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Development Questions of Russian-Korean Economic Cooperation¹ Petr S. Andreev² Galina I. Novolodskaya

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Abstract. This paper studies modern forms, problems and development prospects of Russian-Korean economic cooperation. Scientific, technical, trade, economic and investment cooperation are considered in details. The authors evaluate advantages of bilateral relations between the Russian Federation and the Republic of Korea.

Keywords: Russian-Korean economic ties; cooperation problems; forms of cooperation; partnership in science and technology; trade between Russia and Korea; Korean investments in Russia; the development of relations.

Introduction. Russia and South Korea have long-standing bilateral relations. The history of permanent official Russian-Korean relations begins from the Treaty of Amity and Commerce, signed between Russian Empire and Korea on July 7, 1884. Mutual co-operation continued until 1904, when diplomatic relations were severed by the Korean government under Japanese pressure, which had occupied Korea and had started the war with Russia. The contemporary history of Russian-Korean relations has started since September 30, 1990 from the establishment of diplomatic relations between the Republic of Korea and the Soviet Union and then with the Russian Federation as the successor of the USSR. Since that time, Russia and South Korea have been cooperating closely in the political, economic, trade, scientific-technical, military-technical and cultural fields.

Modern forms of economic cooperation between the Republic of Korea and Russia are based on the complementary nature of the two economies. Russia has energy reserves and various mineral resources, including diverse non-metallic minerals, which are the main raw material for modern industries. Russia is deservedly proud of the world's development level of basic sciences and technology of new materials and optics. The Republic of Korea possesses advanced technology and commercialization experience, highly qualified staff in IT industry.

Moreover, South Korea has advanced technical achievements in textile industry, manufacture of complex electrical household appliances, semiconductors, electronics, cars, and many kinds of chemical products. Russia can actually get required advanced know-how in economy and several areas as well, but also, that is more important, to get a large-scale of direct investment of South Korean companies. In turn, the Republic of Korea required Russian a large quantity of raw materials and semi-manufactured goods, and that is why it is interested in cooperation with Russia in science and technology.

Scientific-technical cooperation. Since 1990 in the sphere of scientific-technical cooperation a total of more than 100 joint projects in the field of laser technology, biotechnology, aerospace, fiber optics and other areas had been adopted and implemented [1]. The joint scientific-research centers established at Russian scientific-research institutes with the South Korean financial maintenance are one of the forms of scientific-technical cooperation. Among these

structures the Joint Center for exchange of scientific and technical information can be distinguished. The Center for Science Research and Statistics and Korea Institute of Scientific and Technical Information are its major institutions.

Vavilov State Optical Institute and the Korea Institute of Electrical Research have founded a Joint Research optical center, which is developing projects, including optical systems, lasers, medical equipment, and their introduction in manufactory. On the basis of Moscow State Technological University «Stankin» the Russian-Korean Cooperation Center in the field of industrial technologies was established. Tsiolkovsky Russian State Technological University, Moscow Engineering Physics Institute, Tomsk Polytechnic University are maintaining the scientific-technical cooperation with the partners in South Korea.

The cooperation between Novosibirsk State Technical University and Ulsan South Korea University is actively developing. The scientists of these two universities conduct joint research in the field of electronics, aircraft and engineering industries. The Russian-Korean Institute of Science and Technology, Siberian Branch of the Samsung Advanced Institute of Technology, the Korea Business Development Center are working in Novosibirsk "Akademgorodok". The permanent exhibition of high-tech products of Novosibirsk enterprises is opened in Taejon, the twin city of Novosibirsk.

Some Russian Scientific Research Institutes are developing interactions based on direct contacts with South Korean companies. In particular, the State Institute of Applied Chemistry is delivering licenses to Korean firms. The Russian Academy of Science has close commercial ties with the company Samsung, as well as Saint-Petersburg Joffe Physico-Technical Institute, that is a commercial partner of Daewoo.

The space is the area where the Russian-South Korean cooperation of mutual benefit is rapidly developing. South Korean astronaut was a member of the Russian space crew in 2008. The Russian Federation and the Republic of Korea have signed several agreements on expanding cooperation in space activities, including joint venture for the production of satellites, construction of spaceport in the Republic of Korea at the Russian technical assistance. A draft on organizing piloted space flights is discussing now.

