

The First 2007 Asia-Pacific Strategy Forum

Korea National Committee for Pacific Economic Cooperation (KOPEC)

The Dialogue with Dr. Andrei L. Kondakov, Russian Federation
on

Russia's Perspectives on Global Economic Issues

January 12, 2007

1. Overview

The first KOPEC Asia-Pacific Strategy Forum of 2007 was held on January 12, 2007 at the Westin Chosun Hotel in Seoul, Korea. The title of the forum was “Russia’s Perspectives on Global Economic Issues” with Dr. Andrei L. Kondakov, Director of the Department of Economic Cooperation of the Ministry of Foreign Affairs in the Russian Federation, as keynote speaker.

The forum was divided into four parts: opening remarks by Dr. Soogil Young, KOPEC Chair, introductory remarks by Alexander A. Timonin, Minister-Counsellor and Deputy Chief of Mission of the Russian Embassy, the keynote presentation by Dr. Andrei L. Kondakov, followed by a discussion, moderated by Dr. Soogil Young.

This meeting was organized by the Korea National Committee for Pacific Economic Cooperation (KOPEC) and sponsored by the Ministry of Foreign Affairs and Trade (MOFAT) of Korea. The complete list of attendees includes representatives from KOPEC, the Ministry of Foreign Affairs and Trade of Korea, the Ministry of Foreign Affairs of the Russian Federation, the Russian Embassy in Korea, the Korea Information Society Development Institute (KISDI), the Korea International Trade Association (KITA), Korea Institute for International Economic Policy (KIEP), the Federation of Korean Industries (FKI), the LG Economic Research Institute (LGERI), the Science and Technology Policy Institute (STEPI), Korea University, the Korea Transport Institute (KOTI), Deuk Keum Co., Ltd., Dong Yang Electronics, and Korea Institute for National Unification (KINU).

2. Summary

Opening Remarks

Dr. Young welcomed Dr. Andrei L. Kondakov, Mr. Alexander A. Timonin, Mr. Igor I. Sagitov, Counsellor from the Russian Embassy, and Mr. T. Eivazov, from the

Department of Economic Cooperation in the Russian Ministry of Foreign Affairs. The rest of the participants introduced themselves.

Introductory Remarks

Mr. Timonin remarked that Dr. Kondakov's presence reflected growing awareness in Korea of the issue of bilateral relations and noted that he has known some of the participants for many years. Bilateral relations between Korea and Russia have been rising steadily, as evinced by the regular meeting of their two heads of state as well as the breadth of the cooperation that is taking place. The trade volume has grown five times since 2000 and is expected to reach \$10 billion this year. The main goals are trade, investment, science and technology, and so on as stated in the Russian-Korean Joint Action Plan in Mr. Putin's last visit to Korea. Energy is also a significant point of interest. Russia plans to supply up to 10 billion cubic meters of natural gas to Korea from 2012 for a period of over 30 years, over which time an increase can be negotiated. KOGAS (Korean Gas Co.) and Sakhalin Energy Company have signed an agreement to develop natural gas fields on Sakhalin Island, providing 1.5 million tons of liquid white gas annually for 20 years from 2008. The Russian-South Korean consortium, which, with the participation of Rosneft, has begun work on the exploration and development of petroleum and natural gas resources on the Kamchatka Peninsula. The agreement to cooperate in nuclear industry, signed May 22, 1999, provides for several levels of cooperation. Currently 37 percent of South Korea's nuclear fuel demand is provided by Russia. Prime Minister Fradkov's visit occasioned the two countries to reaffirm their commitments to cooperate in space exploration, transport, automobile production, the petrochemical industry, the peaceful use of nuclear energy, and small and medium enterprises. The breadth of the two countries' cooperation was again emphasized and Mr. Timonin ended by saying that a partnership with Korea is in line with Russia's more general goals of strengthening peace in the region.

Keynote Presentation

Dr. Kondakov began by saying that despite volatile oil prices and global imbalances, the world economy is in good shape, and that growth is expected to continue, become more balanced and well-distributed. Russia contributes significantly to global economic growth: it grew around 7 percent last year. Its financial situation has consolidated considerably, and Russia is now in the top three of foreign reserves holders. Russia has enjoyed a surplus in its current account balance for many years now. The ruble achieved full convertibility last July. Russia's economy is expected to grow another 6.7 or 6.8 percent this year. While this growth is based mainly on Russia's gas and minerals exports, the government is currently pursuing a diversification policy so as to avoid Dutch Disease. Russia currently has four national priority projects: health, education, agriculture, and housing. Another goal is to keep inflation under control. Last year, inflation was contained within a 9 percent range, making it the first year of single-digit inflation for Russia. This low inflation was aided by a stabilization fund that absorbs

excess liquidity. Russia has also launched an investment fund that channels money to important national projects, especially for infrastructure.

In terms of international investment, the German assumption of the G8 presidency will focus on freedom of investment. In that regard, UNCTAD statistics reveal that at the beginning of the 1990s, only 2 or 3 percent of national measures relating to international investment restricted foreign investment. In the past few years, the proportion of measures adopted at various levels, including national, that restrict foreign investment has risen to 20 percent. Russia takes keen interest in this topic. The German leadership of the G8 is suggesting a set of agreed-upon national security parameters beyond which countries should not restrict foreign investment. There are two important pieces of legislation occurring in Russia right now: a Russian draft law on strategic investments and subsoil legislation. Russia is advocating freedom of investment, not only upstream but downstream as well. Enshrined in the St. Petersburg document on global energy security is the principle of free and open investments on all sections of the oil chain as well as the principle of reciprocity. These principles would increase interdependence between participating countries.

