



33 / 2020

# Russia and South Korea: Ways to Develop Economic Partnership



Russian International  
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## Russia and South Korea: Ways to Develop Economic Partnership

On September 30, 2020, the Russian Federation and the Republic of Korea celebrated the 30<sup>th</sup> anniversary of establishing diplomatic relations. This is a good occasion to look back at the achievements, taking into account miscalculations and problems in bilateral cooperation, as well as to assess the prospects for further collaboration.

*An objective look at the journey the two countries have travelled over these years shows that the Moscow–Seoul dialogue has demonstrated generally positive dynamics largely because the two states have no major political contradictions and their economies complement each other.*

At the same time, the results achieved cannot be considered satisfactory since they do not fully reflect the two states' potential and capabilities. This study provides an analysis of the results of economic cooperation between Russia and South Korea, identifies untapped resources, assesses prospects and elaborates proposals for making collaboration more efficient.

### The Dynamics of the Moscow–Seoul Economic Dialogue

Historically speaking, thirty years is a short period, yet the two states have achieved signifi-

cant economic results in their cooperation. Trade relations have been developing in the most dynamic way. In particular, in 2010–2019, the trade turnover has grown by 40 per cent, and it should be noted that Russia has consistently had a trade surplus (*Table 1*).

The achievements include relatively high dynamics of the Russia–South Korea trade and growth in overall trade volume, which is particularly evident when compared with Russia's similar interaction with Japan and some European states. At the same time, the trade turnover demonstrates significant fluctuations and relative instability, as well as vulnerability to the volatility of the global market and political confrontation between its leading actors. Whereas prior to 2014 the Russia–South Korea trade turnover exhibited stable growth, after Western countries and their allies imposed sanctions on Russia, it fell significantly and generally rebounded only in 2019. In 2020, owing to the pandemic, it is unlikely to reach its intended level of \$30 billion.

In January–June 2020, Russia's trade turnover with South Korea fell by 27.03 per cent in comparison with the same period of 2019 – to \$9.29 billion. Russia's exports totaled \$6.3 billion, which is 27.73 per cent less than in 2019, while the imports from South Korea fell by 25.51 per cent to \$2.99 billion. In January–June 2020, South Korea's share in Russia's foreign trade turnover

**TABLE 1. RUSSIA–SOUTH KOREA TRADE IN 2010 – JANUARY–JUNE 2020, \$ BILLION**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	January–June 2020
Turnover	17.73	24.98	24.88	25.18	27.31	18.06	15.14	19.28	24.84	24.36	9.29
Export	10.44	13.39	13.89	14.87	18.29	13.5	10.03	12.35	17.83	16.36	6.3
Import	7.29	11.59	10.99	10.31	9.02	4.56	5.11	6.93	7.01	8.00	2.99
Balance	3.15	1.8	2.9	4.56	9.27	8.94	4.92	5.42	10.82	8.36	3.31

Source: compiled by the authors using data from: Summary of Foreign Trade with Principal Countries // Russia's Federal Customs Service. URL: <http://customs.gov.ru/folder/51>

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was 3.52 per cent compared to 4.01 per cent in January–June 2019. South Korea had the eighth biggest share in Russia’s trade turnover in early 2020, while it had the sixth biggest share the year before.

In January–June of both 2020 and 2019, Russia’s exports to South Korea were dominated by mineral products (79.93 per cent); foodstuffs and agricultural raw materials accounted for 11.28 per cent, while metals and metal goods – for 4.33 per cent.<sup>1</sup>

*Although there are certain achievements in the dynamics of the bilateral trade, it remains virtually unchanged from the qualitative point of view.*

Over the 30 years, the structure of the mutual trade turnover has not been significantly improved. Russian exports are still dominated by raw materials or goods with a low added value. Engineering products, equipment, vehicles, chemical goods, metals and metal goods, foodstuffs and agricultural raw materials, etc. account for over 60 per cent of the Russian imports.

Expectations to develop in-depth cooperation and increase South Korean investment into the Russian economy also fell through. Investment collaboration appears to be the least productive. South Korea’s overall direct investment in Russia’s economy has been a little over \$3 billion, even though the South Korean authorities have repeatedly declared their inter-

est in large-scale projects in Russia. The modest achievements in the area contrast particularly vividly with South Korea’s direct investment in other partner states, such as China, the US, Vietnam, etc. (Table 2). Naturally, we need to take into account that South Korea has its own economic interests in each of these states; these interests give South Korea advantages and benefits, probably exceeding those in Russia. Apart from this, we should note the political factor: South Korea’s ties to the US, China and Europe and the role of unilateral sanctions imposed on Russia, which have been restricting bilateral cooperation for the last five years.

