

# **The Comparison of the Aid Allocation of Korea in the 1950s and the 1960s to That of Contemporary Uganda: Are the Lessons from Korean Experiences Applicable to Uganda?**

## **Abstract:**

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## 1. Introduction

Since World War II, the developing countries have made extensive efforts, including aid and technical support and policy advices, to help the poor countries escape from poverty. A variety of strategies were proposed and implemented by the experts of international development organizations and advanced countries. With a few exceptions many developing countries, however, still suffer from severe poverty.

Most of the development strategies recommended by the experts of the advanced economies are implicitly and explicitly derived from their own experiences of industrialization and development in the past. We should admit, however, that we do not understand well enough when, how, and what part of the experiences of the advanced economies, if any, are applicable to developing countries.

The economic development of South Korea in the second half of the 20th century stands out as one of the few exceptional success episodes. Being the most recent and vivid case of economic development, it has inspired other developing countries to learn from and to benchmark the South Korean development experiences.

In response to the demand from the developing countries, Korean government has already established the Korean International Development Agency (KOICA) and has been helping them with financial resources and technical advices. Korea Development Institute (KDI), which has been the think-tank in the process of Korean economic development, has initiated the Knowledge Sharing Program (KSP) in order to share the experiences of Korea and to find resolutions for the problems that the developing countries face. Even some local governments of Korea take the initiative of disseminating the experiences in community renovation, called '*the New Village Movement (Saemaeul Movement)*,' in the developing countries.

Unfortunately, however, we should admit that we do not have an agreement on what is the model of South Korea's development. We know even less about what part of Korean experiences may be applicable to developing countries under what conditions and contexts. As Kim(2011) pointed out, "even before scholars were ready to agree on the model of South Korean development cooperation, practitioners in official development assistance (ODA) agencies have begun to 'export' the South Korean development model."

This study is an effort to fill this gap between academia and practice. In particular, we

investigate how aid was provided to South Korea and how the Korean government managed aid in the 1950s and the 1960s. Then, we explore what part of those experiences of South Korea is transferrable to contemporary Uganda. The choice of Uganda as the case under investigation is random.

When G20 meeting was held in Seoul 2010, South Korea attracted the attention of the World as it was featured by a country that transformed itself to a donor from one of the poorest countries that received massive aid half a century ago. By contrast, Uganda has been one of the poorest in the world ever since independence in 1962. With aid flows averaging over 10% of GDP or more than a half of the public expenditure, Uganda is one of countries that receive the largest aid for budget support.

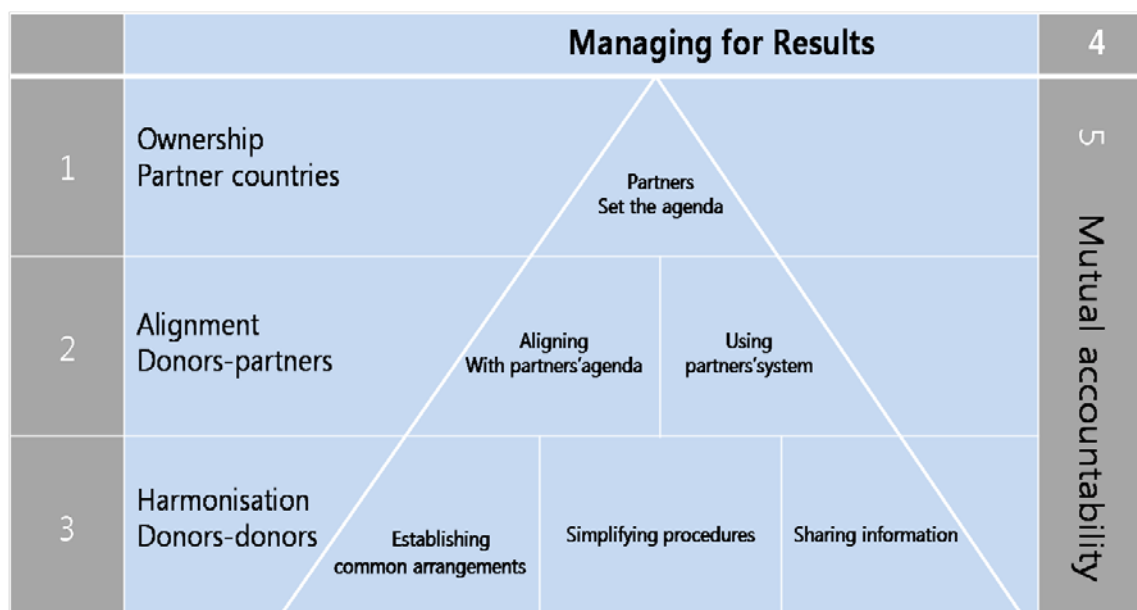
It is absolutely true that South Korea could not have escaped from dire poverty if the US and the international society had not provided the massive aid. But at the same time it is equally true that if the Korea had misused and wasted aid, such a remarkable transformation in a relatively short period of time would not have been possible.

Gunnar Myrdal(1985), who used to be the strong protagonist for the aid to the developing countries, had once lamented that in most developing countries the aid resources are appropriated by a few upper-class elites and the poor of those countries are taken hostages to extract more aid from developed countries. Korea, obviously, was an exception.

There is little doubt that aid is essential for priming the pump of development of a poor country. More often than not, however, aid fails to deliver the intended results. Doucuoliagos et al. (2008) shows that there is hardly any empirical evidence for aid contributing to the economic growth of recipient countries. After a series of mistakes and failures over more than half a century, it is widely understood by now that both the donors and the recipients of aid should make coordinated efforts in order to make aid effective. In the 2005 Paris Forum, the international society made an agreement on how to improve the aid effectiveness and declared five principles of ownership, alignment, harmonization, managing for results, and mutual accountability. In order to monitor and encourage the implementation of the principles, twelve goals were set to be achieved by 2010. When OECD evaluated how much the goals of Paris Declaration was achieved, however, they found that only one of the twelve goals was met by 2010. (OECD(2011)) It is even more startling is that OECD evaluation reports that aid often damaged the recipient countries instead of helping them.

This is exactly the reason why the South Korean experiences are considered rare and valuable. Because aid was a vitally important resource for economic development of Korea in the 1950s and the 1960s, the comprehension of how aid was managed and allocated is the essential part of understanding the Korean success story.

Figure 1 The Paris Declaration Pyramid: Five shared principles with actions to make aid more effective



Source: OECD (2011)

If any developing country that receives a large amount of aid wants to emulate the South Korean success story, it is prerequisite to manage the aid resources effectively. Since Uganda became independent in 1962 it has been one of the world's poorest countries. Under the leadership of Museveni, who came in power in 1986, the Ugandan politics and economy has been stabilized compared to those under the previous regimes. Recently, Uganda has been praised for its transparent and efficient management of aid.

The possibility of Uganda escaping from the poverty trap hangs on how effectively the government of Uganda manages aid and how effectively donors coordinate their effort in line with the needs of Uganda. In this study, we examine what Uganda can learn from the Korean experiences of aid management. However, it should be scrutinized whether those lessons from Korean experiences are implementable in the political and economic context of Uganda.

In chapter 2, we trace out the history of aid to South Korea in the 1950s and the 1960s, paying attention to the motivations of the decision makers of the donor and the recipients. We also analyze how the incentive structure of donor and recipient changed over time as the economic and political surroundings evolved.

In chapter 3, we derive the lessons for developing countries in general from the Korean experiences in the 1950s and the 1960s related to aid management. Especially we evaluate how effective aid management was in Korea from the perspective of Paris Declaration. We identify the issues in which the US and South Korea shared the common interest and the issues for which they had conflicting ideas. We try to understand who took the initiative of what issues and how the implementation of policy proceeded.

In chapter 4, we try to understand what lessons Uganda may learn from Korean experiences by contrasting the ways that the aid resources were handled in South Korea in the 1950s and the 1960s with that in contemporary Uganda. that are actually applicable to Uganda.

We expect that this research will shed light on the question of why it is difficult for developing economies to emulate the successful precedents and what should be done to improve such possibility.

In chapter4, we compare how the aid was allocated into different uses in South Korea and Uganda in those periods that we look into.

Finally, in chapter 5 we identify the lessons from Korea for Uganda and evaluate whether they are applicable to the political and economic context of Uganda.

## **2. Aid to South Korea in the 1950s and the 1960s**

### **1) Overall Picture**

The major donor of aid to South Korea was the US. Korea became an object of American attention not so much because of “strategic considerations of the highest order,” but because it was an important test case in the cold war, like Greece and Turkey, a state perched on the fault lines of the new global conflict, threatened both from

without and within. Containment as Truman and Acheson conceived of it was not primarily military, but rather founded on a developmental theory that assumed a direct correlation between political stability (absence of communism) and economic growth. Dean Acheson and the State Department determined that successful American ministrations in Korea were essential to the prestige and credibility of American foreign policy, which, in turn, joined power and plenty in a cold war developmental effort. (Woo(1991), p.49) The role of the US in South Korea was twofold; The US provided security to South Korea by stationing the armed forces in South Korea; It provided an extraordinarily large amount of aid to South Korea for relief and reconstruction.

