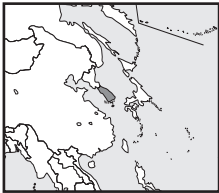


# Concrete action needed on domestic social welfare and foreign aid policies

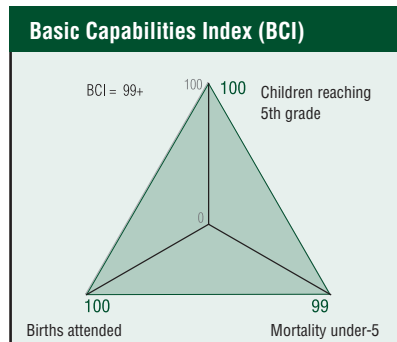


Korea's current development policies are problematic, in both the domestic and international spheres. Domestically, despite growing income stratification, taxation policy and social expenditure have been poorly executed and have failed to provide more equitable income distribution. At the same time, while Korea as an emerging donor country faces ever greater requests from global society and Korean NGOs to enlarge its role, it has struggled to increase the quantity and quality of its aid.

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Stratification in Korean society has caused substantial negative effects as the economic gap between classes has widened over the past several years. While enormous profits have arisen in the domestic economy, this has largely been the result of inflated housing prices in the real estate market, with most of this income vested in the hands of landowners representing only a small fraction of the population. For this reason, Korean public life has been swept by talk of "stratification", from the New Year's speech given by President Roh Moo-hyun, to the policy pledges made by all of the candidates for local governorships in the 31 May elections. While discussion on the causes of stratification has been varied and has occasionally resulted in controversies between political parties, no real steps for tackling income stratification and the widening gap in income have been taken. For their part, civil society organizations have been analyzing the causes and suggesting possible solutions.

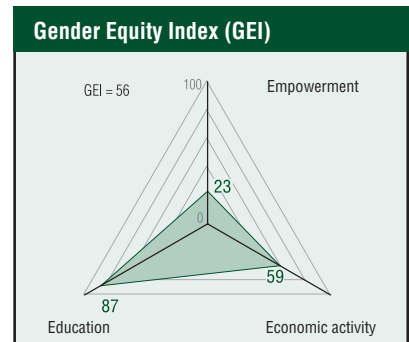
As the world's 10th largest economy, Korea has also encountered considerable pressure from international society to assist developing countries through effective aid in a manner commensurate with its economic status. Since 2005, civil society groups have joined together in order to make their voice heard on the issue of foreign aid, and to urge the Government to take proper steps by observing



international standards for the quantity and quality of aid. NGOs were the first in Korean society to express their interest and concern about the effectiveness of foreign aid, which had previously never been a part of the nation's social agenda. While local NGOs have succeeded in raising some issues with the Government, they continue to await more improvements in the near future.

### Stratification inspires a lot of talk but little action

The widening income gap in Korea was illustrated by a press release from the Korea National Statistical Office on 11 May 2006 regarding household income distribution by quintile. In the first quarter of 2006, incomes in the 1<sup>st</sup> Group and 2<sup>nd</sup> Group - that is, the two lowest income groups - reflected an increase of 2.4% and 3.3% percent respectively in



comparison with the same quarter the previous year. However, as Table 1 illustrates, incomes in the 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> Groups expanded by 5.1%, 4.7%, and 4.1%, respectively (Korean National Statistical Office, 2006). The ratio obtained by dividing the 5<sup>th</sup> Group income by that of the 1<sup>st</sup> Group increased 0.83%, thus marking the largest gap between the lowest and the highest income groups since 2003.

In response to the growing phenomenon of income stratification, the Government has announced new policies to provide for a social safety net and to enlarge budget allocations for the economically disadvantaged. For example, the Administration promised that it will expand social welfare spending to amount to 25% of the total governmental budget.

However, the Government's social expenditure has amounted to just 2.4% of gross domestic product (GDP) since 2001, which is one-seventh of the average in the Organization for Economic Cooperation and Development (OECD) member countries (Jeon, 2006, p. 4). Within this limited social expenditure, social insurance and corporate welfare, which have relatively little impact on income redistribution, take the lion's share at 74.3% (Lee, 2006). Even though the Government has expressed its firm intention to reduce the gap between income groups and enhance the social safety net, it has yet to reform the composition of social expenditure and failed to increase public expenditure that would have a real impact on the lowest income groups.