With the sanctions in place, it is, of course, hard to both expand the volume and diversify the forms of cooperation but, if the two states remain interested in each other, they can develop ties in sectors not affected by the sanctions. In this regard, it appears particularly promising to concentrate on areas where small- and medium-sized enterprises and venture companies operate. Special attention should be paid to manufacturing and distributing cosmetics, medical tourism, telemedicine, online education and other areas.

Simultaneously, Russia’s FDI into South Korea is small and totaled only \$6 million in 2018 (Table 3).

Thus, FDI flows between the two states are insignificant – they are several-fold smaller than those with other countries. Additionally, South Korean investment is clearly skewed by sector: the country principally invests in processing industry, followed by wholesale, retail and vehicle repairs,

**TABLE 2. SOUTH KOREA’S FDI BY COUNTRY IN 2013–2018, \$ MILLION**

Recipient state	2013	2014	2015	2016	2017	2018
US	4,129.1	5,344.9	4,263.9	9,100.3	13,437.9	7,490.7
China	10,936.7	4,337.3	3,725.9	6,271.3	5,891.8	6,305.2
Vietnam	1,124.0	1,315.9	1,126.8	2,295.6	3,339.7	4,353.6
Singapore	1,339.2	1,470.3	1,987.0	1,840.8	2,704.7	2,362.4
Japan	850.4	506.1	1,469.3	181.2	524.1	779.6
Australia	2,351.2	1,441.4	679.9	817.6	-715.4	485.9
Russia	310.9	-857.9	18.0	687.4	513.3	461.6

Source: compiled by the authors using data from: OECD Stat. URL: <https://stats.oecd.org/>

<sup>1</sup> Russia’s Foreign Trade with the Republic of Korea (South Korea) in January–June 2020 // Russia’s Foreign Trade. August 14, 2020. URL: <https://en.russian-trade.com/reports-and-reviews/2020-08/russian-trade-in-goods-with-south-korea-in-q2-2020/>

**TABLE 3. FDI INTO SOUTH KOREA IN 2015–2018 BY COUNTRY, \$ MILLION**

Donor	2015	2016	2017	2018
The world	3,076	7,415	12,699	13,299
USA	826	1,055	1,245	2,009
Australia	6	2	34	2,004
Singapore	354	412	1,008	1,431
Malta	557	427	1,405	1,395
Spain	38	50	7	1,390
Japan	652	1,073	1,354	1,055
Hong Kong	353	312	1,195	932
China	107	347	148	758
France	2	387	56	636
Oman	8	11	20	78
Switzerland	254	401	186	26
Italy	38	68	61	23
Malaysia	-76	-67	143	15
Russia	0	0	2	6

Source: compiled by the authors using data from: OECD Stat. URL: <https://stats.oecd.org/>

where investment is almost five times smaller (Table 4).

This structure of South Korea's investment into Russia only partially reflects the interest in long-term cooperation. Primarily, big South Korean businesses do not want to burden themselves with what they see as risky long-term investment in Russia's processing industry projects and infrastructural initiatives.

### **COVID-19 and the Prospects for Developing Russia–South Korea Economic Interaction**

While analyzing the principal miscalculations in Russia–South Korea's cooperation, proceeding from 30 years of experience and especially from the problems that are currently slowing this collaboration down, the following should be emphasized.

First, it is hard to neglect the fact that the bilateral agenda is highly politicized. Whereas previously, in the 1990s and the early 2000s, political context had virtually no impact on the two states' relations and was largely determined by South

**TABLE 4. SOUTH KOREA'S INVESTMENT IN RUSSIA BY SECTOR IN 2019, \$ MILLION**

Area	Volume
Processing industry	2,539
Wholesale and retail, vehicle repairs	591
Real estate transactions	126
Agriculture, forestry, fishing	125
Financial and insurance business	102
Construction	67
Transportation and storage	41
Mining and open mining	22
Professional, scientific, and technical services	15

Source: compiled by the authors using data from: External Sector Statistics // Bank of Russia. URL: [https://cbr.ru/eng/statistics/macro\\_itm/svs/](https://cbr.ru/eng/statistics/macro_itm/svs/)

Korea's desire to involve Russia in resolving the Korean problem, since the mid-2010s, after Russia's reunification with Crimea, even Korean experts acknowledge the ever-growing politicization of the two states' relations. Although South Korea has not officially joined the sanctions against Russia, its allied relations with the US and Japan make South Korea heed the "big brother's" instructions and hinder implementation of mutually advantageous projects with Russia.

