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Russian Far East Development from the Korean Perspective

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Executive Summary

The Russian Far East consists of nine federal entities, with a vast land equivalent to 36% of Russia's territory and wealth of abundant natural resources. Nevertheless, the investment environment of the Russian Far East is not favourable, and the region is not considered that attractive of an investment destination. Total population in the Far East amounted to only 6.3 million in 2010, and the size of the consumer market is very limited. In addition, the unfavourable geographical location of the region, which is the central part of Russia, severe climatic conditions, high degree of dependence on raw material production and armament industry rooted in the past-Soviet era, low level of industrialization and urbanization, and deteriorated infrastructure are the major socioeconomic characteristics of the Russian Far East.

With the Putin government since 2000, Russia's interest in Northeast Asia and the APR began to increase, and a new Turn to the East policy began in earnest after the beginning of Putin's third term as a president in 2012. This policy was underpinned by two factors. First, the Russian government considered the fact that the centre of global economic growth is moving to the Asia-Pacific and also tried to spur development of the underdeveloped Far East and Siberian regions. Second, the Russian government sought to promote cooperation with Asia-Pacific countries by expanding its political and economic influence on Northeast Asia, including the Korean Peninsula.

In particular, President Putin stated in December 2012: 'The main vector for development of the Russian state in the 21st century is the development in the east, and the Far East and Siberia are our tremendous growth potential. This is an important opportunity for Russia to occupy a valuable position in the Asia-Pacific, one of the most energetic and dynamically developing regions in the world.'¹ In this context, the Russian government has been working hard to develop the Far East. For example, the Ministry for the Development of the Russian Far East for the first time in Russia's history was established in May 2012, an APEC Summit was held in Vladivostok in September 2012, the programme of Socioeconomic Development of the Far East and the Baikal Region was adopted in March 2013. The first EEF was held in September 2015, and the government also introduced TORs and the FPV.²

¹ 'Poslanie Prezidenta Federal'nomu Sobraniyu' [Presidential Address to the Federal Assembly], 2012, Official site of the Russian President, December 12. Available from: <http://kremlin.ru/events/president/news/17118>

² Lee, JY et al., 2015, 'Evaluation of Korea–Russia Economic Cooperation and Its Mid- to Long-Term Vision', Korea Institute for International Economic Policy, p. 22–23.

Meanwhile, the Korean government has also shown substantial interest in the development of the Far East region adjacent to the Korean Peninsula and has been seeking ways to find and implement bilateral and multilateral cooperation projects. For example, the former Park Geun-hye administration launched the Eurasia Initiative in February 2013. This initiative was aimed at strengthening cooperation between Korea and major countries in Eurasia (Russia, Central Asian states, Mongolia, etc.) based on the importance of the continent. The Far East and Siberia, which are adjacent to the Korean Peninsula, were considered the core regions for entering Eurasia.³

Building on this momentum, the new Moon Jae-in administration, launched in May 2017, proposed the New Northern Policy and emphasised the importance of strategic cooperation with Russia. In his keynote speech at the EEF held at the Far Eastern Federal University in Vladivostok on September 7, 2017, President Moon said: 'The New Northern Policy is in line with Putin's New East Policy, which aims to develop the Far East.' He also added, 'Korea is the best partner for the Russian Far East development, and the New Northern Policy of Korea was also formulated on the premise of cooperation with Russia.' President Moon also proposed the Nine Bridge⁴ Strategy.

As can be seen, the Korean government has a comprehensive understanding and interest in the development of the Far East. In this context, this chapter focuses on analysing Korea's position on development of this region. To this end, the paper deals with the significance and strategic value of the Russian Far East, the current status, and determinants of the Russian Far East policy, as well as the direction and tasks of Korea's Russian Far East policy.

Significance of the Russian Far East to Korea

Recently, uncertainty in the global economy has been increasing. It manifests itself through the weakening of the EU cohesion due to Brexit, economic slowdown of China, the strengthening of America First policies and protectionism in the Donald Trump administration, and the recent trade disputes between the US and China. In this situation, the Korean economy is confronted with a number of challenges, such as development of new future industries and solving its export slump and low growth due to maturing of the core industries.

