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ECONOMIC RELATIONS BETWEEN RUSSIA AND SOUTH KOREA
IN THE NEW NORTHERN POLICY

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Abstract

The New Northern Policy, proclaimed by the South Korean President Moon Jae-in in Vladivostok in September 2017, is designed to boost economic cooperation between Russia and South Korea. However, two years after a special presidential committee was created to plan and coordinate joint economic efforts, few results have been achieved. Bilateral trade has continued to increase with limited change to its structure: Russia mostly sends its mineral resources to South Korea and receives industrial products in return. New ROK investment in the Russian Far East has yet to occur, despite South Korea's efforts to assist its businesses in finding profitable Russian projects. Seoul tried to convince Moscow that concluding a free trade agreement in the near future is necessary for intensified cooperation, but Russia prefers a more gradual approach to trade liberalization. Inter-Korean rapprochement in 2018 laid a foundation for further progress in the implementation of multilateral economic projects involving Russia if the international sanctions against North Korea were to be eased. Therefore, bilateral relations between Russia and the ROK can also be viewed from the perspective of promoting regional cooperation with North Korean participation.

Key Words: Russia, Republic of Korea, New Northern Policy, Russian Far East, economic cooperation

Introduction

Economic relations between Russia (then the Soviet Union) and the Republic of Korea (ROK or South Korea) were established in the late 1980s. Annual trade increased from less than \$1 billion

in 1992 to more than \$15 billion in 2007. The late 2000s saw a significant increase in the flow of Korean investment into Russia with major Korean companies (such as Samsung, Hyundai and Lotte) trying to increase their market share in Russia. In 2008, the leaders of Russia and the ROK declared a goal of elevating the level of bilateral relations to strategic partnership, which implied further expansion of economic cooperation. In the 2010s, Moscow started to pay more attention to the country's Far Eastern territories. Russia's plans for the development of its Pacific regions require closer cooperation with the neighboring states and generally correlate with South Korea's desire to expand ties with Eurasian countries. These coinciding interests create an important long-term prerequisite for deeper and more diversified economic interaction between the two countries.

The ROK's New Northern Policy, 9 Bridges and Their Relevance for Russia

The New Northern Policy was announced by South Korean President Moon Jae-in in Vladivostok during the 3rd Eastern Economic Forum in September 2017. The initiative is designed to boost cooperation between South Korea and its northern neighbors, including Russia, but it's not the first of its kind. At the end of the 1980s, South Korean President Roh Tae-woo initiated the original "Northern Policy." It resulted in the beginning of economic relations between South and North Korea, as well as the establishment of diplomatic relations between the ROK and the USSR in 1990 and the ROK and China in 1992. In this context, President Moon set ambitious goals for reviving inter-Korean dialogue and improving relations with Russia and other

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northern neighbors. As President Moon put it, cooperation with Russia is the prerequisite of South Korea's New Northern Policy.¹ Furthermore, the New Northern Policy (together with the New Southern Policy) is advertised as a tool to realize the New Economic Map for the Korean Peninsula,² which would let South Korea closely integrate with Eurasian countries.³

President Moon has encouraged Russia to push ahead with cooperation projects across nine key sectors, known as the 9-Bridge Strategy. Originally, the projects included "shipbuilding, ports, [the] North Pole Route, gas, railways, electricity, jobs, agriculture, [and] marine products."⁴ These areas are not new in the history of cooperation between the two countries, but their reiteration represents the ROK's continued interest in implementing projects in the Russian Far East. The elements of the 9-Bridges strategy, however, have changed slightly since their inception. The strategy currently envisions:⁵

- 1) importing more LNG from Russia and constructing a gas pipeline via North Korea in the future;
- 2) boosting transportation via the Trans-Siberian railway and connecting it with the Trans Korean railway in the future;
- 3) modernizing and constructing ports in the Far East (such as the Port of Zarubino);
- 4) building the Northeast Asian Super Grid to connect the ROK, China, Mongolia, Japan, and Russia, as well as sharing electricity from renewable energy sources;
- 5) developing the North Pole Route to promote its commercial use and preempting the Arctic Ocean market;
- 6) building ice-breaking LNG carriers for polar travel and constructing shipyards;
- 7) expanding ROK-Russia agricultural cooperation by engaging in seed development, cultivation technique research, etc.;
- 8) creating a marine product complex in Russia's Primorye province and expanding fishing quotas; and
- 9) creating an industrial complex in Primorye through ROK-North Korea-Russia cooperation.