Second, despite the complementarity of the two states' economies, they failed to develop a general vision of their cooperation goals at its early stages, so the subsequent development has not been strategized as well.

Third, these uncertainty and anarchy amidst political and economic instability in both states in the 1990s led to general disappointment in the results achieved, while the erroneous perception of each other as troubled partners became entrenched.

Fourth, the competition from other states is growing and has produced a certain cooling in bilateral relations. South Korea is engaged in collaboration with China and East Asia, while Russia has traditionally been primarily involved in the Western economic system.

Fifth, the global crises of 1997–1998 and 2008–2009 had negative consequences for both states' economies. Those crises naturally affected the scale of cooperation and were not conducive to finding prospects for a breakthrough in Russia–South Korea cooperation compared to South Korea's experience with China or Vietnam.

Sixth, the "pivot to the East", a economic policy proposed by Russia's President Vladimir Putin, initially boosted interest among South Korean

businesses, yet has not produced any real spikes in South Korean capital's participation in major projects in the Russian Far East.

Seventh, given the pressure of international sanctions and the unresolved Korean problem, it is hard to expect other, more optimistic results in Russia–South Korea relations. The current pandemic is further exacerbating the situation.

Consequently, Russia – South Korea economic cooperation today (2015–2020) is under pressure from the two contradictory trends. On the one hand, both states stress the importance of developing economic partnership; top level contacts continue; a ramified legal framework for bilateral cooperation has been established and is working: over 50 agreements have been concluded on trade, investment guarantees, fishing, avoiding double taxation, military-technical cooperation and peaceful use of nuclear power, cultural exchanges, etc.<sup>2</sup>

On the other hand, the bilateral economic partnership has not been delivering any significant breakthroughs and the situation was exacerbated when virtually all economies throughout the world faced the global "foe" of COVID-19.

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*The pressing issue now is how Russia and South Korea will build their economic relations in the post-virus economy, taking into account their accumulated experience, growing sanctions pressure and increasingly protectionist regimes.*

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What are the prospects for expanding their mutually advantageous partnership in medicine, tourism, joint research in chemistry and in the nuclear area, in auto- and consumer goods manufacturing, and in other spheres?

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<sup>2</sup> See, for instance: Bilateral Agreements // Ministry of Foreign Affairs of the Russian Federation. URL: [https://www.mid.ru/foreign\\_policy/international\\_contracts/2\\_contract/-/storage-viewer/bilateral](https://www.mid.ru/foreign_policy/international_contracts/2_contract/-/storage-viewer/bilateral) (in Russian); Agreement between the Government of the USSR and the Government of the Republic of Korea on Encouraging and Mutually Protecting Capital Investment // Ministry for Economic Development of the Russian Federation. URL: [https://economy.gov.ru/material/departments/d11/investicionnye\\_soglasheniya/perechen\\_soglasheniy\\_mezhdu\\_pravitelstvom\\_rf\\_i\\_pravitelstvami\\_inostrannyh\\_gosudarstv\\_o\\_pooshchrenii\\_vzaimnoy\\_zashchite\\_kapitalovlozheniy/](https://economy.gov.ru/material/departments/d11/investicionnye_soglasheniya/perechen_soglasheniy_mezhdu_pravitelstvom_rf_i_pravitelstvami_inostrannyh_gosudarstv_o_pooshchrenii_vzaimnoy_zashchite_kapitalovlozheniy/) (in Russian); Agreement between the Government of the Russian Federation and the Government of the Republic of Korea on Cooperation in Preventing Illegal, Unregistered, and Unregulated Harvesting of Living Marine Resources // E-Library of Legal and Normative Documents. URL: <http://docs.cntd.ru/document/902237593> (in Russian); The Convention between the Government of the Russian Federation and the Government of the Republic of Korea For the Avoidance of Double Taxation with Respect to Income Taxes // ConsultantPlus. URL: [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_10201/](http://www.consultant.ru/document/cons_doc_LAW_10201/) (in Russian); Agreement between the Government of the Russian Federation and the Government of the Republic of Korea on Preventing Dangerous Military Activities // Seichas.ru. URL: <https://www.lawmix.ru/abro/2746> (in Russian); Agreement between the Government of the Russian Federation and the Government of the Republic of Korea on Cooperation in Mutual Protection of Classified Military Information // E-Library of Legal and Normative Documents. URL: <http://docs.cntd.ru/document/901894774> (in Russian); Agreement between the Government of the Russian Federation and the Government of the Republic of Korea on Cooperation in Peaceful Use of Nuclear Energy // E-Library of Legal and Normative Documents. URL: <http://docs.cntd.ru/document/901930086> (in Russian); Agreement between the Government of the Russian Federation and the Government of the Republic of Korea on Cultural Cooperation // E-Library of Legal and Normative Documents. URL: <http://docs.cntd.ru/document/902395151> (in Russian)

