

**Table 2. Comparison of Results from 1st to 7th Five-Year Plan**

| | 1962 | 1st FYEDP 1962-66 | | 2nd FYEDP 1967-71 | | 3rd FYEDP 1972-76 | | 4th FYEDP 1977-81 | | 5th FYESDP 1982-86 | | 6th FYESDP 1987-91 | | 7th FYESDP 1992-1996 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Plan | Result | Plan | Result | Plan | Result | Plan | Result | Plan | Result | Plan | Result | Plan | Result |
| Industrial Structure (%) | | | | | | | | | | | | | | | |
| Agriculture, Forestry & Fishery | 37 | 34.8 | 34.8 | 34.0 | 26.8 | 22.4 | 23.5 | 18.5 | 15.8 | 12.2 | 12.8 | 10.6 | 8.3 | 6.2 | 5.8 |
| Mining & Manufacturing | 16.4 | 26.1 | 20.5 | 26.8 | 22.2 | 27.9 | 28.4 | 40.9 | 30.7 | 31.0 | 30.1 | 32.7 | 29.3 | 32.4 | 26.2 |
| SOC & Other Service | 46.6 | 39.1 | 44.7 | 39.2 | 51.0 | 49.7 | 48.1 | 40.6 | 53.5 | 56.9 | 57.1 | 56.7 | 62.4 | 61.4 | 68.0 |
| Per Capita GNP (US$) | 87 | | 125 | | 291 | | 825 | | 1,826 | | 2,702 | | 7,276 | | 12,518 |
| Investment Ratio (%) | 12.8 | 22.7 | 21.6 | 19.9 | 25.1 | 24.9 | 25.6 | 26.0 | 30.3 | 29.5 | 29.5 | 31.3 | 39.3 | 34.4 | 38.1 |
| Domestic Savings Ratio (%) | 3.2 | 13.0 | 11.8 | 14.4 | 14.6 | 21.5 | 23.9 | 23.9 | 20.5 | 21.7 | 32.5 | 33.5 | 36.1 | 36.0 | 34.8 |
| Rate of GNP Growth (%) | 2.2 | 7.1 | 7.8 | 7.0 | 9.6 | 8.6 | 9.7 | 9.2 | 5.8 | 7.5 | 8.5 | 7.3 | 9.9 | 7.5 | 7.2 |
| Unemployment Ratio (%) | 8.2 | 14.8 | 7.1 | 5.0 | 4.5 | 4.0 | 3.9 | 3.8 | 4.5 | 3.8 | 3.8 | 3.7 | 2.3 | 2.4 | 2.0 |

Source: The Five-year Economic Plan, government of Korea (various issues)

**Table 3. Major Indicators of Social Development from the 1st to the 7th Five-Year Plan**

| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 |
|---|---|---|---|---|---|---|---|---|
| Population (thousand person) | 24,989 | 29,159 | 31,435 | 34,678 | 37,406 | 40,419 | 43,390 | 44,553 |
| Population Growth Rate (%) | 3.0 | 2.5 | 2.1 | 1.9 | 1.6 | 1.0 | 1.1 | 1.4 |
| Life Expectancy (years) | 54.2 | 56.7 | 61.2 | 64.0 | 65.8 | 68.5 | 71.3 | 73.4 |
| Infant Mortality Ratio (per 1,000 live births) | 96.0 | 63.4 | 41.2 | 22.7 | 17.0 | 9.6 | 7.9 | 6.9 |
| Fertility Rate (births per woman) | 5.7 | 4.9 | 4.5 | 3.5 | 2.8 | 1.7 | 1.6 | 1.7 |
| Age Dependency Ratio (%) | 80.5 | 86.5 | 83.3 | 71.3 | 60.7 | 52.4 | 44.1 | 40.6 |
| Public Spending on Education to GDP (%) | | | 3.5 | 2.1 | 3.5 | 4.2 | | |
| Literacy Rate (%) | | | 88.0 | | | | 96.0 | |
| Primary School Enrollment (net, %) | 86.2 | 91.6 | 92.0 | 97.8 | 97.7 | 98.5 | 100.5 | 98.2 |
| Middle School Enrollment (net, %) | 33.3 | 39.4 | 36.6 | 56.2 | 73.3 | 82.0 | 91.6 | 93.5 |
| Urbanization Rate (%) | 27.7 | 32.4 | 40.7 | 48.0 | 56.7 | 64.9 | 73.8 | 78.2 |
| Housing Supply Ratio (%) | | | | | 71.2 | 69.8 | 72.4 | 86.0 |
| Piped Water Supply Ratio (%) | 18.2 [1] | | 37.8 [2] | | 55.0 | 67.0 | 78.0 | |
| Paved Road Ratio (%) | 4.1 [3] | | 15.8 [4] | | 34.1 5 | 54.2 6 | 71.5 | 76.0 |
| Telephone lines (per 100 people) | | 0.77 | 1.51 | 3.00 | 7.09 | 15.97 | 30.97 | 41.25 |

Source: World Data Bank, Korean Educational Development Institute, Ministry of Construction and Transportation of Korea, and Five-Year Economic and Social Development Plan by Government of Korea

1. 1962, 2. 1972, 3. 1961, 4. 1972, 5. 1981, 6. 1986

## 2.2 Four Characteristics of the Korean Model of Development Planning

Although each of Five-Year Plans set the different priority as regards differing levels of development, there are coherent and common features of the Korean model of development planning from the 1st to the 7th which can be widely referred by developing countries. The FYEDPs clearly show characteristics of how effectively the government implemented policies by constantly adjusting to changing foreign and domestic environment, coordinating resource allocation, and promoting the participation of all stakeholders with strong political leadership.

### 2.2.1 Participatory consultation

Despite the fact that Korea's FYEDPs were the government-led strong intervention, the government put a great emphasis on creating a broad participatory consultation mechanism, i.e. "Forum for Policy Dialogues" and "Industry Committees" on the planning process in order to share the vision and goals, avoid bottlenecks, and generate a closer linkage between the plan and implementation. It could help draw national consensus and public support on the development strategy and improve decision-making as well as administration process of the government.

The Economic Planning Board[6] (EPB) in conjunction with Korea Development Institute[7] (KDI) organized public forums to induce the participation and contribution of many experts, opinion leaders, and other private sector representatives. Especially in the planning process for the 2nd FYEDP the vertical involvement was broadening as sectoral plans were prepared by concerned ministries, research institutes, universities, businessmen, engineers, and technical experts by means of "Forum for Policy Dialogue" and "Committees" (Adelman, 1969).

A series of committees were responsible for assessing the existing structure of production, estimating the future patterns of development, and reviewing the projects proposed for their industries (Cole, 1979). The experts from the various sectors reviewed the projects, forecasted direction of

[6] The EPB was composed 5 bureaus like Planning, Budget, International Cooperation, Evaluation, and Census and Statistics.

[7] KDI was founded in 1971 in recognition of the need for a think tank that researches economic policy issues concerning Korea in both systematic and applicable ways, and assists the government in formulating the "Five-year Economic Development Plans" and related policies (http://www.kdi.re.kr/kdi_eng/main/main.jsp).

development, and researched the relevant studies. They served to disseminate information and industrial prospects and get the feedback like criticisms and comment each other.

From the 5th Plan the concerned ministries started to manage budget directly and led the "Forum for Policy Dialogue" instead of the EPB, and thus, they could expand more capability for project operation with strong ownership. The government shared the information and decision-making process with various stakeholders and civil society by strengthening the reliability and trustworthiness of the plan and reducing the domestic investment risks through "Public-Private Consultation." The government expected to seek national consensus and public support for economic policies while the private sector could enhance the predictability by removing uncertainty regarding economic policy directions.

#### 2.2.2 Flexibility

Flexibility in implementing the plan is highly required to cope with exogenous variables. During the implementation of every FYEDP, there are the respective "Revised Plans" which were drafted mainly by the EPB. The revised plan shows a flexible approach of Korean model of development planning by keeping adjusting to a number of changes in the foreign and domestic conditions, rather than strictly persisting in the original plan in order just to achieve the targeted goals (Kang, 2008).

The 1st FYEDP was launched in 1962 but after two years of its implementation the revised plan substituted for the original plan due to the poorer economic performance than expected since the development goals were set too high to satisfy the people with political purpose (EPB, 1982). Subsequently, the modifications were made by focusing on enhancing the economic feasibility on the implementation and lowering the targeted economic indicators: economic growth rate from 7.1 percent to 5 percent; investment ratio from 22.7 percent to 16.9 percent; and national savings ratio from 12.9 percent to 8.2 percent[8].

In the case of the 5th FYESDP, it was revised because the goals of original plan were achieved earlier and the economy performed better than expected. The 5th Revised Plan, therefore,

[8] Economic Policy of the Development Era: 20-year History of the Economic Planning Board (1982).

focused on the institutional reforms and structural improvements rather than quantitative targets, and emphasized competition and market mechanism.

From the 2nd Plan in 1967 the government adopted the technique of annual "Overall Resource Budget (ORB)." The ORB reset the plan target for each year after analyzing current economic conditions and trends, and developed the specific policy measures. It provided the major content and size of the government's fiscal budget and sectoral investment programs and projected trends in the monetary sector, annual supply and demand for principal commodities, foreign exchange, domestic liquidity, and other activities in the private sector (Kim, 1975) It helped to facilitate the effective implementation of development plan by indicating policies to be followed during the year and adjusting for variable environment at home and abroad.

The ORB was substituted by "Rolling Plan" from 1977. Since Korea has a single-year budgeting system, the annual budget allocation is made largely based on the previous year's budget and the long-term fiscal outlook is not available (Kim, 1975). While implementing medium-term of Five-Year Plan, therefore, the EBP's Budget bureau adopted the rolling plan which modifies and supplements the original plan putting off the implementing period for one year after evaluating the results of previous year and forecasting a coming couple of years.