The organizational component is one of the problem issues in the scientific-technical cooperation between Russia and the Republic of Korea. Thus, the Russian-Korean cooperation in this area presupposes that both parties from several ministries and departments should coordinate their work. At the same time, the acting mechanism of interaction between the participants is still far from being perfect, which seriously complicates the monitoring of project implementation, technology and information transfer.

Obviously imperfect data and technical base for the centralized acquisition, processing and qualified analysis of available information, primarily about the state of projects, reporting on them and control over their implementation should be added to the difficulties of monitoring. Such negative factors ultimately make it difficult to control and coordinate cooperative programs execution and reasonable and timely decisions making.

One more problem for further developing scientific-technical cooperation is the lack of experience in commercialization of scientific-technical developments in the Russian research institutions, as well as not regulated mechanism for distribution of intellectual property rights on the results of joint projects in Russia. Russian partners' claims are often associated with the fact that developments including created at the state budget expense, are patented abroad or by foreign entities in Russia. Therefore, Russia should develop an efficient mechanism to determine real value of intellectual property rights created within the framework of joint projects, as well as to adjust disputes connected with transfer the rights.

Thus, the immediate tasks of scientific-technical cooperation are to fine-tune mechanism of intellectual property rights distribution on the results of joint activities and improving the institutional framework of cooperation, including its information base. Implementation of intellectual property rights at the global market is one of the factors of industrial competitiveness and it will have a positive impact on our countries' export structure by increasing the share of high technology products.

In addition, in the condition of limited financing, the parties should continue strengthening their efforts in improving the efficiency of resource allocation and their concentration on the most promising research trends.

The activation of bilateral scientific-technical ties is actually workable in light of Russia's transition to an innovative type of economic development and Korea's aspiration to maintain relatively high rates of economic growth in the increasing competition at world markets.

Trade and economic cooperation. Currently, trade and economic cooperation remains the major area of Russian-Korean economic ties. Special place in these expansion plans of Russia's exports to South Korea is given to the supply of natural gas. Since 2009 Korea Gas Corporation annually buys in Sakhalin 1,5 million tons of liquefied natural gas. It is expected that cooperation in this area will be developed after the construction of gas pipeline Sakhalin – Khabarovsk – Vladivostok. After 2015 the Republic of Korea plans to buy annually 7.5 million tons of liquefied natural gas because of that the share of Russian gas in the structure of our imports will rise from the current 6 to 30 % [2].

Since 2010 the Republic of Korea has been started to import crude oil through seaside spetsmornefteport Kozmino. Russia got the possibility to sell its energy not only in Europe but also at the Asian market, that is to say to diversify the markets. At the same time, the Republic of Korea has the opportunity to buy energy resources produced in deposits close located geographically, which reduces delivery time and helps avoid many risks that exist in energy transporting process from the Middle East.

Until recently, most of the goods from Korea to Russia and Europe were transported by the sea through the Suez Canal. It usually took about 40 days to deliver goods. Recently, the situation is changing: more and more goods are shipped to Europe and Russia by the Trans-Siberian Railway. It helps Korean shippers save time and money, and the Russian party make a transit.

One of the major trends of economic cooperation further development between our countries is a bilateral collaboration at the regional level. Currently, inter-regional trade economic cooperation has all prerequisites for its rapid development. It is evidenced by the fact that more than 10 Russian and Korean regions and cities have already established direct communication [3]. There was a series of measures aimed at strengthening inter-regional cooperation in the Republic of Korea in 2006 year; numerous presentations of Russian regions took place in various Korean cities.

Many Korean firms and companies give significant preference to direct contacts with the regions of Siberia and the Far East. Currently a new federal program «Economic and Social Development in the Far East and Baikal, 2008-2013» has been developed and implemented in Russia as well. The main feature of this program is in its focus on integrated development of the major agglomerations of the Far East, and the setting up of the investment and trade cooperation with Korean partners could assist with its achievement.

Till recently, in spite of good dynamics of Russian-Korean trade relations, politicians of both countries can actually enhance the efficiency of mutual cooperation in trade – on conditions that the political initiatives will be accompanied by real steps to their implementation (Table 1).