Table 1 Economic and Military Aid to South Korea, 1945~1969\*

(Million US dollars)

Year	Economic Aid	Military Aid	Total
1945	1,363	615	1,978
1946	5,355	110	5,465
1947	5,666	43	5,709
1948	4,944	326	5,270
1949	5,436	216	5,651
1950	3,630	524	4,154
1951	3,159	1,478	4,637
1952	2,379	2,664	5,043
1953	2,076	4,268	6,345
1954	1,750	3,431	5,181
1955	2,237	2,672	4,909
1956	2,318	2,634	4,951
1957	2,586	2,483	5,070
1958	2,559	2,368	4,926
1959	1,892	2,031	3,923
1960	2,625	1,812	4,437
1961	2,558	1,518	4,076
1962	2,784	1,630	4,414
1963	2,043	1,721	3,764
1964	1,889	1,485	3,374
1965	2,553	1,200	3,753
1966	2,340	900	3,240
1967	2,800	700	3,500
1968	2,160	510	2,675
1969	1,380	375	1,755
Total	70,482	37,714	108,200

\* Aid includes both grants and loans.

Source: Data for 1945~1962 are from Kim, Taekyoon (2011) and data for 1963~1969 are from Bank of Korea (1969).

The original plan to establish a unified government in Korea by 1948 was aborted as the presidential election was boycotted by Kim, Il-Sung in North Korea. As a consequence, in North Korea a dictatorial communist regime led by Kim, Il-Sung was established, while in South Korea a democratic capitalist regime led by the President Rhee, Syngman was established. The strong support of the USA helped Syngman Rhee win the presidential election in 1948 despite his meager base of political support within Korea. The major reason why the USA supported Rhee was that he placed the highest priority on the anti-communism. To Rhee, anti-communism overruled anything including establishing a unified country. This is how Korea became the frontier of the Cold War. Even though the Cold War was over a long time ago, the military and ideological confrontation between North and South Korea continues until now.

Thus, the dominant donor of aid to South Korea was the US, not the international organizations such as UN or World Bank. As shown in Table 1, about one third of aid provided to South Korea during 1954~1974 was military aid. But the US military aid to South Korea decreased sharply in the second half of the 1960s as the US was bogged down in Vietnam War. Economic aid, including grants and loans, on the other hand, continued throughout the 1950s and 1960s. But it was made clear that economic aid would be terminated sometime in the future. In the 1960s, the major portion of aid was loans, whereas grants were the dominant form of aid in the 1950s.

Table 2 Summary of Official Economic Grants to South Korea by Donor  
(Thousand US dollars)

Year	USA				UN		Total
	GARIOA	ECA (SEC)	AID*	PL480	CRIC**	UNKRA	
1945	4,934	-	-	-	-	-	4,934
1946	49,496	-	-	-	-	-	49,496
1947	175,371	-	-	-	-	-	175,371
1948	179,593	-	-	-	-	-	179,593
1949	92,703	23,806	-	-	-	-	116,509
1950	-	49,330	-	-	9,376	-	58,706
1951	-	31,972	-	-	74,448	122	106,542
1952	-	3,824	-	-	155,534	1,969	161,327

1953	-	232	5,571	-	158,787	29,580	194,170
1954	-	-	82,437	-	50,191	21,291	153,925
1955	-	-	205,815	-	8,711	22,181	236,707
1956	-	-	271,019	32,955	331	22,390	326,705
1957	-	-	323,268	45,522	-	14,103	382,893
1958	-	-	265,629	47,896	-	7,747	321,272
1959	-	-	208,297	11,436	-	2,471	222,204
1960	-	-	225,236	19,913	-	244	245,393
1961	-	-	154,319	44,926	-	-	199,245
1962			165,002	67,308			232,310
1963			119,659	96,787			216,446
1964			88,346	60,985			149,331
1965			71,904	59,537			131,441
1966			65,310	37,951			103,261
1967			52,640	44,378			97,018
1968			49,929	55,297			105,856
1969			32,434	74,830			107,264
1970			20,933	61,703			82,636
1971			17,566	33,651			51,217
1972			5,089				5,089
1973			2,146				2,146

\*AID includes FOA and ICA aid; \*\*CRIK includes SUN and SKO.

Source: Bank of Korea and Federation of Korean Industries, various years

Table 2 shows the official economic grants provided to South Korea by various agencies from 1945 to 1973. The total economic grant received by South Korea until 1961 amounted 3.1 billion US dollars. The amount of economic aid had decreased gradually throughout the 1960s and the total economic aid from 1962 to 1973 was 1.3 billion US dollars. Immediately after the independence, the US aid was provided by GARION (Government Appropriation for Relief in Occupied Area) or ECA (Economic Cooperation Agency). In the mid-1950s, the operation of US aid to South Korea was taken over by ICA and then by AID in the early 1960s. From 1956, food aid started under PL480. During the Korea War and for some years afterward, UN provided aid to South Korea; CRIK (Civil Relief in Korea) and UNKRA(UN Korean Reconstruction Agency) were the major vehicles that implemented UN aid to South Korea. Most of the funds for UN aid to South Korea came from the US. US, who realized that it was not easy to coordinate the UN aid operation in South Korea in the direction that it sees desirable, gave up supporting aid to Korea via UN agencies.



The fiscal revenue depended critically on aid. The “counterpart fund” is the government revenue raised by selling the in-kind aid to the private sector. Table 3 shows that the counterpart fund had been the single most important source of the government income until the mid-1960s. The dependence of the government budget on the counterpart fund had decreased sharply in the second half of the 1960s. By 1969, only eight percent of the government income came from aid. At the peak, 52.9 percent of the government revenue was financed by the counterpart fund in 1957.

Table 3 Structure of Government Revenue, South Korea, 1953~1969, (%)

Year	Tax	Monopoly Profit	Other Business Revenue	Deposit/ Interest Income	Miscellaneous	Bond	Loan	<i>Counterpart Fund</i>	Total
1953	31.3	6.0	10.2			10.5	30.1	11.9	100.0
1954	34.8	3.9	4.9			10.9	15.5	30.0	100.0
1955	34.1	3.2	5.9			10.2	-	46.5	100.0
1957	27.3	3.8	3.2	-	0.0	10.6	2.2	52.9	100.0
1958	30.1	4.4	3.7	-	-	5.6	4.7	51.5	100.0
1959	47.4	5.0	3.1	-	-	1.6	1.4	41.5	100.0
1960	51.5	4.7	5.0	-	-	2.5	1.7	34.6	100.0
1961	37.8	4.3	9.4	-	2.3	6.0	1.0	39.2	100.0
1962	30.3	4.5	7.3	1.2	3.8	18.0	4.1	30.8	100.0
1963	40.9	6.4	10.1	1.7	2.1	3.6	0.6	34.6	100.0
1964	47.2	5.7	7.5	2.2	2.1	-	-	35.3	100.0
1965	51.8	3.4	7.0	2.2	1.4	-	-	34.2	100.0
1966	57.4	4.9	7.2	5.4	-	-	-	25.1	100.0
1967	64.9	5.1	5.9	6.1	0.0	-	-	18.0	100.0
1968								11.8	
1969								8.0	

Source: Economic Planning Board (1963), Bank of Korea (1968, 1969)

## 2) The US aid to South Korea in the 1950s

As Table 4 shows, in the 1950s the largest part of economic aid was provided for the urgent relief of the poverty-struck Korean people. Although the State Department of US pronounced the importance of economic development of South Korea in the geopolitical context of East Asia, when persuading the parliament for the provision of economic aid to South Korea, it was rhetoric rather than an actual goal, at least in the 1950s. To recover the Japanese economy, the US wanted the Korean government to purchase the

goods and services from Japan with the US aids money.<sup>1</sup> For that reason, the US was not interested in the import-substitution industrialization (ISI) of Korean economy, which it often tolerated with or even encouraged in the case of other developing countries, such as Philippines, Turkey, and Argentina.

It was because the logic of regional recovery placed Japan at the core of trade and the centerpiece of American East Asian policy. This meant that Korea had to be a market for Japanese goods, with open trade and export promotion (of agricultural goods and not ISI) as Korea's overall economic policy.

Table 4 Characteristics of Major Aid to South Korea in the 1950s

<b>Aid Agency</b>	<b>Goal</b>	<b>Period</b>	<b>Amount (mil. US \$)</b>	<b>Items Provided</b>
FOA (USA)	Economic stabilization and reconstruction	1953.8 ~ 1955.6	206	Food, agricultural equipments, raw materials, industrial facilities
ICA(USA)	Reconstruction and fiscal stabilization	1955.7 ~ 1961.12	153	Manufactured goods, raw materials, transportation equipments
PL480 (USA)	Food supply and urgent relief	1956 ~ 1969	82	Wheat, cotton, corns, animal fat
CRIK (UN)	Security and urgent relief	1950.8 ~ 1954.6	457	Foods, medical equipments, agricultural products, medicine
UNKRA (UN)	Reconstruction and relief	1950.12 ~ 1960.6	122	Equipments for reconstructing manufacturing, power plants, transportation facilities, housing and structures for education, grains and fertilizers

Source: Park, Jin-Keun (2009)

Woo(1991) pointed out that the US wanted South Korea to become two different things; in the context of the containment policy, it wanted Korea to become a strong state at the frontier of cold war which is capable of controlling the threats from within; and at the same time, in the context of regional economic recovery policy, the US wanted Korea to

<sup>1</sup> The United States spent close to \$3 billion in Japan for Korean War and war-related supplies between 1950 and 1954. Japan was living to a great extent off US expenditures for the prosecution of the Korean War. After the truce in Korea, the problem was the viability of the Japanese economy in the absence of the market of the Japanese products.

become a liberal decentralized market economy with a small, if not weak, government, depending on Japan for the industrial products. There lied an inherent contradiction in the US policy objectives for South Korea.