Such flexible attitude and prompt adaptation to political and economic environment were possible thanks to the two effective government entities, the Economic Planning Board (EPB) and the Korea Development Institute (KDI). As Johnson (1982) and Amsden (1989) pointed out that a rational and autonomous bureaucracy dedicated to development organized and led the phenomenal economic growth process in Korea. According to Kanesa-Thasan (1969) there was an emergence of young, pragmatic, career-minded economic administrators and the range of offices available to career officials has been increased, giving more stability to the bureaucratic system. The efficient bureaucrats and researchers supported to forecast and cope with the foreign and domestic environment.

#### 2.2.3 Coordination

Flexibility in implementing the plan is necessary but too much flexibility lost the meaning of plan itself. Coordination is important in that the government should maintain continuity and enhance

feasibility in undertaking projects with respect to resource availability by continuously reviewing the fiscal development.

The Economic Planning Board (EPB) founded in 1961 played an essential role as a super-ministry to coordinate policies and domestic and foreign capital as well, and allocated them efficiently by priority. Since the active capital investment from the domestic and foreign capital played an important role in Korean economic development, the mobilization of foreign resources mattered a lot. Within the EPB, the International Cooperation bureau was responsible for the introduction and mobilization of foreign capital. Korean firms who wanted to borrow loans from foreign countries were required to get the approval of the EPB. The EPB had the duty to guarantee loans and the Ministry of Finance supervised the activities and the repayment of the borrowing firms. In addition, the EPB controlled over importation of foreign capital by selecting the capital-goods imports and importers and giving incentives to foreign direct investment.

In addition to the coordination between foreign and domestic financing, the EPB had an important function to coordinate among different ministries. It facilitated the implementation of policies by reducing the conflicts between ministries. The ministries and government agencies established the goals and designed their own strategies respectively while the EPB coordinated the plans and set up a comprehensive plan coherently at the national level. In the sense that the head of EPB was the Deputy Prime Minister who presided economic committees and ministerial meetings, the EPB could adjust the interest of all stakeholders and enhance the linkage between the plan and implementation.

#### 2.2.4 Strong implementation

The strong leadership commitment is the most critical noneconomic factor which contributed to a success of the FYEDPs. Strong political leadership backed by well-functioning institution and efficient bureaucracy helped to achieve the state-led development through strong implementation of the plans. Through the EPB the political leadership was supported by concentrating information and power in implementing the FYEDPs.

There were two types of “Monthly Meetings” which largely contributed to the

implementation of policies and represented strong leadership commitment. The “Monthly Economic Trends Meeting (METM)” presided by President Park began in 1963 in order to give the overall economic knowledge and trends to the military officials at first. The economic issues were discussed by participants including ministers, high ranking officials, Bank of Korea, private firms, and economists.

The “Monthly Export Promotion Meetings (MEPM)” was held with a purpose of pushing for export-driven policies and monitoring export performance. Participants discussed the comprehensive measure for export promotion and identified and troubleshoot the bottlenecks faced by the export companies. The MEPMs served as an incentive mechanism for private sector by reducing uncertainties and getting immediate policy response.

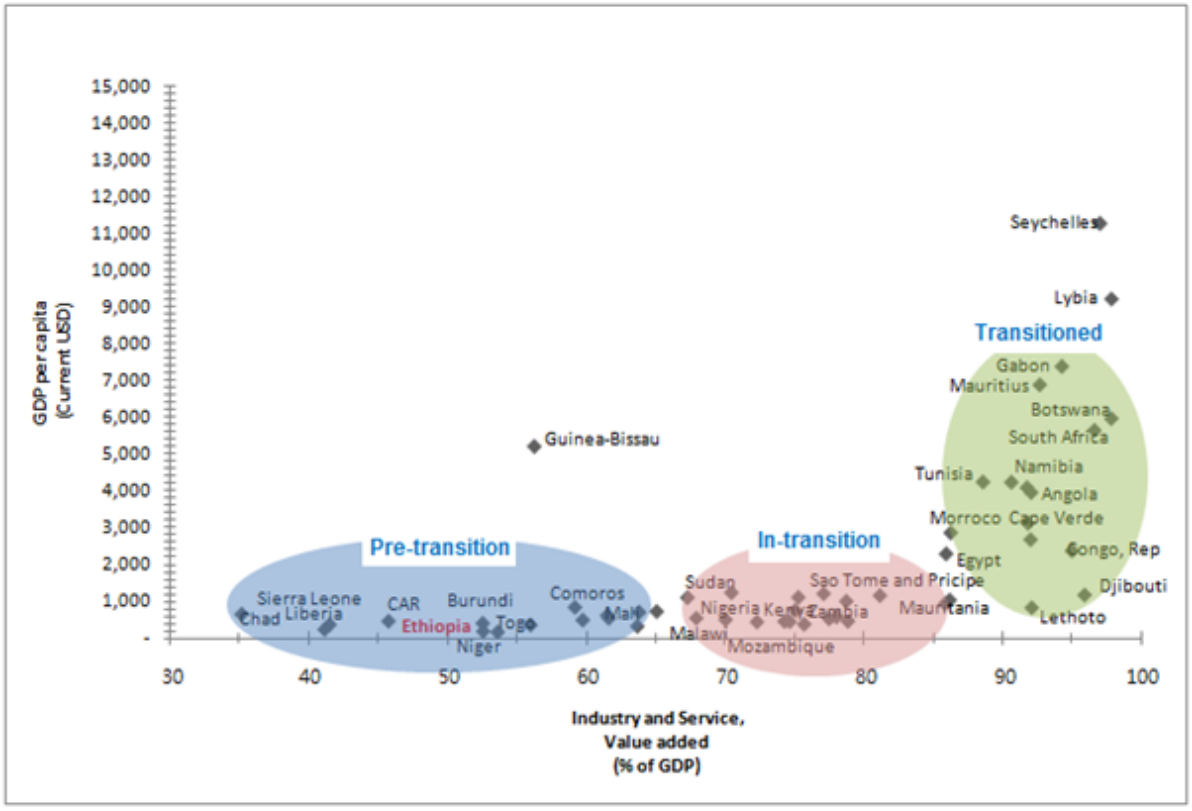
President Park said, “We can make mistakes as long as we correct mistakes. We can get feedback from the global market.” Out of the total of 152 MEPMs held from February 1965 to the end of 1979, President Park missed attending them only 5 times, and once, out of 147 METMs (KDI, 2008). Strong political leadership commitment enabled to implement the policy on the right track, discipline and supervise government officials, and minimize the rent-seeking behavior. Korea maintained remarkable continuity in implementing a series of the FYEDPs because of the strong political will with full ownership in its development process.

## III. Applicability of the Korean Model of Development Planning

### 3.1 Categorization of African Developing Countries

This chapter aims to explore the applicability of Korean model of development planning to 46 African developing countries[9] based on the previous research. Even in the African region, however, the level of development is quite diverse among countries. Accordingly, the need to learn from Korean experiences would be quite different depending upon their own socio-economic situations. In this context, this chapter attempts to categorize potential beneficiaries. As the characteristics of the FYEDPs changed with the development of the Korean economy, it looks sensible to use two economic indicatives including income and level of industrialization.

**Figure 1. [Grouping 1] Industrialization and Economic Development in Africa**




Source: African Development Bank, data portal (2011)

[9] There are 53 countries in the African continent but 7 countries are excluded; Somalia because of lack of data; oil-producing and resource-abundant countries such as Nigeria, Algeria, Angola, Libya, and Equatorial Guinea, and; Guinea-Bissau whose most lucrative income comes from narco-trafficking.

In doing so, two indicators such as GDP per capita[10] and share of industry and service sector to GDP are utilized to categorize African countries into three groups (see Figure 1). Even though there is no universally applicable pattern, the economic development, in general, is accompanied by fundamental shifts in the industrial structure. Increase in share of value added manufacturing and service and decrease in share of primary sector represent a common feature of industrialization. There is usually a positive relation between the GDP per capita and industrialization like the case of Korean economic development.

As a result of scatter plot in terms of income level and degree of industrialization, three groups are identified as following: 1) pre-transition countries; 2) in-transition countries, and; 3) transitioned countries (see Figure 1). The pre-transition countries are defined as which the share of primary sector accounts for more than 35 percent of its GDP while their GDP per capita are less than USD 900. In-transition countries are on their industrialization process and their share of value added industry and service sector to the GDP remains between 65 and 90 percent while their GDP per capita are between USD 900 and USD 3,000. Transitioned countries already achieved industrialization with more than 90 percent of industry and service sectors and their GDP per capita are above USD 3,000.

In order to figure out whether this grouping is homogeneous or not, if applied by other variable, another indicator is added. One of social indicators, literacy ratio[11] is used (see Figure 2). Since social development is entailed by economic development, it can be a criterion although there would be a time lag between the investment of education and the returns. Countries which are under 55 percent of literacy ratio are determined as pre-transition countries. In-transition countries fall into between 55 percent and 80 percent. Transitioned countries achieved more than 80 percent of literacy ratio.