The Moon Jae-in administration recognises Russia as an important cooperative partner in its New Northern Policy and New Economy on the Korean

³ Lee, JY, 2015, 'Contacts of Putin's New East Policy and Eurasian Initiative and the Cooperation Direction', *Korea-Russia Forum*, p. 81.

⁴ The Nine Bridge Strategy is a Korean initiative on cooperation that includes gas, railways, port, power, arctic routes, shipbuilding, jobs, agriculture, and fisheries.

Peninsula agendas and is seeking substantial development of a strategic partnership with Russia. On June 22, 2018, during the keynote speech at the Korea–Russia Business Forum, a joint event of the Korean-Russian Summit, President Moon proposed expansion of trade and human exchanges (setting the goal of \$30bn in trade and 1 million people exchanges by 2020), also emphasising the importance of key cooperation measures, such as productive interaction in the Far East, new technology and science industries. In particular, promoting cooperation in the Far East carries a special meaning to Korea. Doing so would make a significant contribution to promoting the economy of the northern regions, expanding new economic growth engines, seeking peace and prosperity on the Korean Peninsula, and building a ‘bridge country’ between the Eurasian continent and the APR.

It is of common knowledge that Korea and Russia are complementary in terms of their economic structures. For this reason, we can expect a sustainable and mutually beneficial relationship between the two countries. From the standpoint of Korea’s national interests, Russia is not only an important Eurasian export market but also a source of all the raw materials needed for energy and industrial development. In addition, Russia is a country that maintains state-of-the-art science and technology that can help in developing Korea’s future industry, including new technologies. From the standpoint of Russia’s national interests, Korea is an industrial powerhouse that possesses know-how accumulated throughout its dramatic industrial development. Korean industrial competitiveness can contribute to Russia’s economic modernization, industrial diversification and localization, and import-substituting industries, which are the core of the national political agenda of the Russian government. In addition, Korea is one of the key countries in Russia’s vision for the Far East and Siberia development.