The ROK established the Presidential Committee on Northern Economic Cooperation as the policy control center and communication channel of the 9-Bridge Strategy. It consists of five ex officio members (from the Ministry of Strategy and Finance, the Ministry of Foreign Affairs, the Ministry of Unification, the Ministry of Trade, Industry and Energy, plus the Economic Advisor

to the President) and 23 civilian members (related experts from academia, research institutes, public institutions, companies, legal circles, etc.).⁶ Song Young-gil, famous for his contribution to the development of Russian-South Korean relations, for which he was awarded Russia's Order of Friendship,⁷ became the first head of the committee. He was quite active in his position and strongly advocated that through the New Northern Policy, the ROK would be able to ease tensions on the Korean Peninsula by expanding economic ties with such countries as Russia and China.⁸ The first meeting of the committee in December 2017 set a goal to establish a blueprint for implementing mutually beneficial economic projects with Russia and develop necessary practical measures.

The presidential committee has tried to maintain active contact between the Blue House and Russia's Far East Development Ministry. New mechanisms were established to facilitate business and interregional cooperation. In November 2017, the Korea Trade and Investment Promotion Agency (KOTRA) opened the Korean Investor Support Centre in Vladivostok "for investors to call and obtain advice on how to implement their projects in Russia's Far East."⁹ The first Russia-Korea Interregional Forum was held in Pohang, South Korea, in November 2018. Representatives of nine Far Eastern Federal District regions, 17 regional governments from South Korea, and over 200 businesspeople, took part.¹⁰ This forum was conceived as a platform for personal contact between local governments and businesses to increase mutual awareness of local conditions and opportunities as well as to provide a place where regional investment projects could be discussed. The Second Russia-Korea Interregional Forum was held in Vladivostok, in September 2019.

In July 2018, the ROK became a partner country for the international industrial exhibition Innoprom-2018 "Digital Production," held in Yekaterinburg. Over 100 Korean enterprises of sizes various and fields—from engineering, automobile production and metal processing to the production of industrial equipment and consumer goods—participated in the event to search for partners in the Russian market.¹¹

Russia welcomes the northern-oriented diplomacy of South Korea because it needs peace at the border and is interested in more international cooperation for its Pacific territories. As President Putin said after the summit with President Moon in September 2017, Russia expects more ROK participation in large-scale infrastructure projects, such as modernization of ports and shipyards in the Far East, as well as joint development of the North Pole Route.¹²



The two governments also regularly discuss cooperation at the annual meetings of the Russia-Korea Joint Commission on Economic, Scientific and Technological Cooperation. It is headed by Yuri Trutnev, Deputy Prime Minister of Russia and Presidential Plenipotentiary Envoy to the Far Eastern Federal District, and Hong Nam-ki, Deputy Prime Minister and Minister of Economy and Finance of the Republic of Korea. The 18th meeting of the Joint Commission was held in Moscow on September 24, 2019, and the 9-Bridge Cooperation was included as a discrete agenda item.

Russian experts from the Far Eastern Federal University argue that at the current stage, gas and transportation projects have the most potential among the 9-Bridges.¹³ In particular, Seoul could diversify its gas import channels by purchasing more liquefied natural gas (LNG) from Russia. The volume of gas supply could be increased considerably, especially if the current plans to build an LNG plant near Vladivostok are implemented. In terms of transportation initiatives, South Korean participation in the Hasan-Rajin logistics project is viewed as a natural first step to connecting the Trans-Siberian and Trans-Korean railroads. Russia also welcomes the ROK's participation in the modernization of Far Eastern ports. However, according to local experts, there might be a conflict of interest with Chinese companies in developing the Port of Zarubino. If so, there is more potential for South Korean companies in developing the Port of Slavyanka.¹⁴