As a result of grouping in two different manners, uniformity is captured among two categorizations to a certain extent and most countries are overlapped. Therefore, the first

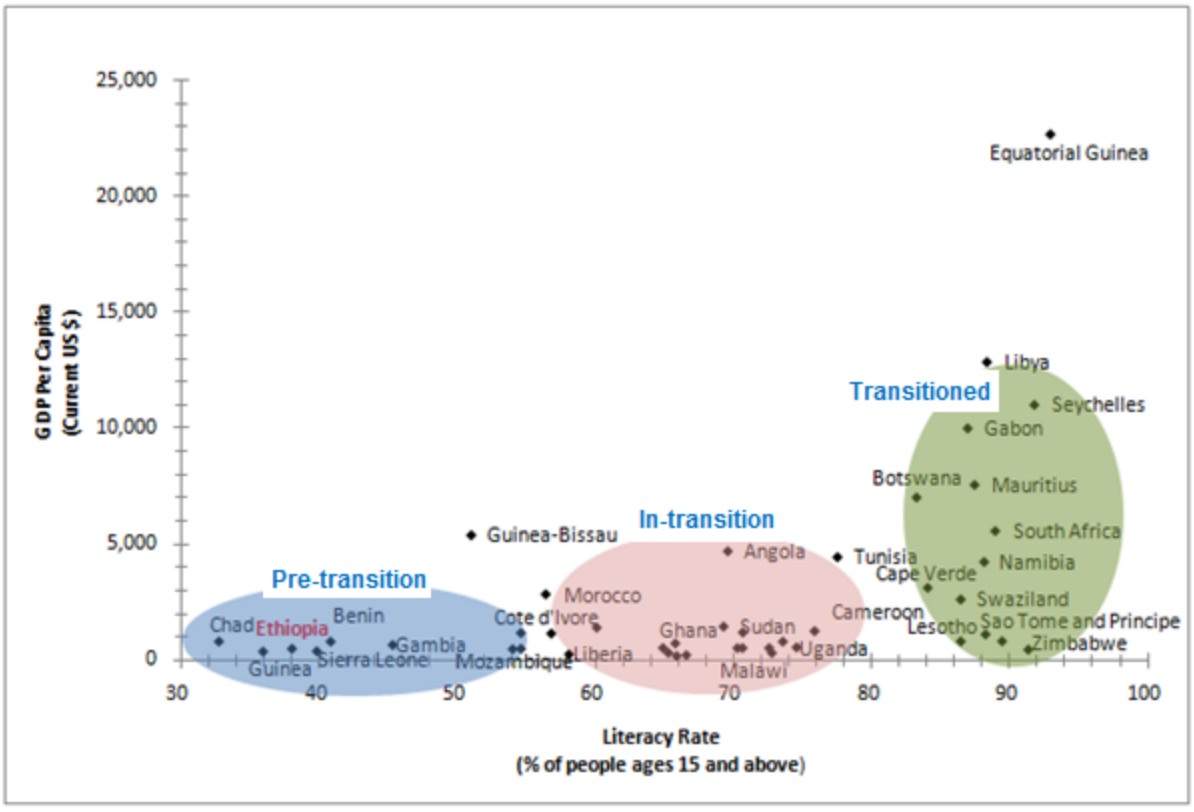
[10] GDP per capita is used instead of GNI per capita because of lack of data. Hereafter, GDP per capita is regarded same as GNI per capita.

[11] 2008 data from data portal of African Development Bank

classification[12] is utilized hereafter to be applied by Korea's model of development planning according to the development stages as following (see Table 4): 1) pre-transition countries: Chad, Liberia, Sierra Leone, Central African Republic, Ethiopia, Democratic Republic of Congo, Burundi, Niger, Comoros, Togo, Ghana, Rwanda, Malawi, Mali, and Benin; 2) in-transition countries: Zambia, Sudan, Cote d'Ivoire, Cameroon, Sao Tome and Principe, Mauritania, Egypt, Senegal, and Morocco, and; 3) transitioned countries; Tunisia, Cape Verde, Namibia, Mauritius, Gabon, Botswana, and South Africa.

Based on this categorization, issues and problems faced by the countries in each group are diagnosed in the next section. The applicability is explored in terms of industrialization, financing investment resources, and social development by the level of economic status based on experience of Korea's FYEDPs.

**Figure 2. [Grouping 2] Literacy rate and Economic Development in Africa**




Source: African Development Bank, data portal (2011)

[12] The categorization which McKinsey & Company used in their presentation (2011) is considered for reference (Appendix 1). The countries in the boundary are grouped by the author's decision.

**Table 4. Categorization of African countries by Industrialization and Income level**

| Industrialization | Countries | Industry and Service, Value added (% of GDP) | GDP per capita (Current USD) |
|---|---|---|---|
| Pre-transtion | Chad | 35 | 639 |
| | Liberia | 41 | 222 |
| | Sierra Leone | 41 | 351 |
| | Central African Republic | 46 | 448 |
| | Ethiopia | 53 | 389 |
| | Congo, Dem. Rep. | 53 | 170 |
| | Burundi | 54 | 150 |
| | Niger | 56 | 344 |
| | Comoros | 59 | 825 |
| | Togo | 60 | 478 |
| | Ghana | 61 | 603 |
| | Rwanda | 62 | 527 |
| | Malawi | 64 | 308 |
| | Mali | 64 | 689 |
| | Benin | 65 | 711 |
| In-Transition | Sudan | 70 | 1,226 |
| | Cote d'Ivoire | 75 | 1,096 |
| | Cameroon | 77 | 1,198 |
| | Zambia | 79 | 990 |
| | Sao Tome and Principe | 81 | 1,146 |
| | Mauritania | 86 | 920 |
| | Egypt | 86 | 2,280 |
| | Senegal | 86 | 1,020 |
| | Morocco | 86 | 2,856 |
| Transitioned | Tunisia | 89 | 4,237 |
| | Namibia | 91 | 4,229 |
| | Cape Verde | 92 | 3,115 |
| | Mauritius | 93 | 6,882 |
| | Gabon | 94 | 7,384 |
| | South Africa | 97 | 5,643 |
| | Botswana | 98 | 5,964 |

Source: African Development Bank, data portal (2011)

Note: The share of industry and service and GDP per capita is 2009 data.

### 3.2 Applicability of the Korean Model of Development Planning

#### 3.2.1 Pre-transition countries

According to the above classification, the pre-transition countries are Chad, Liberia, Sierra Leone, Central African Republic, Ethiopia, Democratic Republic of Congo, Burundi, Niger, Comoros, Togo, Ghana, Rwanda, Malawi, Mali, and Benin. All are the least developed countries (LDCs) identified by the Economic and Social Council[13] (ECOSOC) of the United Nations by using three criteria: income, human development index, and economic vulnerability.

Their economies are heavily dependent on agriculture of which a dominant feature is small-scale peasant farming with low productivity. Their GDP per capita are less than USD 900 and they have difficulty in securing and mobilizing resources for investment in their economic take-off period due to insufficiency of domestic savings (see Table 5). Most of pre-transition countries are resource-poor countries in Africa and they tend to have low domestic savings or even negative whilst having difficulty in accessing international capital market. Some countries like Liberia and Malawi exceptionally show high level of domestic savings but this is because of massive foreign aid.

Tax revenues are usually under 15 percent of their GDP: Ethiopia 11.3 percent (2009); Ghana 12.5 percent (2009); Sierra Leone 10.8 percent (2009); Central African Republic 6.2 percent (2004); Democratic Republic of the Congo 6.3 percent (2002); Niger 11.5 percent (2007); Mali 14.7 percent (2009), and; Benin 16.1 percent (2009)[14]. For pre-transition countries, the Official Development Assistance (ODA) can weaken their capital constraint and provide finance for industrial development.

Therefore, the priority of the pre-transition countries should be the poverty eradication through industrialization and resource financing from abroad. Industrialization can hasten the transformation of the LDCs from agricultural to modern economies by creating employment opportunities and increasing incomes as well as living standards.

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[13] The Economic and Social Council (ECOSOC) serves as the central forum for discussing international economic and social issues, and for formulating policy recommendations addressed to Member States and the United Nations system. The 2004 High-level Segment focused on Least Developed Countries and resources mobilization and an enabling environment for poverty eradication. The High-level Dialogue of the Council helped to highlight the specific problems of LDCs (http://www.un.org/en/ecosoc/about/index.shtml).

[14] Data from World databank

**Table 5. 2009 Economic Indicators of Pre-transition countries in Africa**

| Industrialization | Countries | Industry and Service Value added (% of GDP) | GDP per capita (Current USD) | Total Revenue and Grants (% of GDP) | Net Total ODA (% of GDP) | Gross Domestic Savings (% of GDP) |
|---|---|---|---|---|---|---|
| Pre-transition | Chad | 35 | 639 | 19.4 | 7.8 | 21.3 |
| | Liberia | 41 | 222 | 27.4 | 76.8 | 25.6 |
| | Sierra Leone | 41 | 351 | 19.7 | 21.3 | 2.2 |
| | Central African Republic | 46 | 448 | 16.1 | 11.4 | -2.7 |
| | Ethiopia | 53 | 389 | 16.3 | 12.1 | 6.4 |
| | Congo, Dem. Rep. | 53 | 170 | 24.1 | 21.5 | -3.3 |
| | Burundi | 54 | 150 | 31.0 | 45.4 | -1.0 |
| | Niger | 56 | 344 | 18.9 | 8.8 | 14.1 |
| | Comoros | 59 | 825 | 22.7 | 9.0 | -16.0 |
| | Togo | 60 | 478 | 16.4 | 16.1 | 3.3 |
| | Ghana | 61 | 603 | 34.0 | 10.3 | -4.9 |
| | Rwanda | 62 | 527 | 24.6 | 21.1 | 12.5 |
| | Malawi | 64 | 308 | 31.9 | 23.2 | 28.2 |
| | Mali | 64 | 689 | 21.7 | 11.1 | 10.4 |
| | Benin | 65 | 711 | 21.7 | 10.7 | 11.4 |

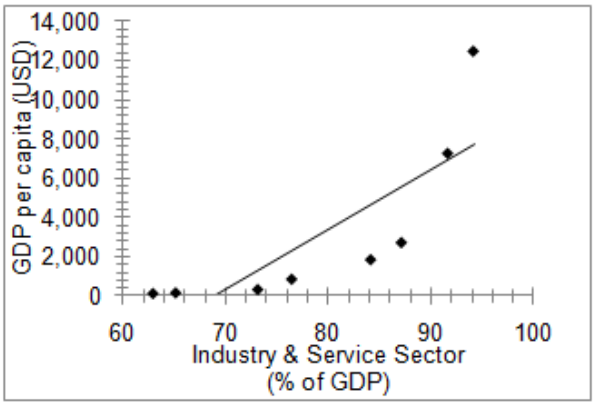
Source: African Development Bank, data portal (2011)

The situation faced by the pre-transition countries resembles the Korean economy in the early 1960s. Korea used to be suffering from extreme poverty with no capital accumulation in the 1960s when the 1st and 2nd FYEDPs were being carried out. Korea was a poor subsistence agriculture economy which around 40 percent of GDP and 70 percent of employment were created by agriculture sector with no industry development (see Table 6). Faced on the decrease in foreign aid from the US, low domestic savings[15], and low tax burden ratio[16], Korean government launched the 1st FYEDP in 1962.

