

Russian-Korean Economic Ties: Development Prospects

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Abstract. The article deals with the priority areas for the development of economic cooperation between the Russian Federation and the Republic of Korea. The author presents the results already achieved in economic interaction and comments on the active bilateral dialogue of the parties. Based on the analysis, the author concludes that there are good opportunities for the development of economic ties between the two countries.

The engineering industry, as well as Russian-Korean cooperation therein and its prospects, are considered separately.

Keywords: the Russian Federation, the Republic of Korea, bilateral economic cooperation, the automotive industry, KIA Motors, Hyundai Motor.

Российско-корейские отношения в сфере экономики: перспективы развития

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Аннотация. В данной статье рассмотрены приоритетные направления развития экономического сотрудничества между Российской Федерацией и Республикой Корея. Автором показаны уже достигнутые результаты в хозяйственном взаимодействии, прокомментирован активный двусторонний диалог. На основе проведенного анализа автор делает выводы о наличии хороших возможностей для развития отношений в экономической сфере между двумя странами.

Отдельно рассматривается отрасль машиностроения, а также российско-корейское сотрудничество в этой отрасли и его перспективы.

Ключевые слова: Российская Федерация, Республика Корея, двустороннее экономическое сотрудничество, автомобильная промышленность, KIA Motors, Hyundai Motor.

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Introduction

The Republic of Korea is one of the leading countries in the Asia-Pacific Region. Its dynamic development (including causes, opportunities, influence on national, regional and world economic systems) draws the close attention of experts [1]. The study of bilateral Russian-South Korean trade and economic cooperation [2], as well as Russia's trade with Asian countries as part

of Russia's "turn to the East" [3], becomes actual in the XXI century.

Currently, the South Korean direction is one of the most important vectors of Russia's eastern policy, and the development of relations with the Republic of Korea corresponds to the strategic priorities of our country. In this regard, studies of Russian-Korean relations, including at the regional level, are among the most relevant in terms of Russia's international economic relations [4].

At the same time, the author's study changes in the mechanisms for upholding the interests of the national producer in the Republic of Korea: from protecting the domestic market in favor of greater competition and in the context of providing access to foreign markets [5]. The Russian Federation should take this circumstance into account as part of building relations with South Korea.

Bilateral relations: basic trends

Diplomatic relations between Russia and South Korea have a relatively short history. The official diplomatic relations were established at the end of the Soviet era, in 1990 [6]. Thus, 2020 becomes an anniversary year for diplomatic relations between the two countries.

The interstate dialogue has become more and more active for the last 5 years. After the meeting of the Russian Federation and the Republic of Korea leaders at the G20 Summit in St. Petersburg in 2013, bilateral top-level meetings assume a regular annual character.

No doubt, the active political dialogue had influenced the development of economic cooperation.

Being one of the most progressive economies in the world, South Korea has a lot to offer in trade and economic terms. Russia ranks 15th among South Korea's trading partners. The Republic of Korea occupies the 9th place in the Russian commodity turnover [7].

Currently, Russian-Korean economic cooperation can develop in multiple directions. The top priority ones were voiced in 2017 during the III Eastern Economic Forum. This is the so-called "nine bridges of cooperation" initiative, where it is planned to implement joint economic projects with Russia in such areas as gas, power, railways and port infrastructure construction, agriculture, fishing, shipbuilding, etc. There is great potential in these areas and it is necessary to develop cooperation namely in priority areas. Also in 2017, the Committee on Northern Economic Cooperation started its work at the Presidential Administration of the Republic of Korea. The Committee is responsible, among other things, for the economic ties with Russia.

In its turn, Russia creates joint platforms for cooperation, including the Center for the Support of Korean Investors in the Far East. Among other things, the Day of Korean Investor in the Far Eastern regions was established, etc. [8].

Experts note that South Korea is interested in developing relations with Russia in the future, and there are several reasons for this.

First, South Korea has consistently pursued a policy of appeasement towards its neighbor, i.e. North Korea in this case. The plans include the construction of a Trans-Korean railway and an energy bridge that will allow purchasing power in Russia. At the same time, this will contribute to the establishment of relations with the unpredictable northern neighbor [9].