Rhee took advantage of this contradiction. He would build a strong state as the US wished. But he would not use the strength of the state only to contain the Communists and to achieve the political stability in Korea but also to industrialize the economy.

President Rhee criticized that the US is trying to recycle their aid money by giving it to Korea but actually supporting the Japanese industries. Rhee insisted on banning United Nations Rehabilitation Agencies order for Japan. Sabotaging the advices of the aid agencies, Rhee turned to ISI and did not made serious efforts to calm down the soaring inflation.

Rhee understood well how the political system in the US worked and he was good at inducing the US to provide a large amount of aid. He believed and claimed that the US should pay for the sacrifice of Korean people who were put at the Cold War frontier, blocking the expansion of the Communists. Rhee's bargaining chip against the US was demand for the reunification of Korea. In addition, his tactic for maximizing aid in dollar terms was the over-valued Korean currency. Though the US constantly pressured Korea to depreciate the Korean currency to the market rate, Rhee managed successfully to keep the exchange rate low.

Because Rhee presumed that the US aid would continue to provide the raw materials and the foods, he came to the conclusion that what South Korea needed to pursue ISI. His pursuit of ISI was motivated by the realization that the US foreign policy framework would leave Korea as an economy subordinate to Japan. Against the US wishes Rhee used the US aid to industrialize the Korean economy instead of spending them on importing Japanese products. Because the security concern was far more important than everything else in 1950s, his firm adherence to the political and military alliance with the US maintained strong support of the US despite his pursuit of economic policies deviant from the US interest.

This type of maneuver was possible, partly because a large portion of aid was provided as grants in the 1950s. This is shown in Table 5. Although in principle Rhee had the leverage for controlling the resources as he wished, a considerable portion of the counterpart fund in reality was tied up with the reconstruction and development projects prescribed in Taska Report in 1953, Electricity Development Three-Year Plan of 1953,

Nathan Plan of 1954, Small and Medium sized Enterprise Promotion Policy of 1956, and the manufacturing Industry Development Policy of 1957. (Yi *et al.* (2011)) In addition, the US monitored the implementation of the agreed policies by Korean government through the Combined Economic Board (CEB). In order to procure the resources for ISI and to acquire the autonomy in economic policy, Rhee had the Bank of Korea and all the commercial banks under his control. Printing money was an important financial instrument to support Rhee's policies.

The major cause for the inflation in post Korea War period of the 1950s was expansionary government expenditure for the state building and the ISI which was financed by the increase in money supply. The US economic aid financed the major part of commodity imports, and the macroeconomic implication of this import flow was supposed to dampen inflationary pressure. But instead of containing the massive government spending, it ended up with a bulging state structure and a fitful program of import-substitution industrialization.

Table 4 Composition of Economic Aid to South Korea by Type in the 1950s  
(Million US dollars)

<b>Year</b>	<b>Total</b>	<b>Grant</b>	<b>Loan</b>	<b>Others</b>
1945	1,978	1,153	825	-
1946	5,465	2,457	3,008	-
1947	5,709	1,880	3,838	-
1948	5,270	4,177	1,093	-
1949	5,651	5,196	455	-
1950	4,154	4,027	127	-
1951	4,637	4,518	118	-
1952	5,043	4,643	400	-
1953	6,345	6,105	232	8
1954	5,181	5,092	-114	203
1955	4,909	4,605	-26	330
1956	4,951	4,375	18	558
1957	5,070	4,087	363	619
1958	4,926	4,010	646	270
1959	3,923	3,664	4	256
1960	4,437	3,483	432	522

Source: Kim, Taekyoon (2011)

Taming the rampant inflation of South Korea was another policy concern of the US in the 1950s who wanted to have economic stability as well as political stability in South

Korea. The priority in the US guideline for South Korea's economic policy was given to stability over the construction of self-sustainable industrial economy. As early as 1950, Bloomfield and Jensen drafted *Banking Reform in South Korea* and demanded that the independent central bank be established in order to control strictly the money supply, that the central bank stop lending to businesses, and that the commercial banks be privatized as soon as possible, and so on. The US envisioned the South Korean economy as a free market with the least government intervention.

Bloomfield and Jensen's reform proposal, however, was interrupted by the Korean War. The implementation of that reform was delayed until 1957. Bloomfield's suggestion for setting up independent and autonomous central bank and liberalizing and privatizing the commercial banks was largely ignored by Rhee. It was because Rhee needed to keep the Central Bank under his control in order to finance the state building and the ISI. More than anything else he needed to keep the economy under his control because his political power came from it.

Rhee's control over the allocation of aid and import licenses was essential for maintaining his political power. President Rhee himself was a frugal protestant. He was not much interested in accumulating his personal wealth. But he had ambition to maintain his power and to rule the country as long as he could. He created a clientele relationship with businessmen by allocating US aid, the license for trade, the confiscated Japanese properties, and various monopoly rights on favoritism. Though he chose the landed interests as his political ally, he was able to control them instead of being controlled by them. It was possible because he owed little to any vested interest groups in Korea and was relatively free from their influences. It was not Rhee but his political party and his *men* that received large kick-backs from the businessmen who were granted the resources, licenses, or monopoly rights. The money raised in this way was used to finance the expenses for running his political party, and campaigning for the general election and the presidential election.

One valuable governing tool that President Rhee inherited from the Japanese colonial government is the tightly woven nation-wide public administration system. Even under the Lee Dynasty, Korea had a fairly strong centralized administration system and bureaucracy. The Japanese colonial government who wished to oversee and control every corner of Korea made the administration system far more extensive and effective. Both the US military government and the Rhee's civilian government hired the Koreans who had worked for the Japanese colonial government and the Japanese enterprises for

the important positions in the government and the businesses to take advantage of their experiences.

The most remarkable achievement of Rhee's government is the expansion of education system. The fraction of the educated in the population of age seven years and older increased from 35% in 1955 to 70% in 1960. There was a persistent increase in the number of population who acquired the primary and secondary education. Although the Japanese colonial government started the infrastructure of common education, it was the Rhee's government that expanded the education system at an explosive rate. Human resources of high quality were essential not only for the economic development but also for the maturity of political system. This aspect of Rhee's contribution to the economic and political development has not received enough attention.

Though the average annual growth rate of real GNP in 1954~1960 was 2.6%, Cole *et al.*(1980) estimated that it would have been -1.5% with no US aid, and 0.0% with a half of the US aid that Korea actually received. ISI pursued by Rhee was neither systematic nor effective for two reasons. First, the US, the major aid donor did not support the industrialization of Korea in the 1950s despite its rhetoric; Most of the US aid to South Korea in the 1950s was for relief rather than development; The US wanted South Korea to be a market for the Japanese industries. Due to this conflict with the US interest, Rhee could not implement ISI policies overtly. Second, Rhee did not want to push forward the ISI with a well-designed and transparent plan because he needed to avoid the public attention in order to allocate the resources and the monopoly rights to his political supporters.

In 1957, the US started to rein Rhee's government tightly by gradually substituting American financial contributions to Korea with training of technical and professional personnel, shifting aid structure from grants to earmarked project loans, and eventually reducing the amount of aid. This change had dramatically restricted Rhee's control of aid, and consequently the political influence of Rhee and his party faded. Rhee lost his maneuverability against the US policy recommendations. He had to comply with the US advices on economic policy and the economic liberalization followed.

Finally, the US succeeded in forcing Rhee to implement Bloomfield and Jensen's '*Banking Reform*;' The supply of currency was frozen in 1957 and in the first half of 1958; A ceiling was imposed on the government deficit; Korean currency was devalued to the level close to the market rate; All the commercial banks were privatized but it was

required that the commercial banks should be approved for loans exceeding 10 million won by the government under the scrutiny and guide of the Combined Economic Board.

Bloomfield's stabilization program succeeded in stabilizing the inflation. Perhaps it was the only beneficial effect of the reform. The Korean economy slipped into a severe recession; private investment became weak; unemployment rate increased sharply; and the growth rate of GNP was significantly lowered in 1959 and 1960. The stagnation that accompanied the financial reform in 1957 made the Korean economic bureaucrats doubt about the effectiveness of the policies recommended by the international agencies, especially, those related to the liberalization of the economy and the free market. Later, this episode was often quoted by the Korean government as evidence against the similar policy recommendations of international cooperation agencies.