**Table 6. & Figure 3. Industrialization and Economic Growth**

| | Industry & Service Sector (% of GDP) | GDP per capita (USD) |
|---|---|---|
| 1962 (1st) | 63.0 | 87 |
| 1966 (2nd) | 65.2 | 125 |
| 1971 (3rd) | 73.2 | 291 |
| 1976 (4th) | 76.5 | 825 |
| 1981 (5th) | 84.2 | 1,826 |
| 1986 (6th) | 87.2 | 2,702 |
| 1991 (7th) | 91.7 | 7,276 |
| 1996 | 94.2 | 12,518 |

Source: Five-year Economic Development Plan, Government of Korea (various issues)




The goal of the 1st FYEDP was "Establishing the industrial basis to achieve self-sustainable economy and the break out of vicious circle of poverty." To this end, Korea shifted its basic approach of economic development strategy towards developing export-oriented light manufacturing industry from import-substitution industry. In order to secure investment resources, emphasis was given to inducing foreign capital, efficiently managing resources, and improving productivity in the labor-intensive industry by utilizing the idle facilities and labor force.

Promoting labor-intensive light manufacturing industry is proper for these pre-transition countries which have no technology and capital in order to create employment opportunity and generate foreign exchange for economic take-off. In the case of Korea, the development strategy of the 1st and 2nd FYEDPs was export-oriented industrialization by promoting the labor-intensive light

[15] 1.3 % in 1962 (Bank of Korea, 1969)
[16] 6.7 % in 1964 (EPB, 1982)

industries such as textile, garment, food, and beverages which demanded the supply of abundant labor forces. This was determined given the absorptive capacity of Korea.

The Korean government channeled a large part of foreign capital to light manufacturing industry. The government encouraged export promotion through various incentive measures including devaluation, tax advantages, tariff exemption, credit allocation, interest rate reform, and institutional supports.

The exchange rate system was reformed to improve external competitiveness for export-led industrialization. In 1964, for example, the Korean *won* was devalued approximately twice[17], that is, one dollar which had been 130 *won* changed to 255 *won*. The devaluation of *won* had a direct influence on the fiscal situation by increasing the revenue from import duties, sustaining the counterpart fund in spite of the reduction of grants, and reflecting the supply and demand for foreign-exchange transactions. The government also provided tax incentives to export firms by reducing income tax on export earnings by 50 percent and exempting tariffs on imports of inputs such as intermediate goods, capital equipments, and raw materials for the purpose of exports.

**Table 7. Interest rate (%)**

| | 1961-65 | 1966-72 | 1973-81 | 1982-86 | 1987-91 |
|---|---|---|---|---|---|
| Export loan Interest rate (A) | 9.3 | 6.1 | 9.7 | 10.0 | 10.0-11.0 |
| General loan Interest rate (B) | 18.2 | 23.2 | 17.3 | 10.0-11.5 | 10.0-11.5 |
| (A)-(B) | 8.9 | 17.1 | 7.6 | 0-1.5 | 0-0.5 |

Source: Cho and Kim (1995)

Regulation of money supply was replaced by credit controls and credit allocation (Haggard, 1990; Cole and Park, 1983). Korean government started to draw foreign finance by adopting "Act for Payment Guarantee of Loans" in 1962. The Bank of Korea provided export companies with export credit by means of commercial banks. Automatic approval of loans was exerted by commercial banks to the export companies which had export letters of credit (L/C). The banks played a role as an agent of industrial policy rather than as a profit-maximizer and the government became an effective risk

[17] "Increase in Exchange Rate and Adoption of Foreign Exchange Certificate System" (Presidential Decree No.1862, July 8th, 1964).

partnership with private industries (Cho and Kim, 1995). The government allocated the credit based on export performance and this could reduce market distortion which could have been caused by government intervention. Export companies could get loans at a much more favorable interest rate than a normal interest rate (see Table 7). For example, export loans were provided at rates of 6.1 percent while general commercial loan interest rates were 23.2 percent during 1966-72. The difference between the two interest rates was peak during the 2nd FYEDP when export promotion through light industries was encouraged.

**Table 8. The Inflow of Foreign Capital (thousand USD)**

| | 1959~66 | 1967 (2nd) | 1968 | 1969 | 1970 | 1971 |
|---|---|---|---|---|---|---|
| Loan | 324,956 | 229,620 | 338,586 | 547,605 | 482,033 | 648,588 |
| Public Loan | 140,847 | 105,619 | 70,220 | 138,934 | 115,325 | 303,395 |
| Private Loan | 184,109 | 124,001 | 268,366 | 408,671 | 366,708 | 345,193 |
| Foreign Investment | 25,485 | 7,595 | 19,169 | 12,661 | 66,137 | 42,859 |
| Total | 350,441 | 237,215 | 357,755 | 560,266 | 548,170 | 691,447 |

Source: Economic White Paper, Economic Planning Board (1972)

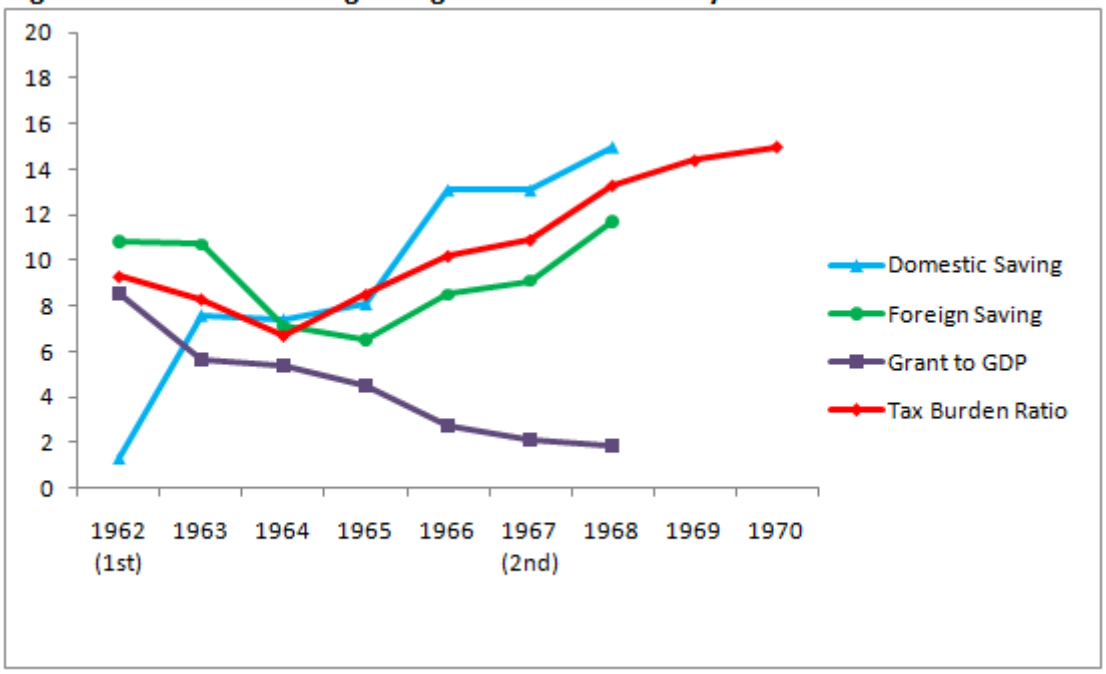
Meanwhile, the government actively engaged with International financial communities in order to induce more foreign resources. The International Economic Consultative Organization for Korea (IECOK) was founded to facilitate the economic support and technical assistance from developed countries in 1966. The IECOK, resided by IBRD, was consisted of 11 OECD countries[18] and 4 International Organization such as IBRD, IMF, UNDP, and ADB. Deputy Prime Minister Chang solicited for help and cooperation to get public and private loans from the member states saying that "in order for Korean economy which is in the stage of take-off to reach the perfect height, the IECOK is expected to play a role as a control tower." The government broadened diplomatic relations with Europe and developed countries in order to induce more foreign investment.

As a result, the foreign inflow was rapidly increased reaching at USD 357 million during a year of 1968, comparing to the fact that total foreign capital inflow from 1959 through 1966 was USD 350 million (see Table 8). Domestic savings augmented from 1.3 percent in 1962 to 15 percent of

[18] The United States, the United Kingdom, West Germany, the Netherlands, Belgium, Japan, Italy, France, Canada, Australia, Italy, Australia, Taiwan, and Switzerland

GNP in 1968 and the share of total investment financed by domestic savings rose from 25 percent in 1962 to 70 percent in 1971. Tax burden ratio also increased from less than 10 percent in the early 1960s to around 15 percent in 1970 (see Figure 4).

**Figure 4. Resource Financing during the 1st and 2nd Five-year Plan**




Source: Bank of Korea, Economic Statistics Yearbook, 1969

3.2.2 In-transition countries

In-transition countries in Africa based on the classification of this thesis are Zambia, Sudan, Cote d'Ivoire, Cameroon, Sao Tome and Principe, Mauritania, Egypt, Senegal, and Morocco. Other than their on-going transition of industrial structure and a little higher GDP per capita, their economies do not appear very different from the pre-transition countries. They still confront many constraints such as lack of capital, outdated technologies and production capabilities, skill shortage, and competition from imports. Therefore, the priority should be put on increasing investment resources and upgrading the production capacity with technology development as to accelerate the transition of economy.