Regular contacts at the top level play an important role in developing bilateral cooperation. On June 21–23, 2018, South Korea's President Moon Jae-in paid an official visit to Russia. Following the negotiations the parties adopted a Joint Statement of the Russian Federation and the Republic of Korea and signed several inter-agency and corporate documents.<sup>3</sup> During the visit the presidents agreed to mark the 30<sup>th</sup> anniversary of diplomatic relations by declaring 2020 the Year of Mutual Exchanges. A large-scale plan was developed with over 300 anniversary events in all areas, including the economy, culture and youth exchanges.<sup>4</sup> However, the new reality forced both states to revise downwards all forecasts for their economic development, implementation of forward-looking projects and further trade expansion. Moreover, owing to the pandemic, Russia and South Korea switched their political, cultural, tourist and business contacts into an online mode, leading to decreased cooperation in all areas. In particular, on March 27, 2020 all regular flights between Russia and South Korea were suspended, which slowed down the positive tourist flow dynamics.<sup>5</sup>

In the meantime, both Russia and South Korea have untapped capabilities for expanding and deepening their trade and economic ties even under the COVID-19 pandemic. For instance, in the current situation, South Korea has succeeded in swiftly re-shaping its export and trade flows. In particular, exports of hand disinfectants, COVID-19 test kits, and medical equipment have risen sharply. All in all, over 120 countries have been eager to purchase South Korean test kits or receive them as humanitarian aid.<sup>6</sup> Given the new reality, South Korea is actively developing its pharmaceutical sector, online education, paid online content and online trade in consumer goods. In that respect, there is a long-standing need to more actively

promote Russian-made goods in South Korea via online platforms, social networks, and vlogs. Increasing cooperation in medicine and joint vaccine development also appears promising.

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*Despite the COVID-19 pandemic, South Korea retains significant interest in Russia's domestic market due to its high capacity, free niches, promising consumer demand and Russian consumer loyalty to South Korean brands.*

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Despite all external factors, including political ones, winning and holding its current positions on the Russian market remains a principal objective for South Korean businesses. South Korean companies are predicted to continue working in Russia during the pandemic. While South Korean exports are falling almost across the board and the performance of its leading companies is deteriorating, there remains a stable demand for South Korean goods in Russia. So, despite the pandemic, South Korea's biggest players, such as Lotte, Hyundai, Orion Group and Samsung, continue working in Russia. For instance, Lotte has already built the Lotte Confectionery plant in the Kaluga Region (\$100 million in investment) and the Lotte hotel in Moscow (\$350 million in investment).<sup>7</sup> In 2019 Lotte signed an agreement with the Far East Investment and Export Agency on financing construction of a livestock breeding complex for 2,200 animals and a dairy plant in Primorye worth \$1.9 billion.<sup>8</sup> According to its own 2017 estimates, Lotte had invested over \$2 billion in Russia.<sup>9</sup>

Hyundai is keeping up with Lotte. In June, 2020 Hyundai WIA Rus held an official ceremony launching construction of an engine plant with a declared production capacity of 240,000 1600 cc engines. This project is being implemented under a Special Investment Contract from Decem-

<sup>3</sup> Press statements following Russia–South Korea talks // President of Russia. June 22, 2018. URL: <http://en.kremlin.ru/events/president/news/57838>

<sup>4</sup> Yershova, A. Russia – the Republic of Korea: 30 Years of Diplomatic Relations // International Affairs. April 7, 2020. URL: <https://interaffairs.ru/news/show/25910> (in Russian)

<sup>5</sup> Decisions Adopted Following the Meeting of the Presidium of the Government Coordination Council to Control the Incidence of the Novel Coronavirus Infection in the Russian Federation // Government of Russia. March 26, 2020. URL: <http://government.ru/en/news/39277/>