Along with the small public social expenditure and the high share earmarked for social insurance and corporate welfare, taxation policies have also contributed to worsening income stratification. Based on annual tax revenue from 2004 to 2006, the Citizens'

TABLE 1

Income distribution by income quintile									
Unit: KRW 1,000 (USD 1), % year on year									
CLASSIFICATION	FIRST QUARTER 2005			FOURTH QUARTER 2005			FIRST QUARTER 2006		
	SHARE	PERCENT CHANGE		SHARE	PERCENT CHANGE		SHARE	PERCENT CHANGE	
Average	2,937.5	100.0	5.8	2,941.2	100.0	4.1	3,062.3	100.0	4.2
1st Group	754.2	5.1	1.8	803.1	5.5	4.6	772.2	5.0	2.4
2nd Group	1,744.2	11.9	2.9	1,791.3	12.2	3.9	1,802.5	11.8	3.3
3rd Group	2,514.3	17.1	4.7	2,561.0	17.4	3.3	2,642.3	17.3	5.1
4th Group	3,471.8	23.6	5.1	3,499.6	23.8	4.0	3,635.9	23.7	4.7
5th Group	6,201.9	42.2	8.0	6,049.2	41.1	4.4	6,458.1	42.2	4.1

Share = (Income) / (Total income of all groups) x 100

Source: Korean National Statistical Office (2006). "Household Income & Expenditure Trends in the First Quarter 2006". Available from: <[www.nso.go.kr/eng/releases/report.html?category=7](http://www.nso.go.kr/eng/releases/report.html?category=7)>.

Coalition for Economic Justice (CCEJ) found that the Government's taxation policy did not play a positive role in redistributing income or slowing the increasing trend toward income stratification. Based on the CCEJ's findings, there has been unfair taxation in terms of withholding and collection, meaning that tax deducted and withheld at the source from the income of salaried workers is expanding more rapidly than income tax collected from the self-employed. Specifically, withholding tax increased 29% from 2004 to 2006, but corporate income tax increased only 13.9% during the same period. Furthermore, value added tax (VAT) applied inversely against income increased by 11.41%, while special excise tax falling on luxury goods decreased by 22.9%. Therefore, the tax burdens for middle and low income households increased, and tax policy did not contribute to redistribution of income.

In recent years, stratification in Korean society has emerged as a key issue on the political agenda. Nevertheless, while both the President and opposition party representatives have presented their own perspectives on the causes of and solutions to the growing problem of stratification, "real" policies for addressing the matter have yet to be developed. Instead, income stratification has merely become an issue to be used by Korean politicians from both the ruling and opposition parties for the purpose of attacking their opponents.

Civil society groups, including the CCEJ, have taken note of the attitude of Korean politicians in paying lip service to the problem of stratification for political and diplomatic gain. Throughout the first half of 2006, Korean NGOs analyzed the causes of income stratification, such as regressive taxation policies, and have suggested solutions to both the Administration and the opposition party. Unfortunately, neither has responded to our requests, but civil society groups will nevertheless continue to wage these campaigns.

### Insufficient and ineffective aid flows to developing countries

As an emerging donor country, Korea's policy on aid to developing countries has become an increasingly prominent issue. While Korea ranks as the 10th largest economy in the world, with a GDP of USD 793 billion in 2005, the volume of its official development assistance (ODA) amounted to USD 744 million, or 0.09% of GDP in 2005. Not surprisingly, this falls far short of the average for member countries of the OECD Development Assistance Committee (DAC), which is 0.26% of GDP (OECD, 2006).