Russia also sees South Korean companies as promising partners in providing technological assistance to create a modern, large-scale shipyard in Primorye. In 2009, Russia's United Shipbuilding Corporation and Daewoo Shipbuilding & Marine Engineering established a joint venture on the base of the Zvezda shipyard at Bolshoy Kamen. However, the South Korean company withdrew from the project in 2012 citing the uncertainty surrounding

financing from the Russian side.¹⁵ Later on, a Rosneft-led consortium established Zvezda Shipbuilding Complex to locally produce heavy tonnage ships, elements of offshore platforms, ice-class vessels, special vessels, and other marine equipment. To achieve such an ambitious goal, Russia needs foreign technology and management expertise. In September 2019, Zvezda Shipyard and Samsung Heavy Industries announced the establishment of a joint venture to manage projects for the construction of 42,000-120,000 deadweight tonnage shuttle tankers. Samsung Heavy Industries is supposed to provide technical support for planning, management, and quality control; procurement of materials and equipment; as well as engineering and technical assistance for the construction of shuttle tankers at the Zvezda Shipbuilding Complex. The companies also concluded a contract for the design of gas-carriers for the Arctic LNG-2 project.¹⁶ So, once again, Russia is trying to rely on South Korean assistance in developing a shipbuilding cluster in the Far East.

Trade as the Backbone of Economic Relations and FTA Prospects

Trade has been the major form of Russia-ROK economic cooperation, but its structure lacks diversity. Russia sends its mineral resources mostly to South Korea and receives industrial products in return, which makes bilateral exchanges vulnerable in the face of economic downturns. The decrease in the two countries' external trade in 2015-2016 inevitably caused a decline in bilateral trade. However, since 2017, Russia's bilateral trade with the ROK has continued to grow year-on-year (Table 1). As a result, in 2018, South Korea took third place (after China and Turkey) among Russia's trading partners in Asia, accounting for 3.6% of total foreign trade.¹⁷ At the same time, trade with Russia accounts for 2.1% of the ROK's total trade.¹⁸

Table 1. Russia-ROK Trade in Goods in 2016-2018, Million USD

	2016	2017	2018
Russia's exports to the ROK	10,027	12,100	17,832
Russia's imports from the ROK	5,113	6,919	7,008
Russia's trade balance	4,913	5,181	10,823
Total trade	15,140	19,019	24,840

Source: Federal Customs Service of Russia - <http://customs.ru/statistic>



In September 2017, the leaders of the two countries set a goal of increasing bilateral trade to \$30 billion by 2020.¹⁹ This level looks quite achievable if continued growth in 2019 is considered. In the first 6 months of 2019, the trade volume between Russia and South Korea increased by 20%.²⁰ The structure of trade between Russia and Korea remains traditional. The most in-demand Russian goods in South Korea are still mineral products (82% of Russian exports to Korea in 2018) as well as fish and seafood (about 8% in 2018). In return, the ROK mainly sends Russia machinery, equipment, and vehicles (62% of Russian imports from Korea in 2018); chemical products (18,7%); and metals and metal products (9%).²¹

Russia enjoys a solid surplus in goods trade with South Korea. In 2018, the surplus exceeded \$10 billion. However, the situation is different in the trade of services, where Russia runs a deficit of about \$200 million (Table 2). In 2018, Russia's services exports to the ROK were mostly transportation, travel, and other business services. Russia mostly imported travel and transportation services, charges for the use of intellectual property, and maintenance and repair services.

Under President Moon, South Korea started to push for concluding a free trade agreement (FTA) with the Eurasian Economic Union (EEAU) as part of its efforts to expand economic

Table 2. Russia-ROK Trade in Services in 2016-2018, Million USD

	2016	2017	2018
Russian exports to the ROK	486	605	783
Russian imports from the ROK	788	874	987
Russian Trade balance	-302	-268	-204
Total trade in services	1,274	1,479	1,770

Source: Bank of Russia, External Trade of the Russian Federation in Services 2018. Moscow, 270-271, http://www.cbr.ru/collection/collection/file/23728/external_trade_in_services_2018.pdf

cooperation with Russia. The issue has been raised at Russia-ROK summits, but the progress in trade liberalization has been slow so far. The Russian side expressed concerns that the FTA format may allow South Korea to increase its exports to the EAEU countries on a much larger scale than can be done in the opposite direction. The industries in which production is localized, such as automobile manufacturing or the textile industry, are especially sensitive.²²