The nation-wide protest against the corrupt authoritarian regime of Rhee burst out in April, 1960, as a reaction to the foul play in the presidential election of that year. He resigned from the presidency saying "if people of Korea do not want me, I will step down." This was a symbolic incident that engraved in the mind of Koreans, ordinary people and politicians, a strong message that the political power comes from the people. It kept the political leaders of Korea from deviating too far away from what people needed and wanted. This shared value was an invaluable social asset that many other developing countries did not have.

### **3) The US Aid to South Korea in the 1960s**

The new direction of the US aid in the late 1950s and the early 1960s presented the economic development as the most expedient means to the political ends of the cold war. The policy intended to outrace Russia and China economically so that they would give up their military expansionism. Behind this policy was Rostow's developmentalism and the Center for International Studies, MIT played a major role. In 1961, the Mutual Security Act of 1951 was replaced by Foreign Assistance Act. This policy change had put greater emphasis on the private initiative and capital in development, separation of military and economic aid. It also had strengthened the US intervention and monitoring. The opposition party of Korea criticized that the new aid agreement had dwindled the autonomy of economic policies of Korean government. This was about the time that the US started to take seriously into account the economic development instead of provision of relief.

Though Bo-seon Yun was elected as the new president in August, 1960, it was the Prime

Minister Myeon Chang who was in charge of running the government. Chang prepared the five-year economic development plan in order to coordinate the reconstruction efforts and improve the efficiency of the resource allocation. In May 1961, however, a military coup led by General Chung Hee Park put an end to the Chang's government. The coup succeeded without shedding blood.

Park was a shrewd and talented survivalist who would take any opportunity in order to achieve his goal. He had transformed himself from a school teacher, to an officer of the Japanese army, to an officer of the army of the Republic of Korea, to a leader of the underground communist faction in Korean army, to the leader of coup, and eventually to the president who evangelized anti-Communism and economic development. The objectives of the military coup shown in the coup participants' Six Pledges included anti-Communism, strong international relations, anti-corruption, economic reconstruction, reunification, and return to a civilian government. (Kim, Hyung-A (2004), p.70) Park treated the priorities of anti-Communism and economic development as inseparable prerequisites for national reconstruction. He developed his anti Communist stance into a dogma and promulgated it as a precondition for the people's "freedom and democracy." His exaggerated anti-Communist stance was an attempt to conceal his past as a Communist and he understood clearly that he would win the support of the US only if he could convince the US that he was an anti-Communist.

Park was serious about anti-corruption pledge for strategic reasons. "Clean-up Operation," which Park referred to as a surgical operation, began a week after the coup. His 'purification' was primarily aimed at getting rid of old politicians and consolidating his political power base with members of the new elite from the younger generation. At the same time he wanted the competent business leaders to join the band wagon of development. Through the Clean-up Operation, he wanted them to be his disciplined partners in the international market.

The Supreme Council for National Reconstruction (SCNR) arrested 51 illicit profiteers, 4,200 alleged racketeers, and 2,100 suspected Communist sympathizers. The alleged 51 illicit profiteers were the leading businessmen of that time. Much of this process was symbolic and many of them were soon released.

Two months after the coup, the SCNR dismissed 6,900 civil servants: 6,700 had evaded the military duty and 200 had kept mistresses. Korean Central Intelligence Agency (KCIA) investigated 41,712 leading members of the civil service and other government-



run businesses, and it charged 1,863 civil servants with offenses. The entire civil service was under tight scrutiny by the “Joint Investigation Team” led by the SCNR’s Inspection Committee on Irregularities of the Public Service. It has been claimed that in this process almost one sixth of the entire civil service of 240,000 were dismissed. (Oh (1999))

Gunnar Myrdal argued that it is highly important that the aid-receiving countries to clean up the house and establish a responsible political system for the success of the development policies.(Myrdal(1984)) From this standpoint, Park’s clean-up campaign, even if it was more a bark than a bite, was important for setting the stage of the development policies afterwards.

Facing the political resistance against their illegal military coup, the military faction identified their legitimacy with the performances in economic development. The continuation of their power hinged on the success in economic development. The drive for the industrialization officially started in 1962, one year before Park was elected as president, with the announcement and the implementation of “the First Five Year Economic Development Plan.” This plan was drafted based on the plan prepared by Chang’s government and it also had referred to the three-year economic plan prepared by Rhee’s government, and economic planning experiences of India and Egypt. Rhee opposed to adopting development planning because he thought that it was a communist scheme. But Park was willing to take advantage of it as far as it would be helpful in delivering the desired results. Economic Planning Board (EPB) was established and it took charge of planning and budgeting.

Some arguably claimed that the National Civil Service Law in 1963 marked the beginning of Korea’s meritocratic bureaucracy where civil servants were promoted on the basis of merit rather than seniority. (Lee (1982)) The SCNR had been particularly active in recruiting the nation’s outstanding talent to plan and implement economic and industrial development programs. Many individuals were recruited from the private sector and became the leading technocrats.

The newly formed Park’s technocracy consisted of two new elite groups: (a) technocrats and (b) a blend of former military generals, corporate managers and professional administrators. Three characteristics of these new elite are (i) that they were highly qualified professionals with a strong sense of self-discipline and a focus on efficiency and achieving goals, (ii) that they had a clear understanding of the essential difference

between their bureaucratic managerial power and that of their political masters who held ultimate governing power, and (iii) that they had no illusion about Park's national development agenda.

But they were criticized as follows; (i) They disturbed the traditional value system; (ii) They were prone to nepotism and regionalism. The economic bureaucrats of Park's technocracy were divided into two groups, economists of the Economic Planning Board (EPB) and the engineer technocrats of the Ministry of Commerce and Industry (MCI). This division became even more evident in 1967 when the Ministry of Science and Technology was spun off from the EPB where only the economists were left. The economists in the EPB preferred macroeconomic approach while the technocrats in the MCI resorted to microeconomics policies. Park's policy preference shifted from EPB to MCI, especially so since 1969 when Park began to think that the heavy and chemical industrialization was necessary for the self-defense. (Kim, Hyung-A (2004))

In 1961, The US made it clear that aid to South Korea would be reduced gradually and terminated eventually. By that time around, it was obvious that the assumption of Rhee that the US aid would and should continue was not valid any more. Table 6 shows that the dependence on foreign resources of capital formation decreased significantly from 67.6% in the 1950s to 40.7% in the second half of the 1960s. Moreover, in the second half of the 1960s, 64.7% of the foreign savings was borrowing, whereas all of the foreign resources were grants in the 1950s.

Table 5 Contribution of Grants to Capital Formation in the 1950s and the 1960s

	1953~1961		1962~1966		1967~1969	
	Amount (billion won)	Share (%)	Amount (billion won)	Share (%)	Amount (billion won)	Share (%)
Gross Investment	190.0	100.0	578.0	100.0	1,293.7	100.0
Domestic Savings	57.5	30.3	269.8	46.7	677.7	52.4
Foreign Savings	128.4	67.6	279.6	48.4	526.0	40.7
Borrowing	- 3.6	- 2.8	55.0	19.7	340.4	64.7
Transfer	132.1	102.8	224.6	80.3	185.6	35.3

Source: Bank of Korea, *Yearbook of National Income*, various years

South Korea had to establish self-sustained economic system while aid was being provided. Because Korea had poor natural resources it was imperative to earn foreign

exchange enough to pay for the raw materials and intermediate goods without aid. The export-oriented industrialization of Korean economy was a logical and perhaps the only solution for foreign exchange procurement problem.

Another response of Park to the limited financial resources was the adoption of unbalanced development strategy of Hirschman (Hirschman (1958)). He would choose a few target industries and concentrate the investment in those industries and take advantage of the forward and backward linkage effects on other industries. This was an important strategic change from the balanced development and the big push, which required a huge amount of investment in a short period of time.

In 1962, the SCNR carried out other emergency measures too. One of them was the currency reform announced by surprise. The military faction expected that the currency reform would emerge the hidden cash earned by illegal transactions or corruption. Soon they realized that there was not much hidden cash and the reform paralyzed the economy. The currency reform had been undone in six months. This policy was recorded as a blunder of SCNR.

The SCNR also nullified the Bloomfield-Jensen reform. The commercial banks were nationalized again, and the Bank of Korea was brought back under their control. The SCNR claimed that the commercial banks should be nationalized because the process of privatization under Rhee's government was corrupt and subject to cronyism. With these measures the military faction took control over the financial institutions and was in charge of resource allocation. This enabled the government to allocate the resources in accordance with their economic policies. Park allocated the resources based on the performances of business such as exports rather than the cronyism. Because the criterion was clear and transparent there was less room for corruption compared to Rhee's regime. But the practice of giving money to the ruling party continued.

In order to make up the reduced US aid and to increase the autonomy of economic policies, Park was actively looking for the alternative financial resources. In 1965, the parliament passed without the participation of the opposition party the bills for normalizing the relationship with Japan and for deploying Korean army to Vietnam War. As a result, the earnings from Vietnam War and the reparations by Japan became important extra financial resource for Korean economic development.