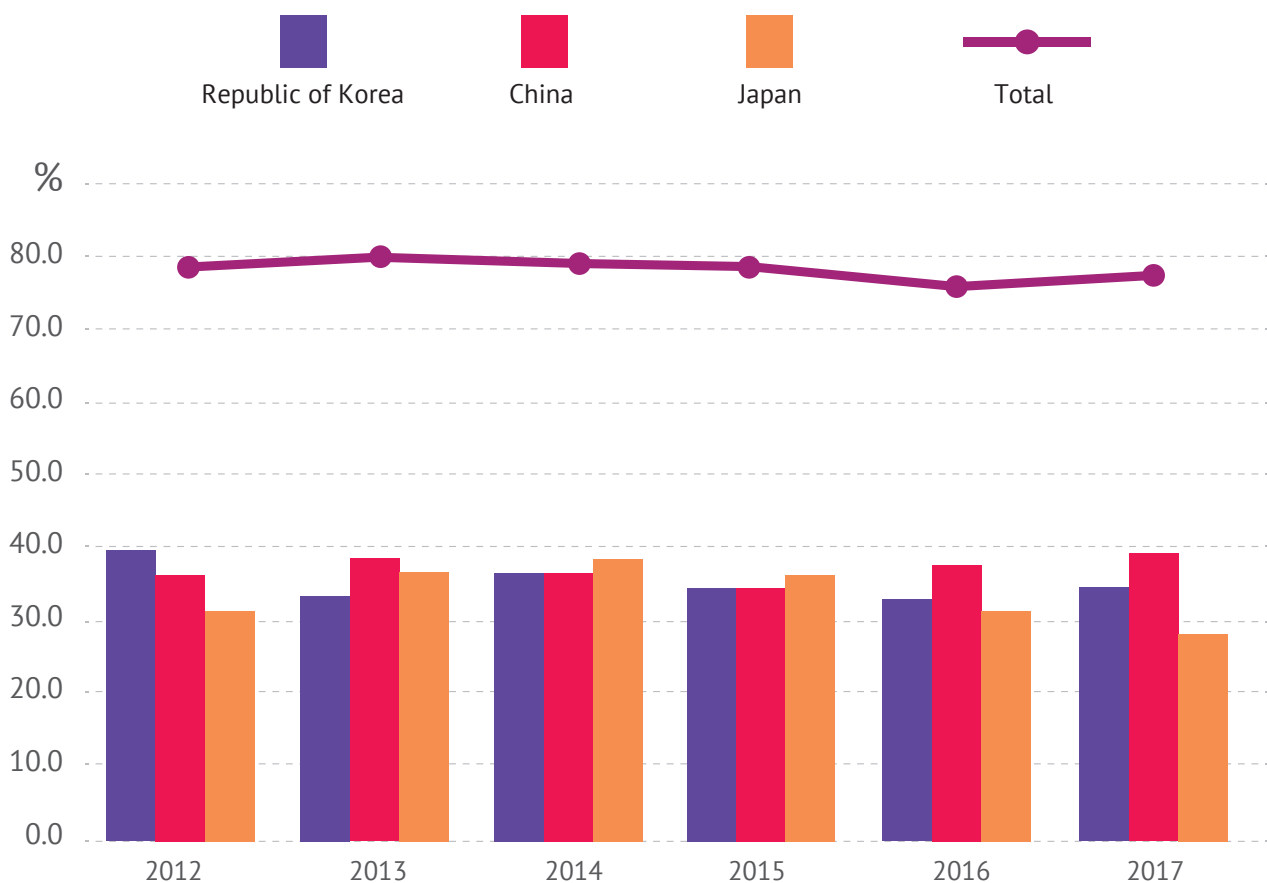
In particular, the Far East is a contact zone between the New Northern Policy of Korea and the Turn to the East policy of Russia. Therefore, the development of the Far East would not only promote bilateral cooperation but also lay the foundation for a future unified Korea. South Korea will be able to achieve a breakthrough in its relations with Russia by seeking ways to participate in Far East development projects such as the Nine Bridge Strategy, which is a priority of the Putin administration. At the same time, when the denuclearization process of North Korea is realized in the future, it will become possible to promote a triangular cooperation among Russia, South Korea, and North Korea in preparation for a unified Korea era.

In addition, economic cooperation with Russia in the Far East would provide Korea with further opportunities to participate in the integration processes taking place across the Eurasian continent. At the moment, various

economic cooperation projects are being pursued to organize Eurasia into a unified space, such as the vision of the Russian-led EAEU, China's BRI and New Silk Road Strategy, and Russia and China-led SCO. For this reason, Korea should seek ways to participate in international cooperation frameworks in Eurasia based on open economy. Doing so would not only contribute to the economic growth of Korea but also lay the foundation of institutions for international cooperation in Eurasia.

In summary, the Russian Far East is a gateway for Korea to the Eurasian continent, a region with high potential for cooperation, earning it recognition as the '21st century's final frontier in the APR'. Therefore, the Korean government should accelerate cooperation efforts between Russia and Eurasia by utilizing its geo-economic and geopolitical status as a gateway between the Eurasian continent and the Asia-Pacific. In the meantime, Russia needs to diversify its cooperation with Northeast Asian countries, including Korea, to reduce its dependence on China. In particular, bilateral and multilateral cooperation in the Russian Far East will contribute to peace and common prosperity within Northeast Asia, including the Korean Peninsula.

SHARES OF KOREA, CHINA, AND JAPAN IN THE RUSSIAN FAR EAST'S TRADE



Source: Far Eastern Customs Administration of Russia.

Current State of Russia's Far East Policy for Korea

First, the trading sector. Trade between South Korea and the Far East was marked between \$9.9bn and \$10.2bn in 2012–2014, but the volume has declined sharply due to the Russian economic downturn since 2014. The figure dropped 37.6% to \$6.4bn in 2015 and decreased by another 13.7% to \$5.5bn in 2016. This is almost half of the \$10.2bn in 2012. In 2017, trade slightly recovered, increasing by 29% to \$7.1bn. Despite this trade slowdown, Korea remains one of the major trading partners to the Far East region, accounting for 28.3% of all trade in the Far East in 2012 and 24.9% in 2017.