As well as the disappointing scale of ODA, the quality of aid bears further scrutiny. As Korea is not one of the member countries of the DAC, it is not obliged to provide full reportage of its ODA for peer review. For this reason, the quality of ODA is unsatisfactory in that grants accounted for 64.1% of bilateral aid in 2004, in comparison to the 90.1% DAC average grant ratio for bilateral aid. Moreover, according to the Korea International Cooperation Agency (KOICA), nine of the top ten grant recipient countries are other Asian nations, which received

around 70% of all bilateral grants in 2004. While aid to the least developed countries increased to 26% in 2004 (20.5% if excluding the post-war reconstruction of Afghanistan and Iraq), aid to sub-Saharan Africa (7%) remained the same as in 2003. In addition, most of Korean bilateral aid - including aid to the least developed countries - is tied aid, which means it must be used to purchase goods and services from the donor country. Not only does this lessen the value of the aid, but it also leads to placing priority on the provision of goods, technology and consulting from donor countries, rather than on the needs of recipient countries (Kim, 2005).

As well as the quantitative and qualitative shortcomings of Korean ODA, it is also devoid of a legal and institutional framework, as there is no basic ODA law or charter, resulting in a lack of consensus on the objectives of Korea's aid policy. Partly because of the low awareness of ODA among the public, even many policy makers regard development aid as merely a diplomatic means for enlarging Korea's slice of the economic pie in the future. Moreover, the so-called "dual system" for Korean ODA makes it difficult to promote efficiency and consistency. In bilateral aid, the Ministry of Finance and Economy is in charge of supervising loans and the Export and Import Bank of Korea is in charge of executing them; the Ministry of Foreign Affairs and Trade takes the lead in supervising grants, and KOICA is in charge of executing them. If communication between these organs was fluid, the dual execution system might be seen as reliable. However, channels for communication between the two different supervising agents and the two executing agents have been irregularly promoted and rarely implemented.

Recognizing there is room for improvement not only in quantity and quality, but also in the institutional and legal frameworks for ODA, the Korean NGOs' Network Against Global Poverty was established in June 2005 with the participation of 21 development and advocacy NGOs, including the CCEJ. The Network drafted a letter outlining its views on what Korea's future ODA policy should be and presented it to the President, who was preparing to visit the UN for the September 2005 World Summit. The letter called for enlarging the scale of ODA, creating an appropriate institutional and legal framework, and improving the quality of aid. Subsequently, following a conference organized by the Network and attended by government officials and members of parliament, the Government responded with a full report on the future of Korean ODA policy.

The Government's proposals for ODA policy directions surprisingly matched the NGOs' proposals in several areas. In particular, the Administration agreed on the need to enter the DAC sooner and to regulate ODA by law. The report also pledged actual numbers for an increase in the scale of ODA and stipulated the creation of a Committee for International Development Cooperation to serve as a channel for communication among the different ministries and agencies involved in development aid. The Committee includes members from universities, NGOs, and the private sector.

Despite these welcome developments and the noteworthy achievements of the civil society groups, there are certain issues that require further monitoring from civil society. These include the fact that the Government did not accept suggestions from NGOs when filling the NGO seats on its Committee, as well as the fact that the mechanisms to formulate an ODA law appear too slow to meet the promised deadline of 2006. The CCEJ is now developing two ways to monitor the Government's progress in living up to its pledges: by forming an "ODA Watch" group, and by inviting other NGOs to participate in this follow-up. In the meantime, the NGOs' Network will continue the advocacy and awareness-raising campaign launched upon its founding in 2005.

### Conclusion

In view of the unique situation of Korean society, the nation now faces two distinct obstacles: the problem of domestic development and the problem of overseas development. Even though the country has shown great progress in its economy over the past 20 to 30 years, it has failed to solve the problem of worsening income stratification and the concomitant deterioration in the quality of life for the economically disadvantaged. In the meantime, as one of the world's largest economies, Korea needs to adopt an adequate aid policy to provide effective assistance to developing countries.

Economic growth without revision of social welfare and taxation policies does not hold much promise for the majority of Korea's citizens. Likewise, verbal promises from politicians made for political gain will not actually guarantee the establishment of alternative policies. That said, in recognition of the initial stage of its foreign aid practices, the Government has taken significant steps for further development of its aid policy. However, if Korea really wishes to enter the DAC in the near future, it needs to consider more carefully the principles of aid and the effectiveness thereof. These two distinct areas therefore require the continuous attention of Korea's NGOs. ■

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