Unlike South Korea, which has a full-fledged strategy for concluding the FTA and a dedicated administrative apparatus for its implementation, Russia does not yet have such a strategy. Moreover, after the conclusion of an FTA with Vietnam, from which a large-scale influx of investment was expected, the Russian side seems to feel disappointed with the actual results. In this context, Moscow is unlikely to intensify efforts for trade liberalization until it sees significant investment from the South Korean side, or it receives reliable guarantees for expanding investment cooperation.²³

Seoul has a different position. South Korean companies are said to be interested in investment opportunities in Russia but have concerns about the local investment climate. And, as South Korean representatives assure Russian skeptics, the existence of

an FTA would allow Korean entrepreneurs to invest more safely in the Russian Far East and other EAEU countries. Therefore, from the ROK's perspective, it is important to first conclude an FTA and then wait for an influx of investment. This argument does not seem convincing enough for the Russian government. As a result, Russia and South Korea agreed in 2018 to start negotiations on an FTA only in the service and investment sectors. These negotiations have been officially underway since June 2019. In Seoul's view, the successful conclusion of this agreement could contribute to separate FTA talks with the EAEU, consisting of Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan.²⁴

Investment Cooperation and Main Obstacles to Expansion

Russia-Korea investment cooperation has been marked by stagnation in recent years. The ROK's direct investment into Russia grew rapidly in 2006-2009 (its annual flow exceeded \$300 million). Large-scale South Korean investments were attracted to Russia's automobile industry (for example, the Hyundai Motor Manufacturing Rus plant in St. Petersburg), electronic industry (the Samsung Electronics plant in the Kaluga Region and the LG plant in the Moscow Region),²⁵ food-processing industry (the Lotte Confectionary factory in the Kaluga Region²⁶ and the Doshirak factory in the Ryazan Region)²⁷ and construction and



service sectors (the Lotte Group investment in the construction of a hotel and business centers in Moscow).²⁸ However, since 2010, investment activity has sharply decreased and annual inflow fell below \$100 million in 2016-2017 (Table 3). According to the Bank of Russia, at the beginning of 2019, total inward direct investment from the ROK to Russia amounted to \$2.679 billion.²⁹ This figure is 0.69% of the ROK's total FDI outward stock and 0.66% of Russia's total FDI inward stock.³⁰ About 70% of that amount was invested in manufacturing, 16% in trade and repair of motor vehicles, 3% in financial and insurance activities, and 3% in agriculture, forestry and fishing.³¹

To boost Korean investment into Russia, the two countries have tried to set up a joint financial platform. In November 2013, during President Putin's visit to Seoul, the ROK's Eximbank and Russia's Vnesheconombank concluded a memorandum of cooperation to establish a \$1 billion investment platform to provide joint financial support for projects implemented in Russia, including projects in the Far East and Siberia. However, this mechanism has not yet been activated. Among the main reasons for this are sanctions imposed on Russia by the West, difficulties in finding profitable projects during a period of economic stagnation in Russia, and hypersensitivity of South Korean businesses to

Table 3. Direct Investment Flow from the Republic of Korea into Russia in 2016-2018

	2016	2017	2018
Flow, million USD	83	59	110

Source: Bank of Russia. Direct investments in the Russian Federation by partner countries (participation in capital, reinvestment of income and debt instruments) (in Russian) - https://cbk.ru/statistics/macro_itm/svs/

country-related risks (especially in the case of dealing with the Russian Far East and Siberia).³² In September 2017, President Moon offered to create a new \$2 billion financial platform for joint investment projects in the Far East and to expand consulting support to businesses.³³ As part of this initiative, Russia's Far East Development Fund signed a partnership agreement with the Export-Import Bank of Korea (KEXIM) and considered multiple forms of joint assistance for projects with participation by Korean investors.³⁴ However, the only example of KEXIM's recent funding for Far Eastern projects is a loan to the Lotte Group to acquire agricultural assets in Primorye.³⁵

The fishing industry has been seen as one of the most promising investment areas. Within the framework of the 9-Bridges, Russia and Korea have been discussing several options to create a fish-processing complex in Primorye. Initially a Korean consortium led by Korea Trading & Industries Co., Ltd., expressed willingness to invest about \$130 million in the construction of a complex at Cape Nazimova in Vladivostok. However, the Korean investors could not get the permit from the local administration and were offered an alternative location, Rakushka Bay in Primorye province,³⁶ which still awaits an agreement from investors.