Most of the in-transition countries started their economic take-off by utilizing comparative advantage in labor-intensive manufacturing industries. However, it is hard to transfer to the higher

value added industry such as machinery and equipment as Korea began to promote heavy and chemical industry (HCI) in the early 1970s by benchmarking advanced countries which had the similar endowment with Korea. Promoting HCIs is not proper for the in-transition countries because they do not reach economies of scale yet and have no sufficient capital and technology accumulation. In this respect, in-transition countries should focus on improving technology and raising domestic savings. They should encourage joint ventures and enhance linkages between the Foreign Direct Investment (FDI) and the domestic economy whilst improving domestic mobilization of savings through efficient tax administration.

**Table 9. 2009 Economic Indicators of In-transition countries in Africa**

| Industrialization | Countries | Industry and Service Value added (% of GDP) | GDP per capita (Current USD) | Total Revenue and Grants (% of GDP) | Net Total ODA (% of GDP) | Gross Domestic Savings (% of GDP) |
|---|---|---|---|---|---|---|
| In-transition | Sudan | 70 | 1,226 | 16.7 | 4.2 | 14.9 |
| | Cote d'Ivoire | 75 | 1,096 | 19.5 | 10.9 | 16.8 |
| | Cameroon | 77 | 1,198 | 17.1 | 2.7 | 10.1 |
| | Zambia | 79 | 990 | 20.3 | 9.5 | 13.7 |
| | Sao Tome and Principe | 81 | 1,146 | 58.8 | 14.4 | -35.4 |
| | Mauritania | 86 | 920 | 25.5 | 7.4 | -23.8 |
| | Egypt | 86 | 2,280 | 27.1 | 0.5 | 13.7 |
| | Senegal | 86 | 1,020 | 21.7 | 8.5 | 16.2 |
| | Morocco | 86 | 2,856 | 25.9 | 1.0 | 14.3 |

Source: African Development Bank, data portal (2011)

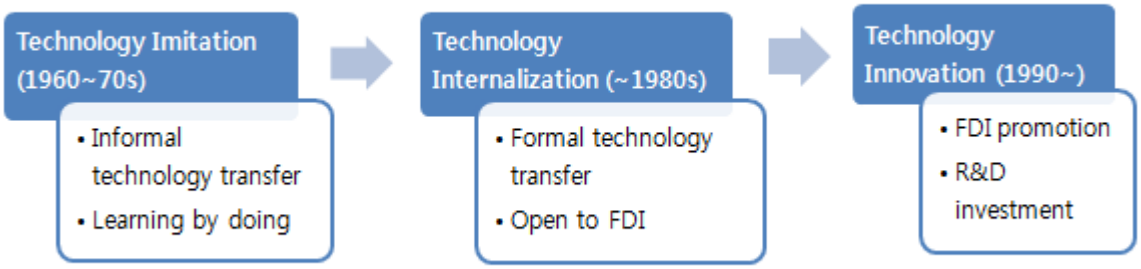
When the Korean government planned the 3rd FYEDP, there were confronting economic issues which resemble current situation of in-transition countries. The first task of Korea in the early 1970s was to expand export in order to raise foreign exchange which was required to import raw materials and capital goods while taking measure to discourage imports. The second one was to raise much more domestic savings than the 1st and 2nd's so as to reduce the burden for the repayment of foreign loans and the dependency to foreign savings.

During the implementation of the 1st and 2nd FYEDPs, Korea could not help but to depend on foreign savings for economic take-off due to low domestic savings, and subsequently, the burden for repayment of foreign loans was heavily returned to the 1970s. The corporate finance structure was very weak with low BIS capital adequacy ratio because of ambitious expansion of production facilities. Moreover, the domestic economy was hit by the wake of the global recession. Therefore, the

3rd FYEDP focused on enhancing modality of investment resources through domestic savings and upgrading technology through the FDI.

Korea secured its own technology capability by means of joint venture while expanding training centers and vocational and technical schools after having accumulated technology through learning-by-doing and the Original Equipment Manufacturing (OEM) from the advanced countries (see Figure 5). By the end of the 1970s, Korea focused on improving the technology through imitation in textile and paper manufacturing industries which are favorable to transfer technology at a reasonable cost. Korea absorbed and developed technology quickly because the export-oriented strategy helped enhance the competitiveness and entrepreneurship. Since the engine of economic development shifted from the light manufacturing to heavy and chemical industry in the 1970s, technology transfer through on-the-job-training and learning-by-doing was not possible. Therefore, the government started to promote the FDI in order to encourage high-technology transfer.

**Figure 5. Technology development in Korea**




Source: Yoon (2006)

Meanwhile, the government adopted the policy direction towards export promotion and imports reduction given the fact that resource constraint can be addressed by improving the balance of payment and increasing domestic savings. As an implementation strategy, the way to improve domestic financing including "Capital Market Development" and "Public Corporation Inducement Law[19]" was reported in the METM while the FDI was promoted because it had no burden for the repayment and the technology transfer was expected. Improvement of the banking system and capital market were the main concerns of the 3rd FYEDP as well.

[19] The law enacted on December 30, 1972 with the purpose to facilitate the corporate financing, improve financial structure, and promote the participation of citizens through IPOs.

**Table 10. METM on securing foreign resources (April, 1972)**

| Items | Main contents |
|---|---|
| Characteristic of the 3rd FEDP | |
| Current situation of Foreign Financing | Report on foreign resources by country, type, and industry<br>→ Public loan, Comercial loan, Foreign Direct Investment |
| Policy direction of Foreign Financing | ① Expansion of Public loan<br>② Increase in FDI and Technology<br>③ Cooperation of International organization |
| Financing Plan and current situation by resources | ① Plan and situation of Public and Comercial Loan<br>② Situation of foreign resource inducement |
| Strategy for attracting FDI | ① Situation of FDI<br>② Measure and suggestion for improving investment environment |

Source: KDI (2008)

In the METM in April, 1972[20], for example, the way to finance investment capitals was mainly discussed by focusing on expanding public loan and increasing domestic savings rather than commercial loans from foreign countries (see Table 10). The total amount of foreign savings of the 1st and 2nd FYEDPs was kept increasing, subsequently, the 3rd Plan was to reduce the dependency to the foreign savings by expanding the public loans from 30 percent to 45 percent and putting limitation on commercial loans. In addition, the government attempted to attract more Foreign Direct Investment (FDI) and advanced technology from Europe and consolidate the international cooperation with the international financial organizations such as IBRD and ADB.

The government continued increasing tax revenue by strengthening tax administration and audits since the factors constraining the mobilization of domestic savings are the low tax base, inefficient tax administration, and lack of financial institution. A steady increase in tax revenue from less than 10 percent of GNP in the early 1960s to 20 percent in 1990 also helped budget turn to balance (Cho and Kim, 1995).

[20] Document from the National Archives of Korea

**Table 11. The Inflow of Foreign Capital (million USD)**

| | 1st Plan (1962-66) | 2nd Plan (1967-71) | 3rd Plan (1972-76) | 4th Plan (1977-80) |
|---|---|---|---|---|
| Loan | 291 | 2,166 | 5,432 | 10,256 |
| Public Loan | 116 | 811 | 2,389 | 4,084 |
| Private Loan | 175 | 1,355 | 3,043 | 6,172 |
| Foreign Investment | 17 | 96 | 557 | 425 |
| Total | 308 | 2,262 | 5,989 | 10,681 |

Source: Government of the Republic of Korea (1982)

3.3.3 Transitioned countries

Transitioned countries in Africa are Tunisia, Cape Verde, Namibia, Mauritius, Gabon, Botswana, and South Africa. Although they achieved the transition of their industrial structure accounting for more than 90 percent of value added industry and service to the GDP, most of them still remain in the lower middle income and upper middle income countries[21]. The countries face the similar problems, which other developing countries have, including high disparity in income distribution, vulnerability to external shocks, high unemployment, weak financial development, and low level of social development.

Industrialization of these countries has not been accompanied by meaningful social development. The primary school enrollment and literacy rate improved but still lag behind a lot the developed countries. The education quality remains problematic while health-related indicators including infant mortality rate and maternal mortality rate are key issues to be addressed (see Table 12). That is, economic development of the transitioned countries is not necessarily followed by equivalent progress in human development or quality of life. Therefore, the transitioned countries should put the social development high on their development agenda along with economic growth since unbalanced and unsustainable economy can be led towards a "middle-income trap" with economic stagnation and low level of social development.

[21] Lower middle income, USD 1,006 - 3,975; upper middle income, USD 3,976 - 12,275 (by GNI per capita).

The transitioned countries require much more endeavor to become a high income status corresponding to social development. High level of investment accompanied by innovation is necessary for the sustainable growth. The investment is needed not only in economic activities but also in human capital accumulation, infrastructure, and information technology. In this sense, the situation faced by transitioned countries is similar with Korea in its 1980s when the 4th and 5th Plans were being implemented.

**Table 12. 2009 Economic Indicators of Transitioned countries in Africa**

| Industrialization | Countries | Industry and Service, Value added (% of GDP) | GDP per capita (Current USD) | Literacy Rate (% of people ages 15 and above) | Mortality rate, infant (per 1,000 live births) | Life expectancy at birth, total (years) |
|---|---|---|---|---|---|---|
| Transitioned | Tunisia | 89 | 4,237 | 77.6 | 17.9 | 74.5 |
| | Namibia | 91 | 4,229 | 88.2 | 33.6 | 61.6 |
| | Cape Verde | 92 | 3,115 | 84.1 | 23.3 | 71.3 |
| | Mauritius | 93 | 6,882 | 87.5 | 15.4 | 72.6 |
| | Gabon | 94 | 7,384 | 87.0 | 51.5 | 60.9 |
| | South Africa | 97 | 5,643 | 89.0 | 43.1 | 51.6 |
| | Botswana | 98 | 5,964 | 83.3 | 42.6 | 55.0 |

Source: African Development Bank, data portal (2011), World databank (2011)
Note: Literacy rate is 2008 data.