<sup>6</sup> South Korean Exports under the COVID-19 Pandemic // KBS World Radio. April 13, 2020. URL: [http://world.kbs.co.kr/service/contents\\_view.htm?lang=r&menu\\_cate=business&id=&board\\_seq=382828&page=2&board\\_code=](http://world.kbs.co.kr/service/contents_view.htm?lang=r&menu_cate=business&id=&board_seq=382828&page=2&board_code=) (in Russian)

<sup>7</sup> Top Korean Investments in Russia // Russian-Asian Union of Industrialists and Entrepreneurs. March 5, 2020. URL: [http://raspp.ru/business\\_news/top-korean-investments-in-russia/](http://raspp.ru/business_news/top-korean-investments-in-russia/) (in Russian)

<sup>8</sup> Five Large Agreements Worth RUB 400 billion. Signed on the First Day of the EEF // Far East Investment and Export Agency. September 11, 2019. URL: <https://www.investvostok.ru/news/2537/> (in Russian)

<sup>9</sup> "Lotte Invested Over \$2 billion in Russia" // Vedomosti. December 24, 2017. URL: <https://www.vedomosti.ru/business/characters/2017/12/24/746335-investitsii-lotte> (in Russian)

ber, 2018. Under this agreement, South Korea’s Hyundai Motors has committed to increasing its share of localized car production at its Russian plant.<sup>10</sup>

It is interesting to note that during the pandemic, South Korean companies have recorded increased domestic and international sales of instant foods, snacks, freeze-dried noodles, i.e., foods in increased demand among consumers in lockdown. In particular, Orion Group, which has been successfully working on the Russian market since 1993, announced that its domestic sales had grown by 17.3 per cent in January–June 2020, while the operating profits of its foreign branches had grown by 17 per cent, including Russia, China and Vietnam.<sup>11</sup> At the same time, Orion Group is continuing to expand its activities in Russia and is now launching the construction of a new confectionery plant in the Tver Region, with planned investment of \$67.5 million. At the first stage, the

plan entails bringing eight production lines into operation, manufacturing different types of confectionery products by 2022.<sup>12</sup> This is not the first Orion Group investment project in Tver: the company’s first plant, with a capacity of up to 7,000 confectionery items a year, went into operation in 2006 (\$40 million in investment). The company created over 330 jobs.<sup>13</sup>

### “Nine Bridges”: The Potential for Using the Two States’ Economic Complementarity to Implement Joint Projects

South Korea’s President Moon Jae-in has proposed a “New Northern Policy” for developing ties with the so-called Northern states, primarily Russia. Prior to that, a “Northern policy” was proposed by President Roh Tae-woo in the late 1980s. His policy launched economic relations

**TABLE 5. HISTORY OF THE “NORTHERN POLICY” OF SOUTH KOREA’S GOVERNMENT**

President	Principal area	Concept
Roh Tae-woo (1988–1993)	Establishing diplomatic relations with the USSR	Northern Policy
Kim Young-sam (1993–1998)	Promoting diplomatic relations with northern countries	Globalization policy
Kim Dae-jung (1998–2003)	Bolstering friendly relations with Russia in order to establish peace on the Korean peninsula	“Sunshine Policy”
Roh Moo-hyun (2003–2008)	Maintaining friendly relations with Russia	Policy for Peace and Prosperity
Lee Myung-bak (2008–2013)	Promoting imports of energy sources and a pipeline from Russia to South Korea via North Korea	Resource diplomacy
Park Geun-hye (2013–2017)	Expanding cooperation with Eurasian states	Eurasian Initiative
Moon Jae-In (since 2017)	Expanding Eurasian economic cooperation, establishing a Committee on Northern Economic Cooperation	New Northern Policy

Source: Kim Y. Foreign policy of the Russian Federation and the Republic of Korea: prospects for digital economic cooperation // Russian Foreign Economic Journal. 2020 (4). P. 108. (in Russian)

<sup>10</sup> An Official Ceremony Launching Construction of a Hyundai WIA Rus Engine Plant Was Held in St. Petersburg // Hyundai. June 30, 2020. URL: <https://www.hyundai.ru/news/v-sankt-peterburge-sostoyalas-torzhestvennaya-ceremoniya-nachala-stroitelstva-zavoda-dvigatelj-kompanii-hyundai-wia-rus> (in Russian)

<sup>11</sup> Food companies see massive growth in the wake of COVID-19 // The Korea Herald. August 19, 2020. URL: [http://www.koreaherald.com/view.php?ud=20200819000690&ACE\\_SEARCH=1](http://www.koreaherald.com/view.php?ud=20200819000690&ACE_SEARCH=1)