Table 1 - Foreign Trade between the Republic of Korea and the Russian Federation in 2001-2011 (in billions of U.S. dollars (increase in %))

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export from the Republic of Korea to Russia	0,94 (19,0)	1,07 (13,6)	1,66 (55,7)	2,34 (41,0)	3,86 (65,2)	5,18 (34,0)	8,08 (56,2)	9,74 (20,5)	4,19 (-57,0)	7,76 (85,0)	11,6 (49,5)
Import to the Republic of Korea from Russia	1,93 (-6,3)	2,22 (14,9)	2,52 (13,7)	3,67 (45,6)	3,94 (7,2)	4,57 (16,2)	6,97 (52,6)	8,34 (19,5)	5,79 (-30,6)	9,90 (71,0)	13,4 (35,4)
Total turnover	2,87 (0,7)	3,28 (14,5)	4,18 (27,3)	6,01 (43,8)	7,8 (29,8)	9,75 (25,0)	15,0 (54,5)	18,0 (20,0)	9,98 (-44,6)	17,66 (77,0)	25,0 (41,6)
Balance of foreign trade	-0,99	-1,15	-0,86	-1,33	-0,08	+0,61	+1,1	-1,4	-1,59	-2,14	-1,8

Source: Korea International Trade Association, <http://www.kita.org>

To promote more actively Russian products to Korean market it is necessary to study the real needs of the South Korean economy and the state of supply and demand for goods, considering conjuncture of world prices. And it stands to reason that the practice of foreign companies working through local agential intermediaries, widely available in the Republic of Korea, incorporated in the Association of Foreign Trade Agents of Korea (AFTAK), where more than 13.7 thousand companies (including over 850 foreign ones) are its members, should also be used, to our opinion. Up to 83% of South Korean imports are the share of these companies [4].

To promote the products of Korean companies to the Russian market the Korean enterprises should improve the quality of consumer goods, at any case, maintaining moderate general level of prices (in comparison with the prices of competing goods, shipped to Russia from industrial advanced countries), more actively offer Korean investment goods (machinery and equipment) at the Russian market. It is extremely important in the light of the Russian economy needs in modernization and technical re-equipment of production, without which, it is obviously impossible for Russia's changeover to innovative type of economic development. Moreover, it can be recommended for South Korean companies to combine more actively traditional trade with the penetration into the Russian market through direct investment.

Investment cooperation. In the sphere of investment cooperation it is necessary for our countries to promote the implementation of several major investment projects. The Russian Federation and the Republic of Korea have a significant potential to increase not only the volume of bilateral trade but mutual direct investment in the near future.

Manufacturing and mining are major areas of direct investment (FDI) from the Republic of Korea to Russia. So, the bulk of South Korean FDI in terms of volume and the number of objects fall to the manufacturing sector; trade sector and mining industry hold the second place.

Among joint investment projects the construction of a shipyard on the basis of Far East enterprise «Zvezda» can be mentioned, where large vessels will be built, as well as started last year the production of Korean cars in the car factory «Sollers-Far East».

In September 2010, the company Hyundai Heavy Industries, the administration of Primorye and Federal Network Company of Unified Energy System signed a memorandum of understanding towards the realization of project construction of the plant electrical equipment. Nowadays in Primorye within the framework of preparation for the APEC summit modernization of energy infrastructure is well underway. In September last year the construction of Hyundai car plant near St. Petersburg and Lotte Confectionery factory in Kaluga region were finished.

At the same time, in recent years in spite of the significant increasing of South Korean investment in Russia (Table 2), today more than 20 years since the establishment of diplomatic relations between the two countries, Russia has failed to take a serious place in the list of South Korean investment partners companies. It is mostly obvious the reverse - Russian FDI in Korean economy are negligible.

Table 2 - Direct investment of South Korean corporations in Russia

Year	Planned investment projects	Planned investments, thousands \$	Realized investment projects	Realized investments, thousands \$
1990	0	0	0	0
1991	2	10,321	7	18,026
1992	1	7,386	7	3,247
1993	30	5,550	13	3,648
1994	42	54,322	22	13,871
1995	31	52,714	26	31,902
1996	49	74,814	15	44,133
1997	6	33,642	21	8,423
1998	18	43,020	5	43,613
1999	12	3,376	7	830

2000	21	11,052	12	4,053
2001	22	21,529	11	7,227
2002	1	47,067	11	24,494
2003	44	11,332	18	25,402
2004	9	95,713	17	30,569
2005	6	70,341	30	35,746
2006	54	132,337	21	114,290
2007	116	433,317	50	226,202
2008	152	521,942	63	359,287
2009	173	722,596	29	427,873
2010	96	232,164	18	333,990
2011	79	130,829	28	97,672