Table 6 Ratio of the Revenue from Vietnam to Gross Domestic Product

(Million US \$, %)

	Revenue from Vietnam including US Defense Expenditure & Korean Exports to Vietnam	Nominal GDP	Ratio of Revenue to GDP (%)
1962-63	96.5	3,192.3	3.0%
1964-65	104.6	2,826.6	3.7%
1966-67	209.2	4,163.4	5.0%
1968	306.6	5,500.0	5.6%
1969	372.9	6,597.4	5.7%

Source: Naya, "The Vietnam War and Some Aspects of Its Economic Impact on Asian Countries," p.49, recited from Woo (1991), p.94

The total receipt of Korea from the US for dispatching the troops to Vietnam between 1965 and 1970 was 927 million US dollars. As shown in Table 6, the revenue from the compensation by the US for military engagement in Vietnam and the exports to Vietnam was as large as five to six percent of GDP in the second half of the 1960s. Table 7 shows that the export to and international transfer from Vietnam accounted for ten to twenty percent of total export and transfer in 1966~1969. Just as Korean War spurred the reconstruction of Japanese economy in the early 1950s, Vietnamese War made a significant contribution to the economic development of Korea.

Table 7 Korean Earnings from Vietnam, 1966-1968

(US \$ million)

	1966	1967	1968
Commercial Exports	13.8	7.3	5.6
Military Goods Sales	9.9	14.5	30.8
Construction and Service Contracts	12.3	43.5	58.4
Remittances			
Civilian	9.7	40.6	38.4
Military Goods Sales	13.2	30.0	34.4
Others	0.0	8.8	4.6
Total Earnings from Vietnam (A)	58.9	144.7	172.2

Total Receipts from exports of goods and services plus private transfers (B)	558.0	744.8	993.0
Ratio of Total Earnings from Vietnam to Total Exports and Transfers (A/B)	10.6%	19.4%	17.3%

Source: Cole and Lyman (1971), *Korean Development*, p.135

Another important financial source was the reparations made by Japan. The US had urged Korea to normalize the diplomatic relationship with Japan from 1948 on, which Rhee had opposed adamantly. Scars were still fresh and Korean people in general were not ready to reopen the relationship with Japan. Despite the protest of the people, Park normalized the relation with Japan. The price tag was 500 million US dollars, 300 million as grants and 200 million as loans. These reparations, called the Property and Claims Fund, were highly useful because they were not earmarked. This fund was invested in the projects such as the construction of steel mills in Pohang, which the developed countries and the international agencies thought was unrealistic nonsense.

The US approved immediately the SCNR a few days after the coup. President Kennedy sent a message to Supreme Council for National Reconstruction (SCNR) on 20 May 1961, confirming the friendship and cooperation between Korea and the US. This shows that the US was more interested in the Cold War politics of containing the expansion of Communism than the domestic politics of Korea's establishing a democratic government. The immediate US acquiescence in Park's military coup would further encourage him to plan his future political ambitions, mainly by positioning himself as a caretaker of the Cold War political paradigm instructed by the US.

Park, who wanted to have autonomy in economic policies, undertook these measures without consulting the US. Even though the US had become more serious about the economic development of Korea in the 1960s, there was a constant tension between South Korea and the US regarding the economic policies just as it had been under Rhee's government. The US criticized that the First Five Year Economic Plan was more like a wish list or a shopping list.

The US consistently put more weight on stability than growth. The experts of the US and the international agencies always expressed their concern about the high inflation rate of Korea, but they were not so enthusiastic about propping the high growth rate. The US demanded that the First Five Economic Development Plan should be toned down by lowering the goal of the growth rate to a more plausible level. Facing

criticisms both from inside and outside, the plan had to be radically revised in mid-1964, lowering the target average annual growth rate from average 7.1% to 4.3%. However, it turned out that the average annual growth rate during the First Five-Year Plan period was higher than the original goal. This was another episode that raised doubts about the relevance of advices of the US experts.

Another consistent advice of the US experts was to minimize the government intervention in the market and to let the prices, including interest rates and exchange rates be determined by the forces of market. The implementation of currency reform and the nullification of Bloomfield-Jensen reform by surprise in 1962 outraged the US. In 1965 the US tried to remedy what they saw as damage by the financial reform drafted by Gurley, Patrick, and Shaw. Because the US withheld aid, Park implemented only reluctantly the financial reform by increasing the deposit and loan interest rate by 10%.

The reform was merely partial and short-lived. First, Park did not change the monetary system and policy at all and the high inflation continued. Second, even if the real interest rate on deposits and general loans increased to a positive level, the nominal interest rate on the special policy loans such as export loans, foreign exchange loans, and the special fund Industrial Bank loans remained so low that the real rate of interest for those loans was still negative. (See Table 8.) Moreover, in 1970 the ceilings on the deposit and loan interest rates were brought back.

Table 8 Structure of interest rates for various types of loans in 1969

Type of Loans	Nominal Interest Rate
Export Loan	6.0
Foreign Exchange Loan	7.5
Capital Expenditure	
Special Fund Industrial Bank	7.5
General Fund Industrial Bank	10.0
Minor Enterprise (Government Fund)	11.0
Minor Enterprise (Self Fund)	15.0
Working Capital	
Industrial Bank of Korea	18.0
Commercial Bank Loan	24.0
Commercial Bank Discounts	24.6

Source: *Economic Statistics of Korea*, recited from Yasuda, Ryuji (1979), p. 117

### **3. Aid Effectiveness in South Korea and Lessons for Developing Economies**

Because the donor of aid to South Korea was predominantly the US government, 'harmonization' was not an issue in case of South Korea. This also means that the US government was in the position to make influence on the economic policies of South Korea. Actually, they tried to set the direction of the economic policies of Korea, whenever it is necessary or possible. It should be noted, however, that the priority of the US policy for Korea had always lied in containing the Communism rather than the economic development.

In 1950, the Korean War broke out. It was an eruption on the cold war frontier, a clash between the Communist and the capitalist region. It was an extremely disastrous war, both in terms of casualties and the damages to the properties. This unfortunate event revitalized and actually intensified the US interest in Korea. The US perceived South Korea as a forward defense state against the Communist, a buffer for the East Asian region, especially Japan.

The political stability within Korea was also critically important in the context of the US Asian policies in 1950s. Both the role of containment frontier and the maintenance of domestic stability required a strong state. A strong state that was supported by the US would easily be an authoritarian regime. The US could not help being ambivalent about the democratic freedom in Korea. Because the US had huge stake at blocking the expansion of the Communism, however, the Korean political leaders had a certain degree of bargaining power in designing policies as far as they commit firmly to the US anti-Communist strategies. In general, Korean leaders exercised that bargaining power very actively.

An authoritarian government is capable of controlling not only the security but also the economy. Korean leaders took the initiative in designing and implementing the development policies by actively intervening in the market. But it is little doubt that Park took the initiative for economic development more actively and effectively. In this sense ownership of aid management was strong in South Korea in general.

Almost all the aid was officially provided and a large fraction of it went through the account of Bank of Korea or the government budget. Based on this observation, we may well say that the US aid was aligned well to the need of Korea. But it is clear that the US and Korea had different ideas of how to utilize the aid. In the 1950s, the US was

interested in relief and macroeconomic stability but was not much interested in industrializing Korean economy. In 1950s Rhee wanted to pursue the import substitution industrialization. The conflict on the development policies was minimized, because Rhee's ISI proceeded covertly. In 1960s the US became more serious about Korea's economic development. But the US still put the macroeconomic stability above the development. And aid was tied up to projects. It is hard to tell whether the US aid was more aligned to Korean needs in the 1960s.

In 1950s, aid management in Korea was not directly related to the measurable results. However, the resources were used for the state building and the expansion of education, which became precious asset for the succeeding governments. It should be also noted that the ISI under Rhee regime played an important role when export oriented development strategy was employed by Park's government.

As the economic development planning was introduced and the government adopted a clear performance criterion of export performances in the 1960s, the management and the allocation of aid became tightly linked to the result bearing activities. Though the US also wanted Korea to deliver results, the performance measure was somewhat vague because it placed the macroeconomic stability and free market system over the development performances.

Accountability had also improved in the 1960s as the management became more transparent and the corruption-inflicted practices were cleaned up. In addition, the report of evaluation of economic development plans provided excellent review on success and failure of the aid management. The US government also compiled the data and information about the aid management in Korea in order to report to the parliament and get the approval for the new aid.

Table 9 Aid Effectiveness of South Korea in the 1950s and the 1960s

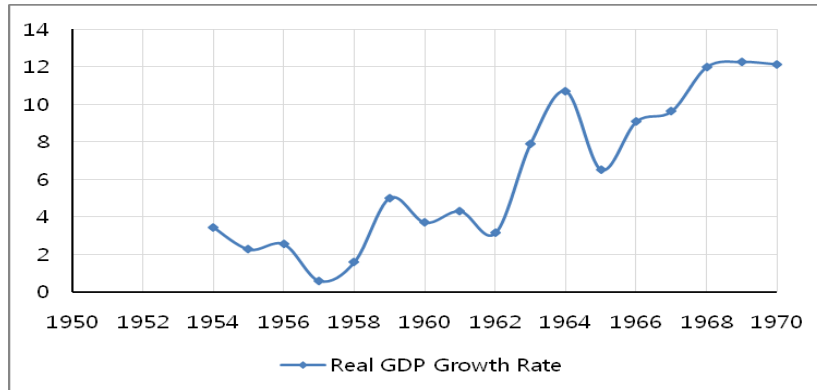
*à la Paris Declaration*

	Harmonization	Ownership	Alignment	Management for Results	Accountability
1950s	<i>N/A</i>	<i>Moderate</i>	<i>Moderate</i>	<i>Weak</i>	<i>Moderate</i>
1960s	<i>N/A</i>	<i>Strong</i>	<i>Weak</i>	<i>Strong</i>	<i>Strong</i>



We may well conclude that the recipient was more effective than the donor, and the aid management improved significantly in the 1960s compared to the 1950s. The aid effectiveness in the 1950s and the 1960s coincides roughly with the economic performance of the corresponding decade. Average annual growth rate of real GDP was 2.6% in 1954~1960, and 7.9% in 1961~1970.