South Korean companies have generally seen the economic situation in Russia as challenging but have kept working there. For example, in December 2018 Hyundai Motor Manufacturing Russia signed a Special Investment Contract with the Ministry of Industry and Trade of the Russian Federation and the

Government of Saint Petersburg. According to the agreement, the group will set up an R&D center and modernize its production in Saint Petersburg by investing about \$270 million until the end of 2027.³⁷ The company also announced plans to build an engine factory with an annual production capacity of 330,000 petrol engines in Saint Petersburg in October 2021. This would require additional investment of about \$200 million.³⁸

In mid-2018, the head of KOTRA's office in Moscow expected rapid growth of Korean investment into Russia to coincide with increased private sector interest. However, he also explained that among the biggest obstacles for broader cooperation were the volatile currency exchange rate, the language barrier, a lack of general information about Russia, as well as Western sanctions on Russia.³⁹ Russian experts add other difficulties to this list. They include conflicts of interest between some projects—such as possible competition between the North Korean port of Rajin and ports in Primorye province, as well as shipbuilding industries in Russia and South Korea—and examples of failed deals in the past—such as the sale of Hyundai's idle factory near Vladivostok and Daewoo Shipbuilding's withdrawal from an investment agreement with Zvezda shipyard.⁴⁰

Prospects for Russia-North Korea-South Korea Trilateral Cooperation

In June 2018, President Putin and President Moon agreed to intensify research in the railway, gas, and electric power spheres



to promote trilateral projects involving Russia, South Korea, and North Korea. These projects are crucial for the development of the Russian Far East and for building trust between South and North Korea.⁴¹ For many years, Russia and South Korea have been discussing large-scale initiatives, such as connecting the Trans-Siberian Railway and the Trans-Korean Railway, laying a gas pipeline from Russia through the DPRK to supply natural gas to the ROK, and supplying electricity from the Russian Far East to the Korean Peninsula. Although these projects are considered to be economically beneficial to all the participating states, their implementation has been hampered by the tense military and political situation on the Korean Peninsula, as well as by difficulties in reconciling the interests of all parties involved.

Inter-Korean rapprochement in 2018 laid a foundation for further progress in the implementation of multilateral economic projects involving Russia if the international sanctions against North Korea were eased. One of the first items on the agenda of the Presidential Committee on Northern Economic Cooperation was to study the possibilities for South Korea to join the Hasan-Rajin logistics project started by Russia and the DPRK. From 2013-2015, a consortium of South Korean companies consisting of the steel giant POSCO, the railway company Korail Corp., and the freight company Hyundai Merchant Marine Co., with the support of the ROK's government, considered the possibility of joining the Russian-North Korean transport project. Three successful trial shipments of coal from Russia via Rajin to South Korea were organized. According to preliminary estimates, South Koreans investment in the project could reach \$150-200 million. However, in early 2016, the Korean government announced the suspension of all negotiations on possible participation in multilateral projects with the DPRK due to a nuclear test by Pyongyang.⁴²

President Moon, with his New Economic Map of the Korean Peninsula, prioritized transportation cooperation with North Korea. The South Korean government even allocated some \$263 million in the budget for 2019 for the connection and modernization of inter-Korean railways and roads.⁴³ Pyongyang also expressed interest in this project, and it agreed to implement a joint on-site study of the DPRK's railroads and highways and to hold a ground-breaking ceremony at Panmun Station in Kaesong city in December 2018.⁴⁴ Despite such positive developments, 2019 brought a new deadlock in the US-North Korea dialogue, as well as an end to inter-Korean exchanges.

The Russian side had some hope about South Korea joining the Hasan-Rajin logistics project on the wave of inter-Korean rapprochement in 2018, since it is one of the very few economic initiatives excluded from the UN Security Council sanctions against North Korea. Russian companies have also been very interested in supplying electricity to the Korean Peninsula within the framework of trilateral cooperation. This project would require constructing new power plants in the Russian Far East which could further contribute to the development of Russia's Pacific territories. However, the unsolved nuclear issue on the Korean Peninsula as well as international economic sanctions against North Korea (including Seoul's unilateral sanctions) continue to stall all multilateral initiatives.

