

A New Framework for Industrial Cooperation between Korea and the EAEU

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I. Introduction

As economic uncertainty escalates around the world, Korea is undergoing numerous challenges. The global economy is slowing down, and trade war between the U.S. and China is exacerbating the situation even further. Korea's trade dependency on major markets such as China, the US, EU, etc. is exposing its economy to more vulnerabilities. In order to resolve these challenges, Korea has to escape from the geographical isolation imposed by the division of the Korean Peninsula and diversify its partnerships with emerging economies.

Strengthening cooperation with the EAEU and securing new economic growth engines to replace old ones will serve as a way for Korea to overcome the current challenges. Indeed, the EAEU is an attractive partner as a window of new economic cooperation in developing future-oriented relations between Korea and the northern Eurasian countries. Since the two sides share characteristics in economic cooperation that are complementary to each other, it will also be necessary to pioneer such a "northern economic growth space" through strategically enhancing economic cooperation

with the EAEU member states.

Against this backdrop, this paper analyzes the economic structure, development policy and industrial competitiveness of the EAEU and draws implications for Korea-EAEU industrial cooperation in the future.

II. EAEU's Industrial Structure

EAEU economies are closely linked with each other and particularly with Russia, through trade, investments and remittances. They can be divided into two groups: energy exporters and importers. Russia and Kazakhstan are energy exporters, and thus their economies are relatively more developed than the others. Russia and Kazakhstan are closely linked but not dependent on each other. In the meantime, energy importers are highly dependent on Russia through various channels.

The industrial development of EAEU states remains in the early or intermediate stages. The agricultural sector is still a major industry in Armenia and the Kyrgyz Republic, where productivity remains low. Their manufacturing

and services sectors are mostly low-value added. Thus, job seekers in the countries are not absorbed into the domestic labor market, and are often forced to find jobs overseas. Russia, Kazakhstan and Belarus have a relatively firm industrial base. Meanwhile, Russia and Kazakhstan are competitive in the energy sector thanks to an abundance in natural resources, and Belarus has strengths in the heavy industry. However, the economies are losing their growth momentum because their industrial structures lack efficiency. Therefore, it is necessary for all EAEU members to prepare industrial policy that can promote development into industries with higher productivity.

III. EAEU's Industrial Policy

The key objectives and characteristics of each of the EAEU member countries' industrial policies share four common elements. First, they

aim to foster high-tech industries by building the foundations necessary for the development of the manufacturing industry, along with promoting exports in the traditional industries. Second, they pay close attention to the development of alternative energy and smart power generation systems, in order to foster strategic industries. Third, in line with development of the pharmaceutical industry, they place emphasis on biotechnology and new material development in the areas of advanced biotechnology and nanotechnology. Lastly, they regard information and communication technology as one of the most promising growth engine industries, in preparation for the fourth industrial revolution. Likewise, the EAEU member countries are willing to strengthen their economic and industrial growth based on an industrial diversification strategy.

Table 1. Comparison of key industrial policies in the EAEU

	Name	Key Points	Note
Armenia	Export-led industrial policy (-2020)	<ul style="list-style-type: none"> · raising export competitiveness and diversifying export goods · intensifying support for exporting SMEs · developing clusters and infrastructure · fostering 8 export industries (metal mining, metal processing, food processing, jewelry and gem manufacturing, mechanical engineering, chemicals, light industry, construction materials production) · nurturing export related industries (ICT, tourism, healthcare, education, agriculture) 	mid- and long-term strategy/ knowledge-based economy (advancing), high-value adding, strengthening export potential (developing the manufacturing sector/import substitution)

Kyrgyz Republic	National strategy of sustainable development 2013-2017	<ul style="list-style-type: none"> · improving investment climate focusing on the following industries; energy, mining, agriculture, transport, tourism, finance, eco-friendly and tech-friendly business 	mid- and long-term strategy/ strengthening export potential (developing the manufacturing sector), promoting investment
	Export development strategy 2013-2017	<ul style="list-style-type: none"> · raising capability of exporting SMEs, building trade facilitating network within the EAEU 	mid-term strategy/ strengthening export potential (developing the manufacturing sector)
Belarus	Industrial development program 2020	<ul style="list-style-type: none"> · heightening export potential through adding high-values · strengthening capabilities of human resources, expanding R&D investment, nurturing SMEs 	mid-term strategy/ advancing industries (innovation), high-value adding, enhancing export potential (developing the manufacturing sector)
Kazakhstan	Industrial and innovative development 2015-2019	<ul style="list-style-type: none"> · developing priority manufacturing sectors (metallurgy, chemicals, petrochemical, machines, construction materials, food) · activating the innovation sector · localizing high-tech goods production · strengthening efficiencies of exporters 	mid-term strategy/ advancing industries (innovation), high-value adding, enhancing export potential (developing the manufacturing sector)
Russia	Development and enhancing competitiveness of industries (-2020)	<ul style="list-style-type: none"> · increasing high-tech goods production · promoting high-value added goods exports · import substitution · localizing the innovative industries and nurturing private businesses 	mid- and long-term strategy/ knowledge-based economy (advancing), high-value adding, strengthening export potential (developing the manufacturing sector/import substitution), protectionism

Source: Author.