Source: The Export-Import Bank of Korea, http://www.koreaexim.go.kr/en/fdi/stat_04.jsp

Many South Korean businessmen are still concern about high risks that accompany their investments in the Russian economy. Failures in the investment policy of South Korean companies in Russia is largely due to the «standard» problems of the Russian economy: still high, according to foreign partners, the tax burden, frequent changes in laws, overly rigid administrative control, unsatisfactory quality of financial institutions. Striving to solve these problems is often hindered by a maze of approvals and administrative red tape, both in individual power structures, as well as between public authorities and a province – on an arbitrary interpretation of laws in favor of Russian economic agents, the prevalence of corruption.

Korean companies are often less prepared for evaluation of investing areas and do not know sufficiently about the really profitable Russian proposals. Despite the rapid intensification of bilateral relations, the Republic of Korea does not receive sufficient information about Russia in all areas, ranging from questions of modern economic development, the order of passing customs control, to the cultural, general-purpose nature. It is difficult to overestimate the negative effect of this situation. This is, in particular, evidenced by the fact that only 45% of Russian companies with the South Korean capital of all shares owned by South Korean businessmen (in other states this rate for investors from the Republic of Korea is 54%) [5]. This is mainly due to the uncertainty in the success of their enterprises in the condition of detailed information absence about the complex and sometimes extremely complicated Russian legal framework, as well as the absence of contacts experience with local authorities.

Unlike Russia, the Republic of Korea has made progress in providing free for foreign entrepreneurs access to information about investment opportunities on the territory of the Republic of Korea - South Korea's experience could be adopted by Russian businessmen. For example, influential Korean Institute of the Ombudsman (public official, exercising control over activities of public authorities) is very popular, which deals with any problems arising from a foreign investor in South Korea – only one phone call to the organization needs for launching of settlement mechanism.

Analyzing the behavior of businessmen from the Republic of Korea at the Russian market the psychological factor should be taken into account. Mainly South Korean businessmen still have prejudice regarding the investment to the country economy which 20 years ago was opposite ideologically to itself.

Conclusion. Thus, we can draw the following conclusions. Since the beginning of 1990 the scope and intensity of economic relations between Russia and the Republic of Korea are significantly increased. Especially noticeable positive trend was typical for mutual foreign trade (trade turnover in 2010 increased to 17.66 billion U.S. dollars (Table 1)) and scientific-technical cooperation. At the same time on the strength of several factors the volume of bilateral investment flows were not significant, especially compared with direct investment of South Korean and Russian companies in other countries.

Russian-South Korean economic cooperation is based on complementary nature of the two countries' economic potentials and interconnected with the implementation of strategic tasks of the national economies (problems of changeover to innovative type of development in Russia and ensuring sustainable economic growth and competitiveness the Republic of Korea in the global

economy). In this regard in modern conditions Russia and South Korea should give impulse to further development of bilateral relations in many areas of the economy, which is especially important in the difficult situation of the global financial crisis affecting both countries. In today's crisis which led to serious deterioration of the GDP and foreign trade both in our countries and of the world, Russian-South Korean economic relations can be considered as a certain stabilizing factor.

The future of economic relations between Russia and the Republic of Korea will be obviously determined by quickness and success in leaving the framework of traditional trade operations being a simple exchange of Russian raw materials to finished industrial products of South Korean companies.

The institutional, legal and administrative conditions for modern forms of mutual economic relations functioning between Russia and the Republic of Korea should be improved.

And though the global economy is in a difficult situation stable relationship that our two countries have steadily developed during the last period should be maintained and advanced.

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Проблемы развития российско-корейского экономического сотрудничества

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Аннотация. В данной статье анализируются современные формы, проблемы и перспективы развития российско-корейских экономических отношений. Подробно рассматриваются научно-техническое, торгово-экономическое и инвестиционное сотрудничество. Авторы оценивают преимущества развития двусторонних отношений между Россией и Республикой Корея.

Ключевые слова: российско-корейские экономические связи; проблемы сотрудничества; формы сотрудничества; партнерство в области науки и техники; торговля между Россией и Кореей; корейские инвестиции в России; развитие отношений.