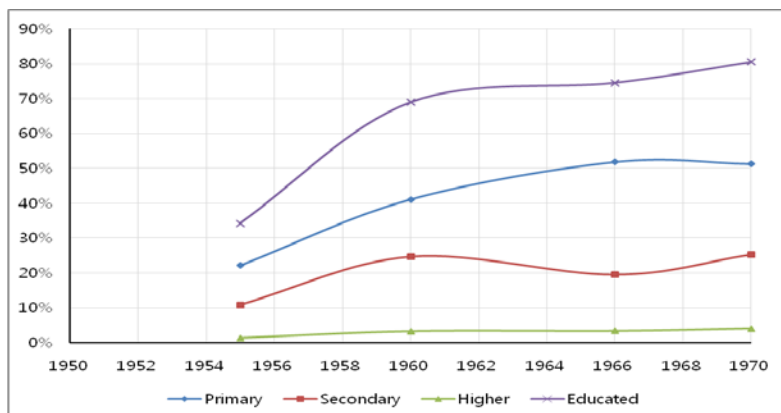
Figure 2 Real GDP Growth Rate, South Korea, 1954~1970, (%)



Source: Bank of Korea

Although the growth performance was not impressive in the 1950s, there was an important achievement in this period. The fraction of educated population dramatically increased from 34% in 1955 to 70% in 1960. This did not provide the qualified labor force necessary for industrialization, but also created the educated citizens who could check and monitor the politicians in the process election. It must have been more difficult for the political leaders to fool the educated citizens in the election.

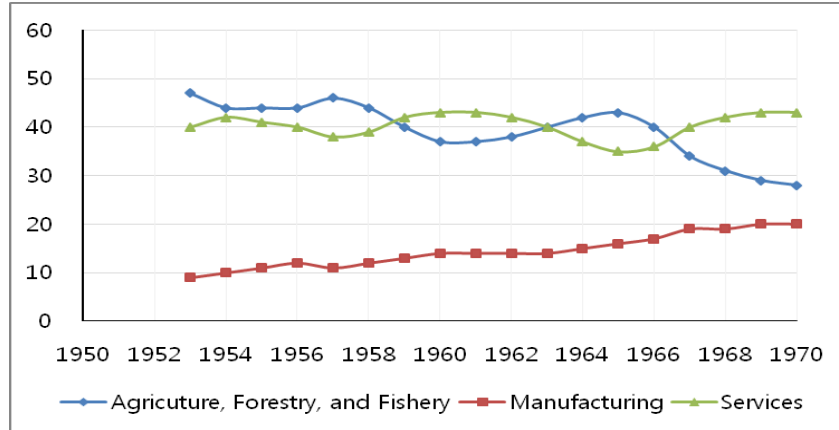
Figure 3 Share of Educated Population in South Korea in the 1955~1970, (%)



Source: Census, various years

Figure 4 shows that the share of manufacturing in GDP increased significantly in the 1950s from 9.8% to 14.5%, even though Rhee was not able to implement the industrialization policies in systematic and coordinated manner. Industrialization in this period must have been a valuable step stone for the economic development in the following decades. In the 1960s, industrialization picked up speed and the share of manufacturing output in GDP reached 20% by 1970.

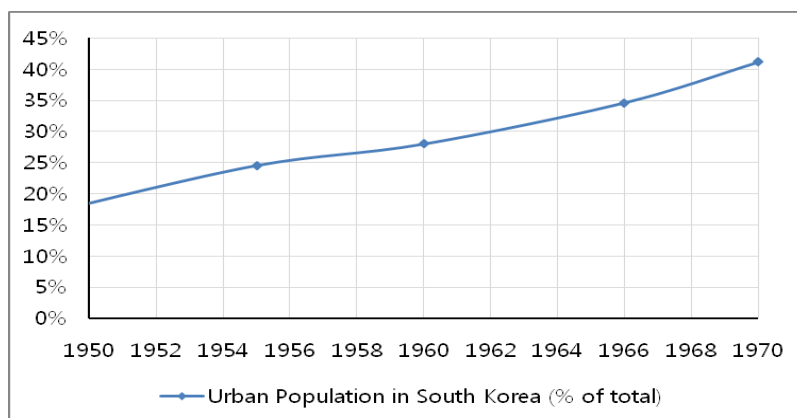
Figure 4 Industrial Structure of South Korea in the 1952~1970, (%)



Source: Bank of Korea

The urbanization was a mirror image of industrialization which attracted rural population to the urban areas where the industrial facilities are located. Urbanization progressed considerably from 18% in 1950 to 23% in 1960. Urbanization is important because it is a process through which the underemployed labor force is absorbed by the industrial sector.

Figure 5 Urbanization in South Korea in the 1949~1970, (%)

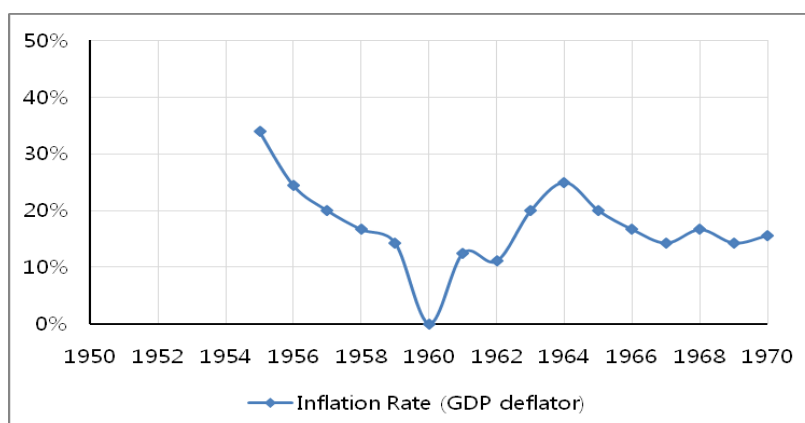


Source: Census, various years

What the developing countries should learn from Korean experiences may not be the conformity to the Paris Declaration itself, but the reason why the leaders made such decisions and the technocrats earnestly follow the lead. The confrontation with North Korea and the presence of the US armed forces in the territory had been double edged. On the one hand, they contributed to the political stability by preventing the political leaders of Korea from crossing the line in pursuit of their personal ambition or greed. The leaders of South Korea had to compete with the regime in North in order to win the support of the citizens and at same time they were constrained by the policy guidelines of US who provided South Korea with aid for security and food, that is, the very existence. Although the two regimes in the 1950s and the 1960s were authoritarian, they were not as violent or murderous against the civilians as in many other developing countries. These circumstances also prevented the military elite from abusing the armed forces in order to hold the power.

Meanwhile the containment policy was a constraint to the US. The US had to acquiesce with the Korean development policies as far as Korea committed to blocking the expansion to Communism. This prevented the US from withdrawing aid to Korea because the Korean government had not complied with the US policy guidelines. For this reason Korea was able to enjoy the sovereignty of fiscal and monetary policy despite the constant pressure of the US. For instance, in order to mobilize the resources necessary for industrialization projects, both Rhee and Park take advantage of the inflation tax. For instance, the average annual inflation rate was 18.2% in 1955~1960, and 17.8% in 1961~1970.

Figure 6 Inflation Rate (GDP deflator), South Korea, 1955~1970, (%)



Source: Bank of Korea

Only in 1960, the inflation rate fell below 10% as a result of Bloomfield-Jensen reform.

Park did not reduce the money supply even when he was forced to implement the Gurley-Patrick-Shaw financial reform in 1965 and the inflation rate stayed above 15% in the second half of the 1960s.

The extensive administration system and the disciplined and well-trained bureaucrats and technocrats are another important factor to which we can attribute the successful management of aid. Historically, Korea had had a centralized administration system in the Lee Dynasty and the Japanese had strengthened and expanded it even further in order to control the country. Rhee inherited this sophisticated and strong administration device and the experienced personnel.

The SCNR had been particularly active in recruiting the nation's outstanding talent to plan and implement economic and industrial development programs. Many individuals were recruited from the private sector and became the leading technocrats. Three characteristics of Park's new elite are (i) that they were highly qualified professionals with a strong sense of self-discipline and a focus on efficiency and achieving goals, (ii) that they had a clear understanding of the essential difference between their bureaucratic managerial power and that of their political masters who held ultimate governing power.