Secondly, the Republic of Korea is interested in importing seafood fished out in Russian waters. Traditionally, seafood is very widely used in Korean cuisine. Therefore, cooperation with Russia in terms of fishing and seafood delivery goes to high scale in economic cooperation.

Thirdly, the above-mentioned "Nine Bridges of Cooperation" project is of apparent interest to South Korea. It also includes the development of cooperation in the gas industry while the Republic of Korea is much interested in diversifying gas supplies. At the moment, Korea purchases all gas in the Middle East, by no means the most stable region in the world.

A promising direction is the joint development of the currently underutilized Northern Sea Route. It can reduce the duration of sea freight from East to West by 30-40%. But this requires a powerful nuclear icebreaker fleet. To this end, Rosatom may offer the necessary power units and the Korean party – sea vessels, the production of which is one of the strongest aspects of the South Korean economy. Such South Korean giants as Hyundai Heavy Industries, Daewoo Shipbuilding & Marine Engineering, Samsung Heavy Industries are interested in such cooperation.

Fourthly, South Korea is convinced of the importance to cooperate both with Russia and China as these two countries are key players in the region. The Republic of Korea hopes for a peaceful de-escalation of the Korean conflict. In this regard,

positive changes have already been outlined in recent years.

Fifthly, both Russia and South Korea have great potential in terms of not only economic but also cultural and tourist exchanges, which is far from exhausted. Even North Korea could be involved in this cooperation in the future. This is possible after the establishment of a lasting peace regime in the region.

As for trilateral cooperation, these can include such large-scale projects as the connection of railways and power lines as well as the gas pipeline construction. After connecting the Trans-Korean Railway, it can reach the Trans-Siberian Railway. In such a case, the cargo flow from South Korea can go by the Trans-Siberian Railway to Europe. The implementation of these plans will help promote the socio-economic progress of all Eurasian countries. The trilateral cooperation between Russia, North Korea, and South Korea is gradually developing.

Russian-South Korean trade relations and investment projects

Mutual trade is the most important form of cooperation between Russia and South Korea. According to the Federal Customs Service of the Russian Federation, Russia's commodity turnover with the Republic of Korea amounted to \$ 24.841 billion in 2018, increasing by 29.1% compared with 2017. Russia's exports to South Korea amounted to \$ 17.832 billion, imports – to \$7.009 billion (the balance of foreign trade is positive for Russia) [10].

As a result, the Republic of Korea in 2018 ranked 8th in Russian trade turnover among non-CIS countries and 2nd among Russia's trade partners in the Asia-Pacific Region. The countries aim at bringing bilateral trade turnover in 2020 (30 years since the establishment of diplomatic relations) to \$ 30 billion, and this figure looks real.

About 83% in the structure of Russian exports to the Republic of Korea traditionally falls on mineral products (with an increase in this share). Russia also exports food products and agricultural raw materials, metals and products from them, products of the chemical industry, wood and pulp and paper products, etc. [10].

Over 60% of Russian imports from the Republic of Korea are represented by machinery, equipment, and vehicles. The structure of Russian imports also includes products of the chemical industry, metals and products from them, food products and agricultural raw materials, etc.

Korean investments in the Russian economy amount to \$ 1.2 billion. Both parties have repeatedly pronounced the reasons for the weak development of investment cooperation between Russia and South Korea [11]. Nevertheless, over 150 major Korean companies that invest in a wide variety of industries such as manufacturing, food, and agriculture, and hospitality are marketed in Russia.

Examples of successful investment cooperation include the efficiently operating Hyundai Motor car assembly plant in St. Petersburg, Samsung Electronics household appliance factory in Kaluga Region, the LG Electronics plant in Ruza, Moscow Region, and the hotel and shopping complex Lotte Group in Moscow [12].

Thus, it becomes obvious that there are several serious promising areas of cooperation between Russia and South Korea that will ensure further dynamic development for the bilateral dialogue. The cooperation is completely mutually beneficial: Russia is also interested in the development of both economic projects and the resolution of the Korean conflict as it will be possible to reduce the tension in the region directly bordering the Russian Federation.

