

**Comment on “Does Korea Follow Japan in
Foreign Aid? Relationships between Aid and
Foreign Investment”
by Sung Jin Kang, Hongshik Lee
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Summary and Contributions

- **Pointing out similar aid practices of Japan and Korea**
- **Determinants of FDI**
- **Korean ODA has a larger impact on FDI**

Comment 1: What is FDI?

- **FDI (owning assets) \neq new fixed investment**
- **FDI determinants vary across sectors and industries**
- **For example, agglomeration leads to new investment in manufacturing but may not promote FDI**
- **Hypothesis that explains the impact of lagged accumulated FDI is needed**
- **For robustness check, use subsamples of manufacturing (Kasuga 2008, JWE)**

Comment 2: Relationship between exports and FDI

- **Substitute or Complement?**
- **Complement in industries that export intermediate goods**
Sales subsidiaries also promote export.
- **It is difficult to obtain the clear result because the sample includes FDI in many industries**
- **Remedy: Use subsample of each industry**

Comment 3: Impact of exchange rates

- **Appreciation of the yen (won) has a positive effect on both FDI and ODA**
- **Strong yen increases outward FDI**
Froot and Stein (1991, QJE); Blonigen (1997, AER)
- **Strong yen increases ODA in the US dollar**
- **Exchange rate is not included in the regression**
It may explain the correlation between ODA and FDI

Question 1: FDI and ODA stock data

- **Accumulated values are calculated from annual flows**
- **Doesn't the correlation in the past affect subsequent correlations in (2)?**
Is using stock variables the same as using flow variables?
- **Robustness checks: data for 3- or 5-year period**

Question 2

- **Positive effect of ODA on FDI for Korea, Japan and the United States. An explanation for Korean ODA's impact is given. Why does the US ODA, which is not similar to Japan's ODA, have a positive effect?**

Question 3

- **“Aid from the Netherlands belonging to humanitarianism type shows the substitute effects very clearly” (p.17)
Which estimates suggest this?
If it is true, how can we explain this result?**