<sup>12</sup> S. Korean snack firm Orion to build new plant in Russia // The Korea Herald. September 10, 2020. URL: [http://www.koreaherald.com/view.php?ud=20200910000757&ACE\\_SEARCH=1](http://www.koreaherald.com/view.php?ud=20200910000757&ACE_SEARCH=1)

<sup>13</sup> A Foundation Stone was laid in a Tver Suburb on the Site of the Future Confectionery Plant of a Famous Korean Company // Komsomolskaya Pravda. September 6, 2020. URL: <https://www.tver.kp.ru/online/news/4007340/> (in Russian)



between the North and the South and also resulted in establishing diplomatic relations between the Republic of Korea and the USSR (1990) and the Republic of Korea and the People's Republic of China (1992) (Table 5).

The current South Korean President is, thus, setting himself the ambitious tasks of restarting the inter-Korean dialogue, exchanges and cooperation, and of significantly improving relations with Russia. At the 2017 Eastern Economic Forum in Vladivostok, Moon Jae-in proposed building the so-called "Nine Bridges" between South Korea and Russia. The initiative envisions collaboration as regards railways, seaports, energy, natural gas, Arctic navigation, shipbuilding, agriculture, fishing, building industrial complexes, the environment, education and healthcare. Joint projects include linking a cross-border inter-Korean railway line with the Trans-Siberian Railway, as well as establishing the energy system that would link Russia's power grid with the power grid of Northeast Asia, including South Korea, China and Japan. A more global objective is to create a Eurasian economic community based on Russia – South Korea cooperation.<sup>14</sup>

Accordingly, South Korea and Russia signed a "Nine Bridges" cooperation plan in 2019.<sup>15</sup> None of the cooperation areas that South Korea's President listed in his speech is new to the development of Russia–South Korea interaction; they all fit naturally into Russia's vision of effective cooperation either with South Korea, or among Russia, South Korea and North Korea.

## Possibilities for Expanding Bilateral Collaboration in the Russian Far East

Given the active economic growth of the Asia Pacific states and Russia's pivot to the East, the Far Eastern Federal District is being developed at an accelerated pace. Regional development is based on the Strategy of Social and Economic Development of the Far East and Baikal Region for Period up to 2025, approved in 2009. The Federal Target Program "Economic and Social

Development of the Far East and the Baikal Region up to 2018" is one of the principal instruments for implementing this strategy. This document focuses, in particular, on improving the transport and energy infrastructure in the macro-region as a prerequisite for the economic rise of its resource-based and non-resource-based sectors.<sup>16</sup> Russia's industrial development strategy is geared toward solidifying and modernizing manufacturing capabilities. By creating new development institutions and "growth points", such as Advanced Special Economic Zones (ASEZs) and Free Port of Vladivostok, the Russian government is striving to attract investment and boost exports.

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*Participation of South Korean businesses in projects in the Russian Far East is important for Russia. So far, South Korean investors are clearly lagging behind Chinese and Japanese companies.*

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Yet, since Moon Jae-in became President, South Korea has become significantly more active in discussing potential projects. The two states hold regular meetings and events; in particular, there is the Russia–Republic of Korea Subcommittee on the Far East and Siberia, which held its 13<sup>th</sup> meeting in 2019 in South Korea. The meeting made it clear that South Korean investors were particularly interested in the international medical cluster project that is currently being developed by the Russian Ministry for Development of the Russian Far East and Arctic and in an industrial park being built in the Primorye Territory by HL Corp. The number of South Korean companies working in the Russian Far East is rising steadily: 25 in 2017, 34 in 2018 and 48 in 2019.<sup>17</sup>

ASEZs appear to bolster investment activities in the Russian Far East as they offer their residents major tax benefits. Today 20 ASEZs throughout the Far Eastern Federal District are implementing investment projects in various economic sectors, such as residential construction, logistics, engineering, tourism, medicine and agriculture.