#### **4. Are the Korean Experiences Applicable to Uganda?**

Uganda became independent in 1962. Since independence, Uganda had been highly unstable politically. Out of eight changes in the government four were achieved by military forces. The violence against the civilians was so severe that there hardly exists any parallel case. Many attribute the political instability to the ethnic and religious divisions in Ugandan society and to the socially divisive colonial tactics adopted by the British.

When the UK imposed the federal constitution in 1962 it recognized four kingdoms and 24 ethnic groups and tried to reflect the diverse ethnic structure of the Ugandan society. The first government of independent Uganda was formed by an alliance of southern and northern political parties. Under this alliance, the traditional king of Buganda was elected as president while Milton Obote became prime minister. In 1966, however, Obote suspended the federal constitution and declared himself executive president, with the support of Army. As a dictator, dependent on army, Obote destroyed the significant autonomy of various kingdoms and districts. He pursued a one-party state, which caused factional conflicts.

His efforts to secure popular support were not successful and in 1971 he was deposed in a military coup led by Idi Amin. After Obote fled to Tanzania, Amin and his army, most of who are from northern Kakwa group, attacked the Langi, which is Obote's tribe. Indiscriminate killings took place. Amin, who is Muslim, also persecuted Christians. It is estimated that about 300,000 people were killed in the seven-year period. In 1979 as Tanzanian army invaded Uganda Amin fled abroad. After a short period of confusion, Obote came back to power winning the presidential election in 1980.

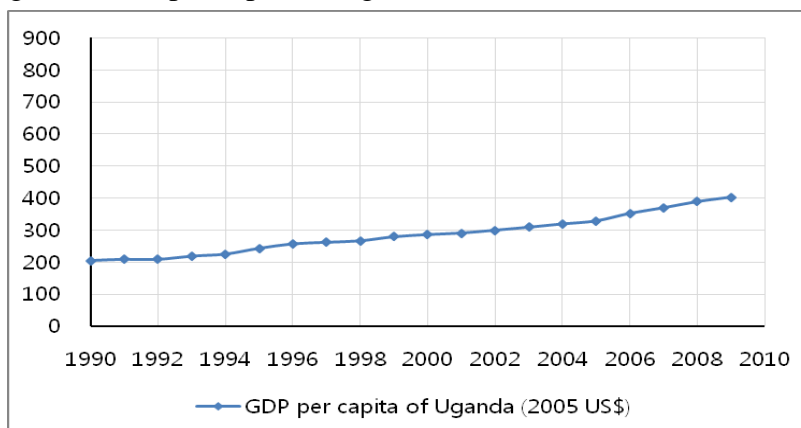
Obote depended on the support of army (Uganda National Liberation Army, UNLA). His regime failed to unite the factions in Ugandan society. As National Resistance Army (NRA) led by Yowery Museveni became the focus of opposition, UNLA attacked NRA and a large number of the civilian Baganda were killed. Obote's second presidency did not last long. Dissent between Langi and Acholi grew deeper, and finally in 1985 Acholi occupied Kampala and seized power. This time Obote fled to Zambia. Obote's government was replaced by the Military Council led by General Tito Okello.

But in 1986, NRA led by Museveni took over Kampala after fierce fighting. Museveni was sworn in as president and a National Resistance Council (NRC) was formed to take charge of government. At first, Museveni established a system of elected resistance council at the local level, in a determined effort to promote grass-roots democracy. Party political activities were banned. This is the system called 'National Resistance Movement(NRM).' A new constitution, which ensures that the "movement system" takes precedence over traditional political representation, was drafted in 1994. In 1996 Museveni won the first presidential election under the new constitution. A referendum was scheduled in 2000 to determine whether or not to continue the "movement system."

Finally, in the referendum in 2005, the constitution was amended and the multiparty political system was brought back in place. Museveni won the presidential election again in 2011 and he continues to hold the power. In the parliament, the National Resistance Movement is the dominant party.

For decades, Uganda's economy suffered from devastating economic policies and instability. Uganda is one of the poorest countries in the world. In 1990 per capital GDP was 205 US dollars, and in 2009 it reached 404 US dollars (in 2005 constant prices). Per capita GDP of Uganda in 2009 is about the same level as per capital GDP of Korea in 1955.

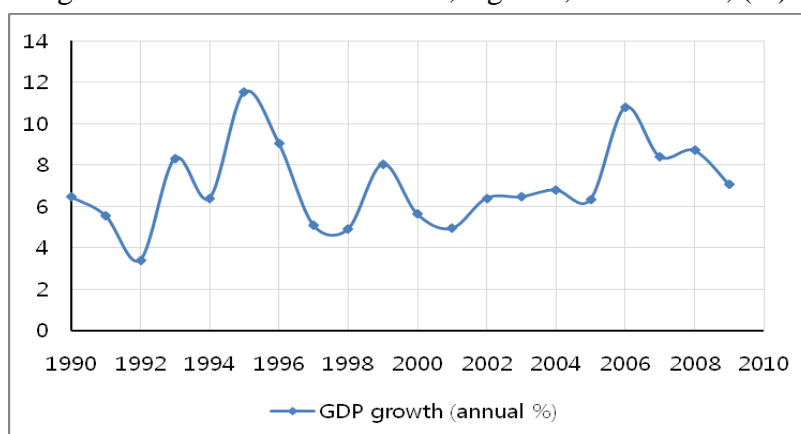
Figure 7 GDP per capita of Uganda in the 1990~2009, (2005 US\$)



Source: World bank

The country had commenced economic reforms and growth has been robust in the 1990s and the 2000s. Between 1990 and 2001, the economy grew at 6.9% on average because of continued investment in the rehabilitation of infrastructure, improved incentives for production and exports, reduced inflation and gradually improved domestic security. In 2001~2009, the average annual real growth rate of GDP was 7.2%. In 2008, Uganda recorded 8.2% growth despite the global downturn and regional instability. However, ongoing Ugandan involvement in the war in the Democratic Republic of the Congo, corruption within the government, and slippage in the government's determination to press reforms raise doubts about the continuation of strong growth.

Figure 8 Real GDP Growth Rate, Uganda, 1990~2009, (%)



Source: World bank

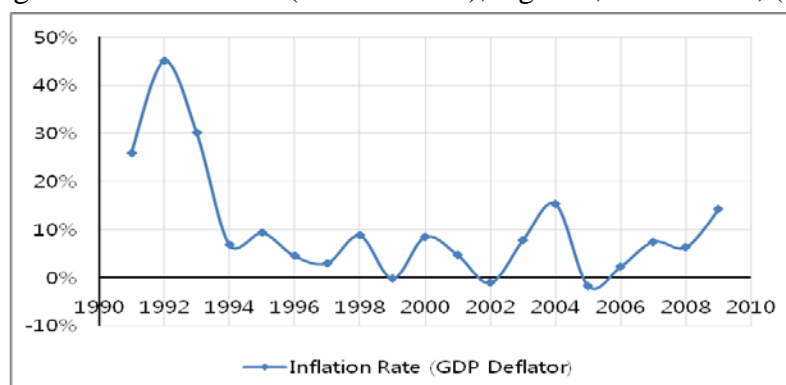
Economic growth has not always led to poverty reduction. Despite an average annual growth of 5.9% between 2000 and 2003, poverty levels increased by 3.8% during that

period. This has highlighted the importance of avoiding jobless growth and is part of the rising awareness in development circles of the need for equitable growth not just in Uganda, but across the developing world.

Uganda has many emigrants – residing mainly in the United States and the United Kingdom. These emigrants have contributed enormously to Uganda’s economic growth through remittances and other investments (especially property). According to the World Bank, in 2010/2011 fiscal year Uganda received \$694 million in remittances from Ugandans abroad, which amount to 4.4% of GDP. This is one of the most important sources of foreign exchange for Uganda.

Museveni’s regime had stabilized the economy remarkably. Inflation ran at 240% in 1987, 42% in 1992, 6.8% in 1994, and was 5.1% in 2003. Average annual inflation rate in 1990~1999 was 14.9%, but it decreased to 6.4% in 2000~2009. From 1994 on Uganda has been enjoying high annual growth and stable inflation rate.

Figure 9 Inflation Rate (GDP deflator), Uganda, 1990~2009, (%)



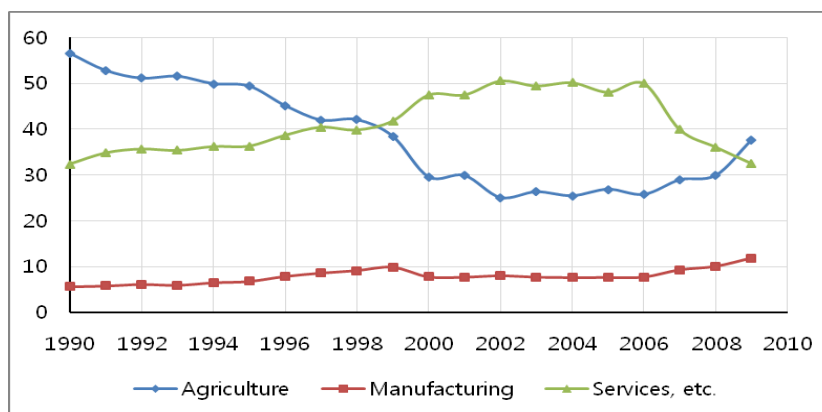
Source: World Bank

Even though the economy grows at a healthy rate, there is no sign that the economy is being industrialized. The share of the manufacturing in GDP is stationary around 10% over the two decades of 1990~2009. The share of agricultural output decreased to 25% in 2002, but recently it has bounced back to 38%. The share of the services moves in the opposite direction to that of agriculture. Given the low level of income, it is highly likely that the service sector consists of the subsistent self-employed vendors.