IV. EAEU's Industrial Competitiveness

The trade structure of the EAEU can be summarized into two features: as trade volume grows, 1) dependency on certain partners, such as Russia, China, goes up, and 2) the index of trade intensity increases.

According to the trade specialization index (TSI), EAEU states have different sectors of trade specialization from Korea. In other words, the trade structures of EAEU states and Korea are complementary. In addition, areas of competitiveness vary extensively among EAEU members. For instance, Russia and Kazakhstan are specialized in energy goods, raw industrial materials and unprocessed food,

while Belarus is competitive in semi-finished goods, industrial transporters and durable consumer goods.

From the perspective of trade structure, TSI and Revealed Symmetric Comparative Advantage (RSCA), the study identified the following characteristics in the EAEU's industrial competitiveness. One, EAEU is highly dependent on commodities such as minerals, non-metal, agricultural goods. Two, EAEU mainly imports high-value added goods like machines, vehicles and instruments. Three, trade between EAEU members is transitioning from inter-industry to intra-industry in some sectors.

Table 2. Comparison of competitive areas between the EAEU and Korea

	Armenia	Belarus	Kazakhstan	Kyrgyz Republic	Russia	Korea
TSI>0, RSCA>0	precious metals, non-metals	agricultural products, construction materials, wood and pulp pottery, chemicals	mining products, mineral fuel, steel and related products	precious metals	mining products, mineral fuel, steel and related products, wood and pulp non-metals	electric machine optical instruments, vehicles, non-metal steel and related products plastic rubber
TSI<0, RSCA>0	food & beverage, mining products, steel and related products, construction materials, pottery	mining products, mineral fuel, steel and related products, plastic rubber, food & beverage		agricultural products, construction materials, pottery, textiles,		

TSI<0, RSCA<0	agricultural products, textile products, mineral fuel, medical supplies, pharmaceuticals, optical instruments, leather goods, shoes & hosiery, sundries, plastic rubber, vehicles, electric machines, machinery, chemicals, wood and pulp	non-metal shoes & hosiery, machinery, leather goods, optical instruments, electric machines, light industry, pharmaceuticals, medical supplies	chemicals, leather goods, shoes & hosiery, wood and pulp, other, food & beverage, electric machines, vehicles, textiles, plastic rubber, sundries, pottery, optical instruments, machinery, aerospace, medical supplies, construction materials	vehicles, mining products, aerospace, leather goods, food & beverage, shoes & hosiery, non-metal, plastic rubber, optical instruments, machinery, wood and pulp, electric machines, sundries, chemicals, pharmaceutical products, medical supplies, light industry, mineral fuel, steel and related products	agricultural products, chemicals, food & beverage, pottery, plastic rubber, machinery, leather goods, optical instruments, electric machines, sundries, shoes & hosiery, textiles, vehicles, pharmaceuticals, aerospace, construction materials, light industry, medical supplies	chemicals, sundries, construction materials, light industry, food & beverage, mineral fuel, pottery, aerospace, pipe products, leather goods, wood and pulp, shoes & hosiery, medical supplies, agricultural products
TSI>0, RSCA<0	aerospace	sundries, vehicles, textiles	non-metal, precious metals, pharmaceuticals, agricultural products		precious metals	machinery, weaponry, pharmaceuticals, textiles, precious metals

Source: Author.

IV. Conclusion

This study suggests future directions for industrial cooperation between Korea and the EAEU. First, it will ultimately be necessary to set up a new industrial cooperation framework to form the so-called “Eurasian value chain.” Second, specific policy directions for industrial cooperation have to be decided through systematic analysis. This must be premised upon an understanding of EAEU industrial policies as a whole, and those of individual member countries as well. Third, to promote industrial cooperation, the industrial cooperation mechanism between Korea and the EAEU should be

maintained and operated in an efficient manner. Fourth, Korea and the EAEU should secure a financial support program between the two economies, which will yield more opportunities and possibilities to cooperate in major industrial projects. **KIEP**