I would like to emphasize that both Russia and South Korea are interested in the further development of bilateral economic relations.

There are several promising areas of cooperation. These are gas projects, projects for the development of the Northern Sea Route, as well as the import of certain types of products from Russia to the Republic of Korea. Russia is not the last among the intermediate parties that South Korea plans to address to peacefully resolve conflicts with North Korea and establish peace and security in the region.

Cooperation in automobile construction

I would like to highlight the prospects for cooperation in the engineering industry.

Engineering is currently one of the most dynamically developing industries in Korea as in many other developing countries [13, 14]. The automotive industry takes a special place therein. It is actively developing and introducing innovations (in 2018, the country took the 1st place in the Bloomberg Innovation Index for the 5th time, the country invests 4.2% of GDP in R&D) and is of a pronounced expansionist character.

In 2018, South Korea was the 6th world car manufacturer and the 4th in the world in the production of cars per capita: about 80 pcs. per 1000 people per year. This figure is higher than in the other two auto-building states, Japan and Germany, and lower only in the small central European countries like Slovakia, Slovenia, and the Czech Republic, where automobile factories of large automakers are concentrated. In 2018, the South Korean automobile industry produced 4.02 million vehicles of all types. According to the results of 2018, 1.8 million cars were sold at the domestic market (the country's population is 51 million people). But more than half of the cars manufactured in the country (2.45 million) were exported [15].

But these are figures representing the production directly in Korea. If we consider the range of activity of Korean automobile companies with the focus on the leading Korean automobile concerns of Hyundai Motor and KIA Motors, which have factories worldwide, including in our country, they produce almost 8 million cars annually. These companies came to Russia relatively recently and started to appear here on a sufficient scale only in the mid-1990s. However, they are already of huge demand in Russia.

Hyundai Motor Co automobile concern opened the assembly plant Hyundai Motor Manufacturing Rus in St. Petersburg in 2010. This is a full production cycle plant. The plant technological process includes stamping of large body panels, welding, body painting and assembly of the finished car. Investments in plant construction and further development amounted to more than \$ 1 billion. This asset allows the Group to increase sales not only in Russia but in other countries as well. In 2019, 245,000 vehicles rolled off the production line of the Hyundai Motor Manufacturing Rus plant, which is almost 2% higher than the original annual production plan of the enterprise [16].

So, according to the past year's outcomes, KIA became the most popular foreign automobile brand in Russia and Hyundai – the second most popular. If to speak about specific models, Hyundai Solaris managed to become the best-selling car of the year regardless of the country of production, and Kia Rio – the second most popular. Also last year, two Korean models won the prestigious contest "Car of the Year in Russia". Kia Picanto won the Urban Cars category, and the Hyundai Solaris won the Small Class category.

Korean cars become more and more popular every year in our country. There are many good reasons for this. Korean cars are characterized by increased reliability, strength, and durability. Models delivered to Russia are also additionally adapted to the road and climatic conditions of our country. Korean cars are also distinguished by one of the best value for money among those of all countries. Moreover, it is worth noting that many Korean models are assembled directly at Russian plants [17]. This is the main prospect of cooperation between Russia and Korea in the field of engineering. KIA automobile plant and other industrial enterprises show good sales figures, which signals of improved relations.

First of all, Russia is interested in the possibility of expanding the production and assembly of cars and spare parts within its territory and in establishing joint ventures. We can provide a powerful resource base and Korea, in turn, can provide the latest technology and developments.

According to the Governor of the Moscow Region Andrei Vorobyov, there are ideas to organize a special industrial park, which can mainly host Korean companies that know the specifics of trade and processing. In the future, the possibility of cooperation with Hyundai in the production of motor cars in the eastern part of Russia is not excluded. This idea was discussed by the Government of South Korea and in Russian foreign economic organizations.

Conclusion

Based on the foregoing, the author concludes that there are very positive prospects for the further development of economic cooperation between Russia and South Korea. Russia needs to use the significant economic potential of South

Korea to develop its certain regions (Siberia and the Far East) and certain industries (primarily high-tech) through the development of both trade and investment relations. It is especially important to keep in mind the possibility of exporting high-tech products both to the Republic of Korea and to third countries.

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