Korea, China, and Japan are traditionally the most important trading partners to the Russian Far East, collectively accounting for 71.1% of the region's trade in 2017. Although the absolute amount of trade between Korea and the Far East is relatively small, it is hardly an insignificant amount considering the trade volume between Korea and Russia (37.4% or \$19bn of the total Russia–Korea trade in 2017). Therefore, in order to expand trade between the two countries, it is necessary to intensify trading relations between Korea and the Far East.

Second, the investment sector. Korea's investment in the Far East still remains at a negligible level. Over 70% of Korean investment has been concentrated in the western part of Russia, and investment in the Far East has been sluggish in recent years, given the overall low level of investment in Korea. Since 2012, Korea's Russian direct investment has remained in the \$100m range, hitting a mere \$8,200 in 2017 (0.2% of Korea's global foreign direct investment). This shows how Korean investment in the Far East is still lacking in its volume: it accounts for only 1% of the total foreign direct investment inflow into the region.

Korea's entry into the Far East first began in 1997 with the construction of a Hyundai hotel in Vladivostok. The investment in agricultural development and resource development in the early years has since expanded to construction, transportation, and logistics. Hyundai Heavy Industries' high-voltage circuit breaker plant (completed in January 2013) was expected to stimulate further manufacturing investment, but the business was eventually closed in late 2017 without producing any significant performance. There is a need to generate new momentum in the region.

In recent years, Korean companies are making investments in TORs and the FPV, which the Russian government is actively promoting for industrialization

and internationalization of the Far East.⁵ When considering the role to be played by the Korean Investment Support Centre, functioning since November 2017 in Vladivostok, and recent changes on the Korean Peninsula due to the improvement of inter-Korean relations and the US–North Korea dialogue, Korea–Russia cooperation in the Far East is attracting immense interest. On May 16, 2018, the 12th Korea–Russia Far East and Siberia Subcommittee’s meeting was held in Moscow to discuss ways to promote cooperation for the Nine Bridges Strategy in the Far East and to support Korean companies’ entry into the region. In particular, active cooperation is expected in the areas of healthcare, energy, transport logistics, agriculture, and fisheries.

In order to promote economic cooperation between Korea and Russia in the Far East region, it is necessary to invest in Korean companies. This will involve participation in TORs and the FPV, as well as cooperation in developing a joint industrial complex in the Far East. Meanwhile, the key factor for success in Korea’s Far East policy is the political will of the government. Since 2012, the Korean government’s national strategic direction has focused on the Eurasian Initiative and the New Northern Policy. Both of these initiatives are major national tasks for the Korean government, reflecting the president’s perception of the international situation and national administration. The direction of Korean cooperation in the Far East region has been determined based on these factors, and real cooperation projects will be carried out on this basis.

Directions of Korea’s Russian Far East Policy

As was mentioned above, the Far East region is closely linked to the Korean Peninsula and Northeast Asia from a geographical perspective. It is a strategic area to promote multilateral cooperation that should include North Korea (South Korea–North Korea–Russia, South Korea–North Korea–China–Russia, South Korea–North Korea–China–Russia–Mongolia, etc.) in the future.

At the same time, the Far East is a key hub of economic cooperation in the north, where the strategic interests of Russia (Turn to the East policy), China (BRI), and Mongolia (Grassland Road Initiative) all coincide. The region

⁵ The following is the status of Korean companies in the TORs and Free Ports. TORs include Hotel Pride LLC (hotel construction), Ouyang LLC (fish processing), and Gorod 415 LLC (fish processing). The FPV includes Urban Transport System LLC (transportation card), Breese PUMP LLC Production, Vostok Polikor LLC (polyurethane, life chemicals), Roskor LLC (building materials), and Crystal Golf Club LLC (golf course). See: the official site of the Consulate General of the Republic of Korea in Vladivostok.

could also be connected to the Korean Peninsula through projects to build infrastructure in a unified Korea, establishing triangular cooperation between Russia, South Korea, North Korea, and linking the BRI with the New Northern Policy. Korea will continue to cooperate in areas that improve the quality of life of its people in the Far East, in particular focusing on promoting the Nine Bridges Strategy. Above all, industrial cooperation should proceed, and addressing feasible projects in the sectors of tourism, agriculture and livestock industry, fishing, and logistics – and then the healthcare industry will have to follow, along with phased investments to establish electric power, ports, roads, storage facilities, and marine infrastructure.