<sup>14</sup> The "Nine Bridges" in Russia–South Korea Cooperation Launched in Primorye // PrimaMedia.ru. June 6, 2019. URL: <https://primamedia.ru/news/819576/> (in Russian)

<sup>15</sup> Korea–Russia Joint Project // Yonhap News Agency. February 13, 2019. URL: <https://en.yna.co.kr/view/PYH20190213163600341>

<sup>16</sup> Far East Development Strategy and Programs // Investment Portal of the Far Eastern Federal District. URL: <https://invest.minvr.ru/en/pages/60>

<sup>17</sup> 13th Meeting of Russia–Republic of Korea Subcommittee on the Far East and Siberia Held in Seoul // Russia's Ministry for Development of Russian Far East and Arctic. December 18, 2019. URL: [https://minvr.gov.ru/press-center/news/24081/?sphrase\\_id=1471421](https://minvr.gov.ru/press-center/news/24081/?sphrase_id=1471421) (in Russian)

Currently South Koreans are particularly interested in Nadezhdinskaya, Mikhailovsky and Khabarovsk ASEZs, Free Port of Vladivostok and Zarubino port, in developing the shipbuilding cluster, the Northern Sea Route, and implementing agricultural projects in Primorye. Today, South Korean capital is participating in 11 projects in Priority Special Economic Development Areas and Free Port of Vladivostok; these projects are worth \$123 million total, which is about 4.3 per cent of the foreign investment that the Russian Far East has attracted over the last four years.<sup>18</sup>

Modernizing transport infrastructure, particularly the port and logistics network in the Russian Far East with regard to the commercialization of the Northern Sea Route, appears to be a necessary condition for expanding investment partnership. For that purpose it is highly important to create, stage by stage, an international intermodal transport system spanning the key ports linked with continental logistical centers and delivery points for goods to Eurasia. In turn, South Korean companies are interested in taking part in modernizing Russian ports in the Far East and developing logistics as part of exploring the Northern Sea Route.<sup>19</sup>

Tourism is a promising area for the partnership in the Russian Far East. The number of South Koreans visiting the region is growing steadily.<sup>20</sup> Once the COVID-19 pandemic comes to an end, South Korean tourists will only become more interested in travelling here. Infrastructure development will be conducive to bolstering this interest. In particular, by 2021 South Korea's Hanchang Ferry Cruise plans to launch a new ferry route between Slavyanka, Vladivostok, Sokcho (South Korea) and Hokkaido (Japan). The vessel will carry up to 450 passengers and 200 freight containers. In Russia, this project is supported by the Far East Investment and Export Agency.<sup>21</sup>

## Recommendations for developing Russia–South Korea economic cooperation

The following applies to both short- and long-term prospects of Russia – South Korea economic cooperation. In the near future, trade turnover will grow slowly owing both to the pandemic and to the limited list of goods unaffected by the sanctions. Additionally, even without the sanctions, South Korean investors have exhibited a waning interest in large-scale global projects requiring long-term investment and in major mining projects. Even if they are interested in such projects, then mostly as suppliers of equipment and services. Investment plans once announced to great fanfare are not being implemented; South Korean business people are in no hurry to work in ASEZs, they claim they first need to make a thorough assessment of the projects. South Korea is willing to engage in negotiations, announces its interest, but is not, so far, taking any specific steps.

In 2022, South Korea plans to launch a Global Infrastructure Fund to support South Korean projects in Russia, Mongolia, CIS countries and Eastern Europe. Once in full capacity, this fund could help boost South Korean investment. It is expected to support projects in transport, energy, water resources and development of hi-tech “smart” infrastructure facilities in Far Eastern regions.<sup>22</sup>

In 2013, the Russian Direct Investment Fund and the Korea Investment Corporation (KIC) signed a memorandum on establishing an investment platform.<sup>23</sup> Once fully operational, it will most likely promote a greater investment inflow from South Korea to Russia. Additionally, the investment platform might give a new impetus to large-scale projects that are currently idling. It also applies to cooperation in energy sector,

<sup>18</sup> 13<sup>th</sup> Meeting of Russia–Republic of Korea Subcommittee on the Far East and Siberia Held in Seoul // Russia's Ministry for Development of Russian Far East and Arctic. December 18, 2019. URL: [https://minvr.gov.ru/press-center/news/24081/?sphrase\\_id=1471421](https://minvr.gov.ru/press-center/news/24081/?sphrase_id=1471421) (in Russian)

<sup>19</sup> Suslina, S.S., Zakhharova, L.V. Russia-South Korean Economic Cooperation and President Moon Jae-in's “New Northern Policy” // Asia and Africa Today. 2018 (6). P. 32. (in Russian)

<sup>20</sup> For instance, in 2017–2018, the tourist flow from South Korea to Primorye doubled annually while, in 2019, the tourist flow grew by 35 per cent. Tourism Business Plans to Make Money on the Growing Inbound Foreign Tourism in Primorye // Association of Tour Operators of Russia. November 6, 2020. URL: <https://www.atorus.ru/news/press-centre/new/49238.html> (in Russian); Inbound Foreign Tourism Increases in Primorye // The East of Russia Information and Analytics Agency. January 17, 2020. URL: <https://www.eastrussia.ru/news/potok-inostrannykh-turistov-vyros-v-primore/> (in Russian)