Conclusion

Since President Moon prioritized relations with Russia in his New Northern Policy, the two countries have made special efforts to advance bilateral cooperation. High-level contacts have intensified and working level meetings have become more diversified and goal-oriented. However, after inter-Korean exchanges stopped in 2019, the Russia-oriented diplomacy of the ROK has also started to show signs of decline.

Two years after the establishment of a special presidential committee tasked with planning and coordinating joint efforts in the economic sphere, few results have been achieved. Bilateral trade continues its revival, though, with almost no changes to its structure. New ROK investment in the Russian Far East has not yet happened, despite South Korea's efforts to assist its businesses in finding profitable Russian projects.

The most serious obstacles for economic relations are the sanctions imposed on Russia by the U.S. and the North Korean nuclear problem. According to some South Korean experts, if the West does not ease economic sanctions against Russia, bilateral economic cooperation will not yield substantial results.⁴⁵ Moreover, some of the projects announced among the 9-Bridgesplan—such as the gas pipeline construction, connection of railways, and attracting North Korean labor to work in an industrial complex in Russia's Primorye province—require inter-Korean reconciliation and at least partial relief of the UNSC sanctions on North Korea.⁴⁶

A deeper analysis also shows problems with finding mutually beneficial projects that can be implemented quickly and



without governmental assistance. In September 2017, President Moon compared the newly launched Presidential Committee on Northern Economic Cooperation with Russia's Far East Development Ministry in its role in establishing a state system for cooperation in developing the Far East. However, the committee functions more as an advisory organ because it has very few permanent staff and does not have the power to enforce its decisions. Moreover, after Song Young-gil stepped down from his Chairman position in July 2018, the activity of this special body subsided.

At the same time, Moscow's primary goal in developing the Far Eastern regions is to provide a comfortable social and economic environment that retains and attracts the Russian population. This goal creates opportunities for broader economic cooperation with the ROK. Joint projects in areas such as agriculture—based on the abundance of land in the Russian Far East and the ROK's needs for food imports such as soybeans—the tourism and service sector, plus medicine and healthcare, could create new jobs for Russians and improve the local standard of living.

Ever since Russia and South Korea introduced a visa-free entry program (for up to 60 days) in 2014, the number of tourists has risen considerably. Vladivostok is now a popular weekend tour destination for Koreans. In 2017, 232,000 Korean tourists visited Russia, 30% more than in 2016. In 2018, the number of tourists from the ROK increased by 44.8%, totaling 342,300 people.⁴⁷ 245,600 of the South Korean tourists visited Primorye province, representing 72% of all South Koreans visiting Russia last year.⁴⁸

Such an increase of Korean tourists to the Russian Far East requires developing local tourism infrastructure, and pushing for more investment into the service sector.

The number of Russian tourists in South Korea has also been growing, exceeding 302,000 people in 2018.⁴⁹ South Korea has been a popular medical tourism destination for Russian citizens from the Far Eastern regions. Russia has also been interested in increasing cooperation with the ROK in the healthcare sector, especially to improve medical services and infrastructure, initially through digital healthcare. For example, in December 2017, KT Corp., a leading Korean mobile provider, and Russian Railways signed a memorandum of understanding to jointly develop a mobile diagnostic solution for primary care at medical centers in Russian rail stations as well as on trans-Siberian trains.⁵⁰ In 2018, Far Eastern Federal University and Pusan National University Hospital signed a cooperation agreement to jointly develop telemedicine in Primorye province.⁵¹

Increasing people-to-people exchanges and expanding the number of areas of cooperation between Russia and South Korea broadens the opportunities for the two countries to turn their strategic partnership into a reality, at least in the economic sphere. Russia and the ROK will celebrate their 30th anniversary of diplomatic relations in 2020, and although not all of the 9-Bridges have been “constructed” since the strategy’s announcement, people-led cooperation with certain government support has created new connections and growth engines for the well-being of the Russian and Korean population.

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