Korea is particularly interested in a sustainable promotion plan for triangular cooperation among Russia, South Korea, and North Korea in order to prepare the infrastructure necessary for a unified Korea and strengthen transportation links and logistics amidst changes in the situation on the Korean Peninsula. Currently, North Korea remains an isolated country that engages in but limited economic cooperation with a handful of countries such as China and Russia. Therefore, the triangular cooperation among Russia, South Korea, and North Korea linked to Eurasian international cooperation remains one of the most promising measures to bring North Korea into the world of active and productive economic interaction. If North Korea gains economic benefit by participating in infrastructure construction and operation, this could lead to alleviation of its excessive economic dependence on China and diversification of foreign economic relations through participation in regional economic cooperation agendas utilizing its geopolitical position.

In addition, North Korea's participation in such triangular economic interaction could provide an opportunity for Pyongyang to consider new strategic choices, compared to its current state of 'permanent siege mentality'. If it is able to break away from the existing patterns of political and military confrontation with the US and economic dependence on China by attempting cooperation with Korea and Russia, the geopolitical conflict in Northeast Asia will be eased dramatically.

In this context, there is a call to resume the Najin–Hassan project of Korean companies in response to the progress in denuclearization of North Korea. Three pilot shipments were successfully delivered within the framework of the project, and the third of these trials involved container shipments as well, increasing the possibility of high value-added logistics operations. In summary, the Najin–Hassan project could serve as a useful method to draw North Korea into international cooperation and secure the driving force of economic cooperation among Russia, South Korea, and North Korea.

Conclusion

The vision for the Korea–Russia partnership, which the Moon Jae-in administration aims for in the New Northern Policy, is to promote sustainable cooperation through peace and prosperity. From the perspective of ensuring peace, the Korean government aims to contribute to the establishment of peace on the Korean Peninsula and Northeast Asia through close communication, cooperation with Russia, basing on the historical missions of ‘building an environment for peace settlement on the Korean Peninsula and Northeast Asia’ and ‘creating infrastructure for a unified Korea’.

From the perspective of promoting prosperity, Korea and Russia can pursue mutual benefits through win-win cooperation in accordance with Korea’s unique strengths (industrial upgrading and commercialization capability, and innovative technologies such as IT) and Russia’s demand for economic cooperation (localization, import-substitution industries, economic modernization), based on the foundation of new economic growth engines and institutionalizing of international cooperation. In order to realize the vision of cooperation, it will be crucial to find strategic contact points between Korea’s New Northern Policy and Russia’s Turn to the East course, which can be further realized through various cooperation projects in the Russian Far East.

In order to expand the bilateral economic exchange programme, the two sides agreed in 2017 to establish a two-billion-dollar financing platform to support development in the Far East region. Now it will be important to identify promising projects in the Far East so that financial support can be actively provided to companies involved in infrastructure development in the region in connection with Russia’s Turn to the East and Korea’s New Northern Economic Cooperation Policy.

Ultimately, the Far East region is a hub for northward expansion in a unification era. In the short and mid-term, the focus should be on establishing a partnership of trust and cooperation through bilateral and multilateral diplomatic and economic cooperation with countries in the region. In the mid to long term, it will be necessary to push forward various projects between Russia, South Korea, and North Korea, and to resume logistics operations within Najin–Hassan, based on the premise that progress is made towards denuclearization of North Korea, lifting of sanctions, and better inter-Korean relations. Promoting cooperation in the Russian Far East will contribute to peace and prosperity on the Korean Peninsula, as well as development of relations between Korea and Russia.



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