<sup>21</sup> Plans for Launching a New Ferry Route between Slavyanka, Vladivostok, Sokcho and Hokkaido // Russia's Ministry for Development of Russian Far East and Arctic. August 5, 2020. URL: [https://minvr.gov.ru/press-center/news/27301/?sphrase\\_id=1471421](https://minvr.gov.ru/press-center/news/27301/?sphrase_id=1471421) (in Russian)

<sup>22</sup> The Republic of Korea to Establish a Fund for Supporting Investment in Russia // Russia's Ministry for Development of Russian Far East and Arctic. November 16, 2018. URL: [https://minvr.gov.ru/press-center/news/19817/?sphrase\\_id=1488121](https://minvr.gov.ru/press-center/news/19817/?sphrase_id=1488121) (in Russian)

<sup>23</sup> Investing in the Future. Annual Review // Russian Direct Investment Fund, 2018. URL: <https://www.ifswf.org/sites/default/files/annual-reports/RDIF%2031495%20Annual%20Review%202018%20English%20web.pdf>

which is still a promising area for partnership since South Korea depends significantly on importing energy sources. We need, however, to bear in mind that projects requiring major investment and participation by big South Korean company groups are influenced by both foreign (third state interference, sanctions) and domestic (changes in policies, stepping up the fight against corruption, tightening control over the activities of financial and industrial groups) factors. This, in turn, results in protracted decision-making on implementing a particular project and ultimately in projects being “put on hold” indefinitely.

If South Korea steps up its investment and trade, it has a real chance to take over the niches made vacant by various crises in the global economy and to entrench itself there, thus reaping major economic dividends.

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*In such a situation, it seems possible that bilateral cooperation will be developed in new promising areas, such as tourism, medicine, construction, consumer goods deliveries, e-trade and information technologies.*

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In their cooperation, the states put special emphasis on the innovation sector: here, South Korea is spearheading creation of the innovative platform, commercialization of 5G technologies and development of new areas of collaboration, in particular, research and development, including equipment design.<sup>24</sup>

The growing number of small- and medium-sized South Korean enterprises on the Russian market is a promising step forward; such enterprises have greater freedom of action than big company groups. South Korean small- and medium-sized businesses are really interested in entering the Russian market, are ready to work jointly with Russian companies, and have more flexible policies than big South Korean financial and industrial groups. Small- and medium-sized South Korean businesses encounter major difficulties in working in Russia owing, among other things, to the limited knowledge of the Russian legislation, so they prefer to work indirectly, via

Russian partners vested with the right to act as their official representative.

It should also be borne in mind that South Korea has long been engaged in developing “green economy” technologies and has been relatively successful in that area, which entails innovative transformations of production and infrastructure. Cooperating with South Korea in this new expanded form is of great interest for Russia as it could make it possible to move beyond the limits set by the sanctions. Such cooperation would also make a lot of sense for South Korea, allowing it to test its newest technologies and expand its exports.

A Free Trade Agreement could play a positive role in developing mutual economic partnership. South Korea is actively promoting it. Yet, the possible signing of such an agreement raises certain practical questions. In particular, the current talks between the Eurasian Economic Union (EAEU) and the Republic of Korea show that the EAEU would derive rather equivocal benefits from liberalizing its trade with South Korea. It appears that the improvements the Russian leadership is introducing in Russia’s investment climate already meet business needs and comply with international standards.

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*A free trade agreement should not just promote trade but, above all, simplify the procedures for localizing manufacturing, help establish joint ventures and attract investment to Russia.*

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Two long-term scenarios for bilateral cooperation may be envisaged. If the pandemic is vanquished, if the crisis is handled in most states and if the international situation stabilizes (which will affect the Korean peninsula), we might expect these trends to accelerate bilateral, trilateral and multilateral cooperation between mutually interested and mutually dependent parties. If the global situation exacerbates, it will inevitably affect Russia–South Korea relations, which are highly dependent on changes in the political situation and global market volatility.

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<sup>24</sup> 18th meeting of the Russia–South Korea Joint Commission for Economic, Science and Technology Cooperation // The Russian Government. September 25, 2019. URL: <http://government.ru/news/37936/> (in Russian)



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