No progress in industrialization is related to stagnant urbanization. During the two decades of the 1950s and the 1960s, the fraction of the urban population remained around 13%. Because the rural areas in developing countries are usually inflicted with

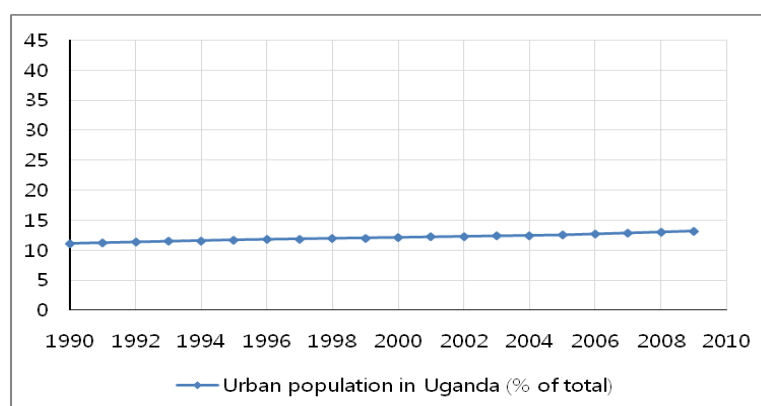
underemployment problem, the stagnant urbanization is another sign of jobless growth in Uganda.

Figure 10 Industrial Structure of Uganda in the 1990~2009, (%)



Source: World Bank

Figure 11 Urbanization in Uganda in the 1990~2009, (%)

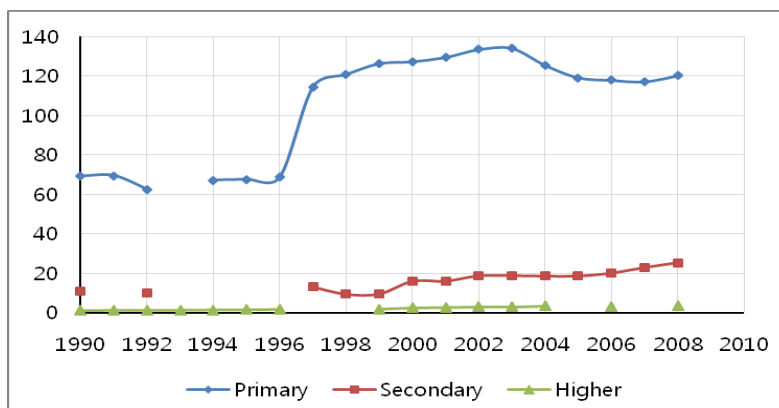


Source: World Bank

Since the introduction of Universal Primary Education in 1996, the enrollment rate of primary education has increased dramatically. However, the enrollment rate of secondary and tertiary education is still very low. If Uganda wants to accumulate human and social capital it is very important that the more active investment should be made in the secondary and tertiary education. Educational investment seems essential in improving the capacity of the country in terms of the quality of labor force and the political maturity of citizens.



Figure 12 Gross School Enrollment Rate in Uganda in 1990~2008, (%)



Source: World Bank

Uganda is a highly aid dependent country, with aid averaging over 10% of GDP and half of public expenditure. The majority of aid is provided as grants, although loans make up approximately 40% of budget aid. Uganda has had highest sustained flows of budget support of developing countries. (IDD and Associates (2006)) In case of Uganda, the two major donors are the World Bank and the European Union. In the 1990s aid and external support has in various forms helped support the generation and implementation of the policy reforms. When the government first rejected in 1986 and then reluctantly introduced market-based reforms in 1987~1992, policy dialogue, advisory services, training and technical assistance were of critical importance both for decisions to reform and the direction of the reforms. When Ugandan government decided to reform reluctantly in the late 1980s, the financial aid and conditionality became the main and the most powerful cause for the reforms. The major substance of reforms in this period was the capacity building of the public sector.

However, since 1992 with secured government ownership, conditionality became less relevant for inducing reforms. The Ugandan authorities have mainly chosen pro-developmental and poverty reducing strategies in addition to good macro-economic policies. These included the introduction of Universal Primary Education, and the drafting and promulgation of a home grown constitution.

Holmgren *et al.* (1999) point out that Ugandan experiences indicate that the focused and coherent aid programs improved the performance of government and private sector performances and that the institutional capacity is a very important determinant of implementation success. A series of reforms enhanced the administrative infrastructure considerably.

The Ministry of Finance, Planning and Economic Development (MFPED) oversees planning, budgeting and accounting systems and processes, as well as aid management systems and processes. In 2003, the National Planning Authority was established, since then it has been responsible for drafting the poverty reduction strategy. The Directorates of Economic Affairs and Budget in the MFPED manage macroeconomic, fiscal policies and the budget process, while the Accountant General is responsible for compilation and management of government accounts and custody and the safety funds and resources. Local Governments are responsible for preparing and approving their own budgets but earmarked conditional grants limit their autonomy over resource allocations. Uganda has a well established Medium Term Expenditure Framework (MTEF) and consultative budget process. In 1998, the sector-based MTEF was introduced and much of aid coordination has been focused on institutions and mechanisms at the sector level. This system used to be praised as good practice, but recently it has begun to slip in timeliness and quality. (Williamson (2008))

Nevertheless, integrating project aid into MTEF and budget documentation helps improve the comprehensiveness and strategic nature of decision making in the budget, whether or not parliament appropriates aid. Instead of creating parallel mechanisms through projects and basket funds, sector budget support can be channeled through an intergovernmental transfer system in support of local service delivery.

In 1990s, poverty was reduced remarkably. But in the 2000s, there were ups and downs. Poverty level increased to 38% in 2003 from 34% in 2000, and the Gini coefficient increased from 0.35 in 1997/8 to 0.43 in 2003. The reason for the recent pattern includes a decline in agriculture without no better alternative provided. (IMF (2005))

Economic policy of Uganda focuses more on poverty reduction rather than economic development. Though households are moving out of relying solely on crop farming into non-agricultural enterprises, wage employment is expanding more slowly. In regard to human development, recent years have seen major improvements in education and literacy.

What part of Korean experience is applicable to Uganda? There is little doubt that one of the main ingredients for the success of South Korean economy is the role of the government that initiated and coordinated the economic development at least at the earlier stage. This aspect of South Korean experiences is in sharp contrast with the experiences of many other developing countries, where the government failure, from

corruption to murderous dictatorship, is far more detrimental than the market failure.

In 2004 the Korea Development Institute, supported by the Ministry of Strategy and Finance, launched the Knowledge Sharing Program (KSP), which is basically a provision of consultation to the government of a developing country, which requests a solution for a specific problem it faces. The KSP recommendation usually puts the government at the center of the scene on the implicit assumption that the government of the developing country has a strong administrative capacity to implement the recommended policies. Of course, this implicit assumption stems from the experiences of Korea which is characterized by a strong, reliable, and effective bureaucracy that had developed throughout the Lee Dynasty and had strengthened even further during the colonial period. But it should be noted that many developing countries today do not enjoy the same strong administrative capacity even today. Considering such difference, one should not expect that the government of other developing countries play the leading role as actively as did the government of South Korea. One may well doubt that the KSP recommendations, formulated on the assumption that there is a strong and effective government, are applicable to the developing countries whose government is weak and ineffective. In this sense KSP policy recommendations are not much different from the neoliberal policy recommendations from the experts of advanced countries that the developing countries should leave the resource allocations to the market even though no reliable market system has matured yet in many developing countries.

Uganda also has weak government apparatus compared to Korea in the 1950s and 1960s. Ugandan government is more decentralized and the local governments are highly unorganized and incompetent. This is part of the reason why it is so difficult to collect taxes in Uganda. Delivery of resources and implementation of policies through local governments can also be a problem. Tensions and conflicts among kingdoms and tribes are a serious obstacle in making a comprehensive and coordinated plan.

After a long period in power, Museveni's government produces scandals of corruption. This government is not strong enough to draft and implement a nation-wide development project. Although capturing aid on budget has progressed, the fragmented project aid is still a problem that stands in the way of orchestrated national development. It has to do with the structure of aid donors. The majority of aid is multilateral and comes from diverse sources. It is far more difficult to coordinate the stream of aid and make it stable.

Another obstacle to Ugandan development is the lack of disciplined high-quality bureaucrats and technocrats. Only recently the primary education has become universal but still there is not enough investment in secondary and higher education.

Ugandan armed forces may be a potential risk factor for Uganda. We cannot exclude the possibility of military coup. In the case of Korea, the confrontation with North Korea and the presence of the US armed forces restricted the unruly actions of the military personnel. In case of Uganda, there is no such brake.

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