The 4th and 5th Plans focused on the growth and equity at the same time. The promotion of broad-based and shared growth was initiated to reduce inequality caused by rapid industrialization in the 1960s and ‘70s. The government attempted to correct problems derived from industrialization and started to promote the balanced growth by encouraging income redistribution and improving living standards. The emphasis was given not only to growth-driven development but to social issues entailed by economic growth such as relative poverty, opportunity bias, income inequality, lack of amenities, education, health, and housing. Promoting welfare through the balanced growth was the objective across all regions by reducing the gap in terms of income level and living standard. In preparation for the expansion of social development in the 1980s, the social security system including the national health insurance and pensions was rearranged. Accordingly, social equity and welfare was considerably upgraded in the late 1980s (see Table 13).

Efficiency was the foremost criterion for making investment decisions while balance was stressed in the development of all regions and environmental protection was emphasized as well. The

government further reduced its intervention in the market mechanism in order to foster creativity in the private sector in the 1980s but, nonetheless, the government intervened directly in the area of human and social development such as education, housing and health care.

**Table 13. Social Development of Korea in the 1980s**

| | 1980 | 1985 | 1990 |
|---|---|---|---|
| Infant Mortality Ratio (per 1,000 live births) | 17.0 | 9.6 | 7.9 |
| Public Spending on Education to GDP (%) | 3.55 | 4.20 | |
| Literacy Rate (%) | | | 96.0 |
| Primary School Enrollment (net, %) | 97.7 | 98.5 | 100.5 |
| Middle School Enrollment (net, %) | 73.3 | 82.0 | 91.6 |
| Housing Supply Ratio (%) | 71.2 | 69.8 | 72.4 |
| Piped Water Supply Ratio (%) | 55.0 | 67.0 | 78.0 |
| Paved Road Ratio (%) | 34.1 [1] | 54.2 [2] | 71.5 |
| Telephone lines (per 100 people) | 7.1 | 16.0 | 31.0 |

Source: World Data Bank, Korean Educational Development Institute, Ministry of Construction and Transportation of Korea, and Five-year Economic and Social Development Plan by Government of Korea

Note: 1. 1981, 2. 1986

# IV. Case Study on Ethiopia

This chapter intends to provide a specific case how Korean experiences of development planning can be applied. The case in consideration is Federal Democratic Republic of Ethiopia. It is chosen basically that the current status of Ethiopia is somewhat similar to Korea in its early 1960s. Ethiopia is the poorest country in the world with USD 350 per capita GDP. Its per capita income is much lower than the Sub-Saharan African average of USD 1,077[22]. Unlike many other countries in the region, Ethiopia lacks natural resources. And yet, it has large population about 82 million, the second populous country after Nigeria in the region. Ethiopian economy is heavily dependent on agriculture which suffers from low productivity.

Another reason for choosing Ethiopia is attributable to the authorities' very strong will to develop[23]. Under the strong leadership of Prime Minister Meles Zenawi who has led the country for 20 years, Ethiopia has implemented a series of national development plans, i.e. Sustainable Development and Poverty Reduction Program (SDPRP) from 2002/03 to 2004/05, Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) from 2005/06 to 2009/10, and Growth and Transformation Plan (GTP) from 2010/11 to 2014/15. During the implementation of the plans remarkable achievement of economic and social development were witnessed and Ethiopia is in fact one of the fastest growing economies in Africa (see Figure 6).

Perhaps, a more crucial reason, however, is rather practical. The Korean government agreed to provide a special technical assistance to Ethiopia in the area of development planning. A team will be sent to Ethiopia to carry out the mission soon, of which purpose is creating action plans whilst building capacity and institution based on the Korean development experiences in order to successfully implement the GTP and develop a long-term roadmap for economic cooperation between Korea and Ethiopia.

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[22] Data from World databank (2011)

[23] Arthur Lewis (1965) argues that "the will to economize" contributed to rapid economic growth by taking ownership of its development process.

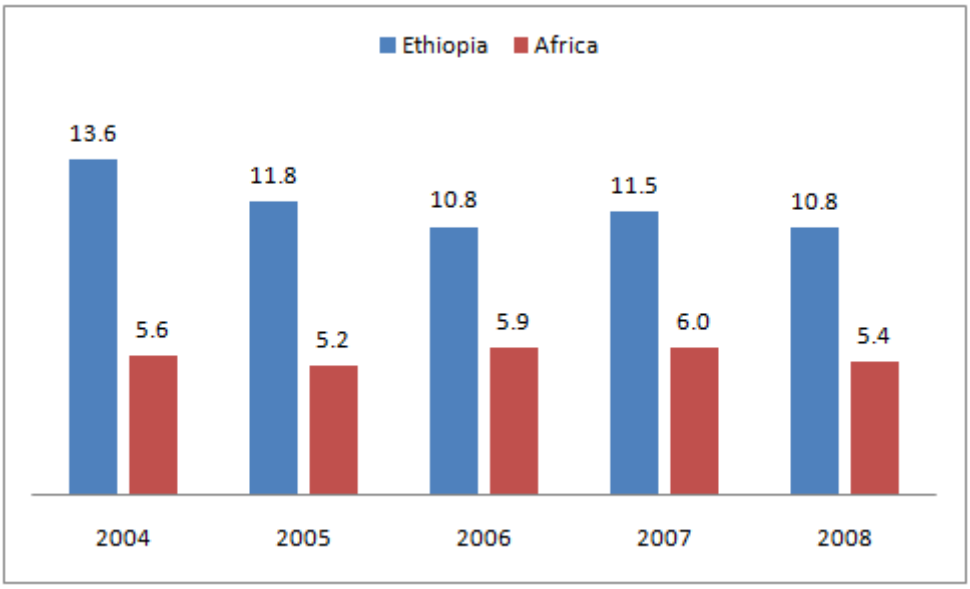
In this respect, this chapter can be regarded as a pre-study which critically assesses the GTP and identifies the scope where the consultation work should focus prior to the main consultation work in the later stage.

### 4.1 Growth and Transformation Plan

The Government of Ethiopia formulated a new five-year plan (2010/11-2014/15), called the Growth and Transformation Plan (GTP) of which main development goal is poverty eradication corresponding to Millennium Development Goals (MDGs). It is geared towards sustaining the current economic growth, achieving the MDGs targets, and being a middle income country by 2020-2023. The visions, objectives and strategic pillars are clearly stated in order to accelerate economic development across all sectors (see Table 14).

It plans to maintain the recent five year's average annual GDP growth rate of 11.2 percent and to target 14.9 percent with high case scenario. The GTP was built on the previous national development plans including the SDPRP and PASDEP by keeping emphasizing on agriculture development and export-oriented industries such as garment and textile, leather and leather products, and agro-processing. For example, it targets to generate USD 6.58 billion from the agriculture sector by exporting 3.81 million ton of agricultural products, 5,859 flowers and 2.35 million live animals in 2014/15 (MoFED, 2010). Textile and garment industry is expected to generate export earnings of USD 1,000 million at the end of the GTP period.

**Figure 6. GDP Growth Rate (%)**




Source: World Bank databank (2011)

**Table 14 . GTP's Vision, Objective, and Strategic Pillar**

| | |
|---|---|
| Long-term vision | To become a country where democratic rule, good-governance and social justice reign, upon the involvement and free will of its peoples, and once extricating itself from poverty to reach the level of a middle-income economy as of 2020-2023 |
| Vision on economic sector | Building an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy, sustaining economic development and securing social justice and increasing per capita income of the citizens so as to reach the level of those in middle-income countries |
| Objective | 1. Maintain at least 11 % growth and attain MDGs<br>2. Education and health services for achieving social sector MDGs<br>3. Nation building through a stable democratic and developmental state<br>4. Stable macroeconomic framework |
| Strategic pillars | 1. Rapid and equitable economic growth<br>2. Maintaining agriculture as major source of economic growth<br>3. Creating conditions for the industry to play key role in the economy<br>4. Infrastructure development<br>5. Social development<br>6. Capacity building and good governance<br>7. Gender and youth |

Source: Growth and Transformation Plan, MoFED of Ethiopia (2010)

As compared with Korea's FYEDPs based on the previous chapters, there are three missing elements in the GTP. First, there is no priority in the plan. The GTP attempts to cover a broad range of sectors including agriculture and rural development, industry, infrastructure, social and human development, good governance and democratization. The scope of the plan is too wide to enhance the feasibility of the GTP within the limited resources and capacity. Second, numerical targets are set very rigidly with base and high cases scenario. The target-oriented approach would be dangerous by making the plan stuck to the target number without flexibility and adjustment to the changing environment in the midst of the implementation. In addition, it might overlook the big picture by only considering numbers without enhancing productivity and competitiveness. Third, there is no "how-to" approach. The plan shows only quantity-based targets across all sectors without suggesting specific implementation strategy such as how to finance, how to raise productivity, how to promote industry

development, and so on. Indeed, the government of Ethiopia also showed its concerns in the GTP about the implementation risks due to low implementation capacity, low national saving rate, and the unpredictability of external financing (MoFED, 2010).

Based on the above analysis, there are four tasks which this consultation project should focus in order to achieve the objectives of the GTP: identifying the sectors by priority; building institutions; financing resources, and; establishing roadmap towards sustainable development.

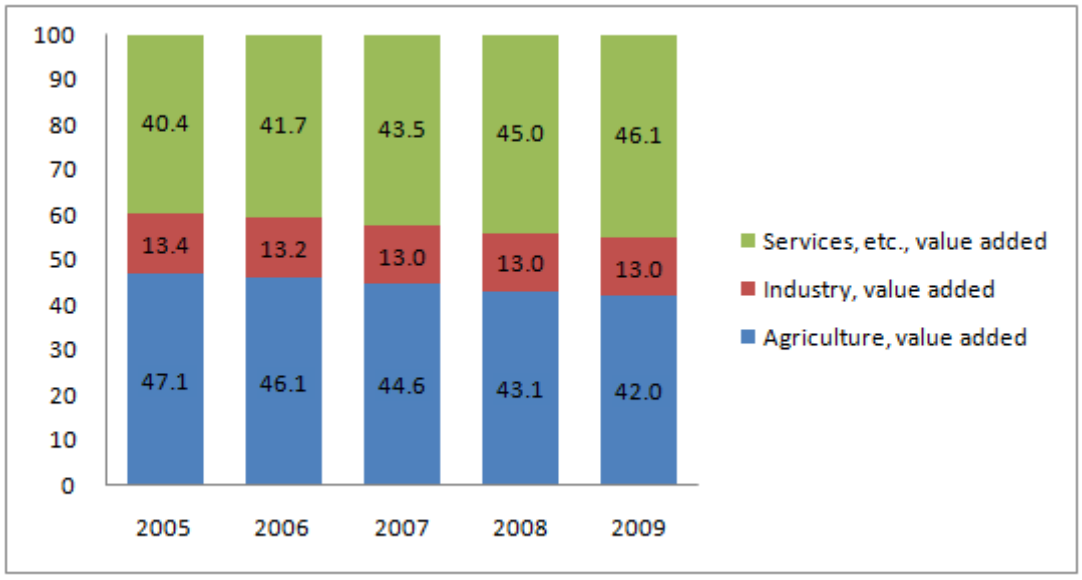
### 4.2 Identifying the Scope to be focused

#### 4.2.1 Priority sectors

In order to enhance the feasibility of the GTP within the limited resources and capacity, it is urgent to identify the key sectors which can trigger the economic take-off and contribute to achieve industrialization of Ethiopia. The priority sectors should be defined by taking the endowments and current situation of Ethiopia into account.

The current industrial structure of Ethiopia resembles the Korean economy in its 1960s. Ethiopian industry provides less than 13 percent of GDP and 5 percent of employment (see Figure 7). The manufacturing sector accounts for around 4 percent of GDP in 2009. The low share of manufacturing sector is a major challenge for Ethiopia in transforming its economy. Transition from agriculture to manufacturing is key for Ethiopia to reach the level to a middle-income economy as well as to increase exports.

**Figure 7. Percentage share of GDP by Industrial Origin (%)**




Source: Ministry of Finance and Economic Development (2011)

Development experience of the Korean economy may also provide some guidance as to how the Ethiopian economy should move for the take-off. One lesson to be drawn is to promote exportable industry, which can bring about the economic transformation at this early stage of development since trade helps reduce poverty as well as raise very strong entrepreneurship and competitiveness. As the world market size grows, the country can expect more benefit from the world market as well.

Moreover, Ethiopia should utilize its comparative advantage to export labor-intensive products. For example, textiles and garment industry, leather goods manufacturing, and other labor-intensive light manufacturing would be the potential priority sectors since these sectors can create employment opportunity, substitute imports for domestic market, and generate foreign exchange as Korea used to during the 2nd FYEDP period. In addition, it is fully in line with ongoing economic activities and strategy of Ethiopia since the SDPRP and PASDEP, as the production of textile goods is the largest among manufacturing activities by accounting for 36 percent of total manufacturing. The Korean experience and know-how in promoting light manufacturing can be provided in the Ethiopian context.

#### 4.2.2 Institutionalization

Despite the well-designed national development plan and massive foreign aid, the reason why developing countries cannot achieve economic development lies in the absence of right institution. Douglass North (1990) argues that the core problem is “missing institutions”, or “perverse institutions” instead of “missing money.” The productivity and implementation capacity may be undermined not because of lack of resources but because of lack of institutional arrangement. Development will occur only if political and economic institutions generate incentives that facilitate individuals’ achievement of development goals (Gibson et al., 2005).

In fact, the Ethiopian government admits its low implementation capacity as a major challenge encountered. The GTP argues that the country’s economic growth and social development are hindered by structural and institutional constraints and organizational capacity constraints (MoFED, 2010). The report from Bill and Melinda Gates Foundation (2010) also points out that there is severe under-investment in management processes and implementation approaches. Without

establishing an institutional mechanism in terms of system, administrative process, and human resources management among relevant ministries and government agencies, the GTP cannot have the impact expected.

In this context, establishing an institute as a core organization such as the Korea's Economic Planning Board (EPB) is recommendable so as to enhance concrete coordination and implementation mechanism of the GTP with related policies and programs. Other than the core functions such as budgeting and planning, the EPB facilitated the coordination of policies and reduced the conflicts between different ministries and government agencies. The ministries and government agencies established the goals and designed their own strategies respectively while the EPB coordinated each plan and set up a comprehensive plan coherently at the national level. Moreover, the EPB organized "Forum for Policy Dialogue" and "Industrial Committees" to induce the participation and contribution of concerned ministries, research institutes, universities, businessmen, experts, opinion leaders, and other private sector representatives in the planning process of a series of Five-Year Economic Development Plans. Since the head of EPB was the Deputy Prime Minister, the EPB functioned as a super-ministry and helped adjust the interest of all stakeholders as well as enhance the linkage between the plan and implementation.

In addition to coordination function, the EPB was responsible for monitoring and evaluation of investment programs. Monitoring and evaluation system in Korea was consolidated from the 5th Five-Year Plan since the bureau of evaluation and analysis within the EPB started to be in charge of monitoring, evaluation and follow-up. Under the new system, all ministries and government agencies who are responsible for government-financed projects should submit the implementation schedule to the EPB according to the guideline from the EPB. All ministries and agencies should monitor and evaluate the performance of project in accord with the guidelines, and submit the project reports to the EBP on a quarterly basis while the EPB updated to the president. Subsequently, the evaluation system evolved into more institutionalized form within the EPB. Strong implementation of the FYEDPs was derived from the well-functioning evaluation mechanism and monitoring process of the EPB.

To sum up the functions of the EPB, the EPB carried out all three interrelated duties such as

planning, budgeting, and performance evaluation, and thus, the viability and delivery of the FYEDPs were enhanced through this mechanism. The government made sure that the EPB also took charge of coordinating annual planning of fiscal projects – linkage budgetary spending with the five-year plans for effective yearly implementation of the plans (Lim, 2010).

Establishing the right institution is critical to make market well fuction as well as to enhance the feasibility of the national development plan by allocating resources to their best use since lack of adequate institutional capacity to absorb aids is a common concern of developing countries. The first step which Ethiopia takes for its successful transition would be to develop right institutions including reorganizing the relevant ministries so as to efficiently carry out duties within the ministries as well as cooperate with other ministries and government agencies.

4.2.3 Foreign financing

Other than establishing right institutions to enhance feasibility of the GTP, financing resources is another fundamental issue since the successful implementation of development plan hinges upon whether the country is able to mobilize required resources and channel them into investment programmes by priority. In general, there are many ways to finance the development projects, i.e. raising domestic savings, attracting the FDI, borrowing from financial institution, encouraging the ODA, and so on.

Ethiopia as a resource-poor country in Africa has difficulty in securing and mobilizing resources due to low domestic savings and unpredictability of external financing (see Table 15). The domestic revenue of Ethiopia remains in the low level accounting for 14 percent of GDP in 2009/10 and tax revenue took up 11.3 percent of GDP which reached ETB 35.7 billion in 2009/10 (MoFED, 2010). The budget deficit of ETB 5,097 million needs to be financed by borrowing from foreign countries and, especially, grant-type foreign aid can fill the financing gap. Access to ODA is critical for Ethiopia to lift the capital constraint and to channel the resources to investment for economic take-off.

It is vital to secure domestic and foreign resources and allocate them properly into investment projects as Korea achieved the industrialization by massive capital investment through domestic

savings and foreign capital. Fortunately, Ethiopia currently receives immense external aid from the western donor community as if it is a test case for ending poverty. The amount of foreign aid has surged in recent years reaching USD 1.6 billion in 2008/09 from USD 0.9 billion in 2004/05[24]. Ethiopia has been a beneficiary of USD 35 billion from the US, the World Bank, the IMF and other donor countries in the last two decades. However, foreign assistance is unpredictable since Ethiopia's deteriorating records on human rights and undemocratic governance make donor countries in dilemma whether they should continue to pour their taxpayer's money to Ethiopia. Ethiopia, one of the world's largest recipients of foreign aid, ranks 34th out of 53 African countries in an index of governance[25].

**Table 15. Percentage Share of Revenue and Expenditure to GDP (%)**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2014 Plan target |
|---|---|---|---|---|---|---|---|
| Total Revenue including Grants | 18.9 | 17.7 | 17.1 | 16.0 | 16.3 | 17.3 | 20.4 |
| Domestic Revenue | 14.6 | 14.8 | 12.7 | 12.0 | 12.0 | 14.0 | 17.1 |
| Tax Revenue | 11.6 | 10.8 | 10.1 | 9.6 | 8.6 | 11.3 | 15.0 |
| Non-tax Revenue | 3.0 | 4.1 | 2.6 | 2.4 | 3.3 | 2.8 | 2.1 |
| Grants | 4.3 | 2.8 | 4.4 | 4.0 | 4.3 | 3.2 | 3.3 |
| Total Expenditure | 23.5 | 22.4 | 20.7 | 18.9 | 17.2 | 18.6 | 23.7 |
| Recurrent Expenditure | 12.6 | 11.6 | 10.0 | 9.2 | 8.1 | 8.4 | 9.3 |
| Capital Expenditure | 10.9 | 10.7 | 10.7 | 9.7 | 9.1 | 10.3 | 14.4 |

Source: GTP, Ministry of Finance and Economic Development of Ethiopia (2010)

In order to enhance the viability of the GTP, the government should take the initiatives to expand available resources by inducing more foreign capital. To this end, the active engagement with international community is imperative whilst promoting transparency in governance is needed at the same time. Korea broadened diplomatic relations with Europe and other developed countries during its take-off period by establishing an institution such as "International Economic Consultative Organization for Korea (IECOK)" so as to attract foreign investment and facilitate the economic

[24] Data from African Development Bank Group: www.afdb.org

[25] Four main criteria to measure the index: "safety and the rule of law" (looking at the murder rate and corruption, among other things); "participation and human rights" (that little matter of being able peacefully to chuck out a bad government); "sustainable economic opportunity" (including such things as fiscal management, free markets and inflation); and "human development" (in essence, education and health care) (Economist, 2010)

support as well as technology assistance. Korean government appealed to potential donor countries by explaining its vision and the FYEDP.

Meanwhile, Ethiopian government should promote transparency and accountability in dealing with foreign aid programmes so that it gives donors confidence about the positive delivery outcome. In fact, the GTP suggests that the strategic directions to ensure democratic governance in the country are to adopt and effectively enforce laws that support democracy and good governance, conduct free, fair and democratic elections and ensure human rights of all citizens (MoFED, 2010).

According to the IMF (2005), foreign aid has had a positive impact both on Ethiopia's non-coffee exports (which are driven by international prices and less sensitive to exchange rate movements), and on their share in total exports. This argues that the utilization of foreign aid and its impact on infrastructure and capital investment are important determinants in the industrialization of Ethiopia. Aid from donors, however, is not a panacea. The commitment of the Ethiopian government with full ownership and transparency is required in order to guarantee donor countries that foreign aid is well-used for development and poverty eradication which are the core objectives of foreign assistance. Careful planning of investment allocation and sequencing of public spending as well as enhancing transparency in governance is key to induce more international cooperation for development.

4.2.4 Roadmap towards sustainable development of Ethiopia

The term of "sustainable development" was repeatedly used across all stages of implementation of Korean Five-Year Plans while it is the ultimate goal of Ethiopia at the same time. The definition of sustainable development is not clear, but many international agencies and countries generally adopt the concept of the "Brundtland Report (1987)": "Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future." When it comes to foreign aid to beneficiary countries, sustainable development signifies the continuation of the positive effect despite the end of support from donor countries. Sustainable development requires the greater responsibility of aid recipients with strong ownership as well as the development of self-help spirit in the longer perspective.

One successful Korea's experience to be shared with Ethiopia is "Saemaul Undong (New Community Movement)" in the sense that strong ownership and self-help spirit of Korean people were cultivated by the Saemaul Undong based on its three pillars of diligence, self-help, and cooperation. Indeed, it played a critical role for the Korean economic development through the grass-root efforts while the series of FYEDPs coordinated the national development policy at a more macro level.

The Saemaul Undong is a comprehensive strategy for human-socio-economic development since it focused on improving income and living conditions of the rural community as well as awakening the mentality of the people. At the initial stage in the early 1970s, the projects for the environmental improvement, housing improvement, and public utility expansion were conducted by the villagers themselves at the community level with the support of materials from the government. The government motivated people to actively participate and enhance their commitment to the project by means of performance-based incentive system. Through the proactive participation in the village makeover project, people realized what they need to do more in order to draw the successful outcome and how they work together.

As people gained the "can-do spirit" through successful cooperation and participation in the project, they accelerated the process for development. In order to response to this demand, projects to increase rural income were introduced by the government. The rural people started to grow new profitable products such as cash crops, livestock, horticulture, etc. while the government provided the villagers with informative programs and technical training activities. Besides, public loans were allocated at the lower interest rate by priority according to the outcome.

The characteristics of Saemaul Undong have been evolved from rural development to the national movement for the development through the social and mental change. Even the gender discrimination was narrowed down since women were actively engaged in the Movement as a leader. Moreover, the process of consensus-building among villagers through frequent meetings germinated the participatory democracy. Those voluntary participation of all social actors and cooperative

activities supported by institutionalized incentives from the government built the basis for sustainable development as well as brought about economic development.

## V. Conclusion and Policy Recommendations

This thesis attempted to classify potential beneficiary countries in Africa and find the applicability, by and large, looking back on the Korean development experience in that development assistance should match the specific demand and environment of recipient countries. Indeed, beneficiary countries expect the donor community to explore together the policy alternative in the context of their situation rather than charity-like aid or typical technology transfer. It is key not to unilaterally hand down development experiences or suggest monotonous solutions but to share useful information and successful experiences and find the way tailored to the peculiar situation and endowments of beneficiary countries. In doing so, systematically customized program can accelerate capacity and institutional building towards sustainable development.

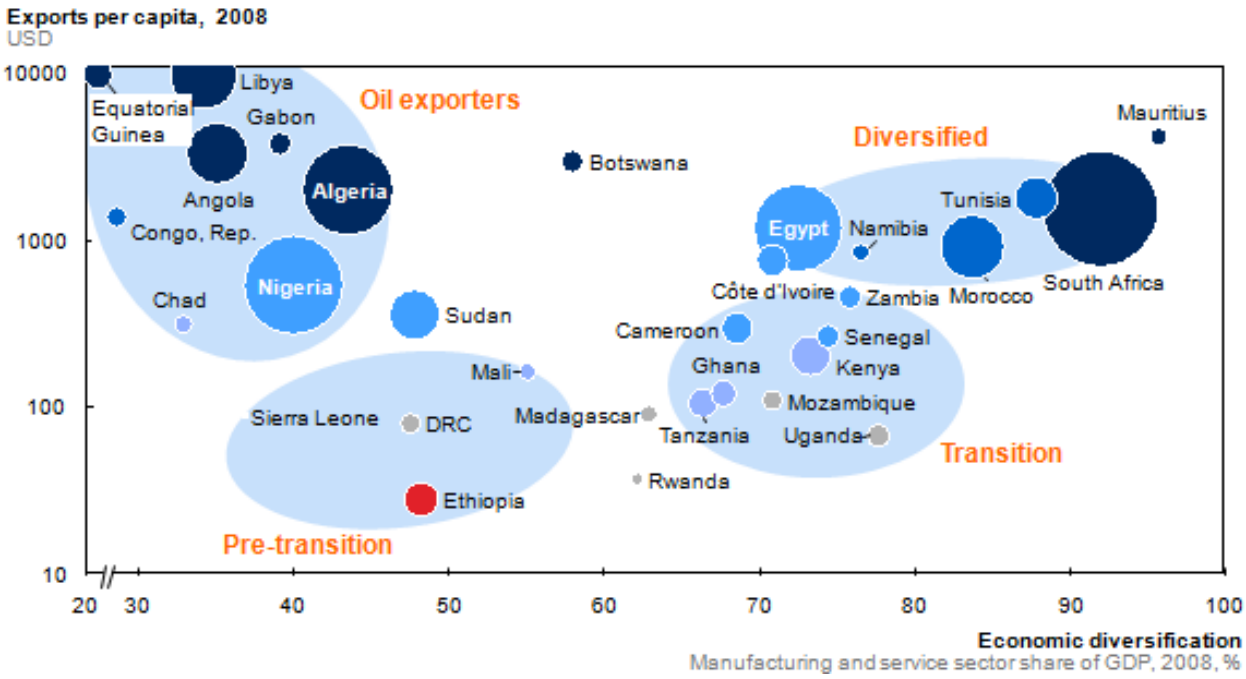
There is no doubt that Korea, as a latecomer in the international donor community, can provide developing countries with its recent experiences compared to other western developed countries which achieved their economic growth much earlier. Since Korean economic development through a series of FYEDPs represents the government-led and deliberate change with accordance to the development of its economy, it gives meaningful implications to developing countries where the market imperfection is a prevalent phenomenon.

In accordance with that the Korean government recently agreed to provide a special technical assistance to Ethiopia, the case study deals with Ethiopia's Growth and Transformation Plan with focus on analyzing the GTP and identifying the scope where the consultation work should attend. Ethiopia has a well-designed development plan with full ownership under a strong leader. And yet, the specific implementation strategy is missing due to lack of capacity and institution and resource constraints. In this context, four main areas are defined to be focused to enhance feasibility of the GTP: identifying the sectors by priority; building institutions; financing resources, and; establishing the roadmap towards sustainable development. Korea's successful experience can be shared to explore the better approach and outcome in implementing the GTP.

Yet, this consultation work only accounts for one part of the whole process in building a joint long-term roadmap for economic cooperation between Korean and Ethiopia. Therefore, long-term

capacity building measures and ways to enhance the delivery mechanism need to be identified in the longer perspective. This is left for future study. Besides, there are limitations on this thesis since the real local situation and accurate demands of Ethiopia are not comprehended only by the documents without direct local experiences. This thesis will be strengthened after the consultation work in Ethiopia finishes.

**Appendix 1**


Exports per capita, 2008
USD
10000
1000
100
10
Libya
Equatorial Guinea
Gabon
Angola
Algeria
Congo, Rep.
Nigeria
Chad
Oil exporters
Botswana
Sudan
Mali
Sierra Leone
DRC
Madagascar
Ethiopia
Pre-transition
Rwanda
Tanzania
Uganda
Mozambique
Ghana
Kenya
Cameroon
Senegal
Transition
Côte d'Ivoire
Zambia
Egypt
Namibia
Morocco
Tunisia
South Africa
Diversified
Mauritius
20
30
40
50
60
70
80
90
100
Economic diversification
Manufacturing and service sector share of GDP, 2008, %

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http://www.kdi.re.kr/

http://www.socialenterprise.go.kr/

http://enc.daum.net/dic100/contents.do?query1=b11s1058n9 (August, 2011)