There is also the issue of regulation and transparency of financial markets. Germany has put the issue of hedge funds on the G8 agenda. Some questions that will be discussed are: who will regulate the activities of hedge funds? What kind of information should those hedge funds provide? How will they be regulated? Will a supranational body be created to oversee them?

Dr. Kondakov moved onto the Doha Development Agenda. Though Russia is not yet a WTO member, Russia had concluded bilateral negotiations with all the WTO countries by the end of last year. The focus this year is on the Russia working group for accession to the WTO. Some of the matters to be discussed are those obligations Russia will have to assume such as its export and import regime, currency regulation, regulation of phytosanitary norms, and so on. Though it is expected that Russia will be a full-fledged member of the WTO by the end of the year, the speed of accession is less important than the terms of entry. Russia wants to ensure that its commitments and obligations are balanced with the benefits of membership, and when it is a full member of the WTO, it intends to participate fully in negotiations such as the Doha Development Agenda.

Discussion

Dr. Sung Hoon Park, a professor in the Graduate School of International Studies at Korea University, commented that the UNCTAD statistics may be a sign of optimism. Especially, he pointed to the overall trend of national FDI legislations reported in the UNCTAD statistics, which showed a general trend of more opening and liberalization rather than restriction until 2001. Admitting the fluctuation of this trend over the past few years, Dr. Park interpreted the general trend as rather positive than negative. He also asked what Russia was doing to counteract possible Dutch Disease and whether Russia considered itself Asian or European. Dr. Kondakov agreed with Dr. Park's UNCTAD

assessment, calling it a double-edged sword. Regarding Dutch Disease, Russia has been pursuing diversification, such as through their investment and stabilization funds. On its identity, Russia considers itself Eurasian. Dr. Oh Seok Hyun, President of KITA Trade Research Institute, asked Dr. Kondakov about the possibilities of a bilateral FTA between Korea and Russia and given Russia's large foreign account surplus, did Russia plan on stockpiling dollars or investing elsewhere? Dr. Kondakov replied that Russia was holding off on giving a definitive response regarding a bilateral FTA between the two countries for after the requisite feasibility studies are conducted. Regarding Russia's foreign reserves, a decision has been made to diversify away from dollars, as well as to find the most reliable and secure ways to invest. The discussion turned to Russian direct investment in Korea, which was estimated to be less than \$200 million. The low figure could perhaps be attributed to Russian businessmen and their business environment requirements, and Russia is also not satisfied with Korea's direct investment into Russia. Dr. Jae-Young Lee of KIEP commented that Russia is more interested in European countries or the United States, which is why Russian direct investment in Korea is so small. Mr. Dae Chang Yoon of Deuk Keum Co., Inc., mentioned that he is always trying to increase the amount of business he does with Russia. Mr. Timonin encouraged Korean businessmen to be more open to risk. As Russia becomes richer it will be more difficult to invest in Russia—a few years from now, the choice niche markets will be gone. Korean businessmen should not waste time and take risks. Dr. Kondakov added that Korea needs to advertise its investment opportunities abroad more aggressively and actively. Dr. Young asked about the obstacles to the WTO accession process. Dr. Kondakov named a WTO-plus package as one of the major obstacles to the accession process, saying that Russia would not pay a first class ticket for an economy class seat. Director-General Suk Bum Park mentioned Russia's sometimes muscular action with regard to its pipelines and that Russia and Korea are similar in economy and motivation but dissimilar in terms of size of territory. Could not Russia and Korea head a multilateral energy cooperation regime in which they worked together? Korea can also provide Russia with downstream investment opportunities while Russia can provide Korea with upstream opportunities. He then talks about some areas in which they can cooperate such as the environment and the Millennium Development Goals. Dr. Young then asked for Russia's views on APEC, and noted that Russia is no longer a PECC member, a think-tank for APEC. He asked whether Russia would like to be represented in PECC once again, adding that it would promote non-official dialogue and cooperation. In that regard, Dr. Kondakov commended APEC for concentrating on the issue of the physical security of critical energy infrastructure. Dr. Inuk Chung of KISDI invited Russia to come to a meeting of APECTEL, the Telecommunications and Information Working Group of APEC, so as to benefit its IT industry.

3. List of Participants (in alphabetical order)

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Oh Seok HYUN	President, Trade Research Institute, Korea International Trade Association (KITA)
Jin-Kyu JEONG	Director, Economic Organizations Division, International Economic Affairs Bureau, Ministry of Foreign Affairs and Trade (MOFAT), Republic of Korea
Sang Kyom KIM	Executive Director, Korea National Committee for Pacific Economic Cooperation (KOPEC)
Young Joon KIM	Deputy Director, The Korea International Trade Association (KITA)
Andrei L. KONDAKOV	Director, Department of Economic Cooperation, Ministry of Foreign Affairs, Russian Federation
Jae-Young LEE	Senior Research Fellow, Korea Institute for International Economic Policy (KIEP)
Chansuk LIM	Senior Manager, International Cooperation Division, The Federation of Korean Industries (FKI)
Sang-yirl NAM	Research Fellow, Korea Institute for International Economic Policy (KIEP)
Young-il OH	Research Fellow, LG Economic Research Institute (LGERI)
Myungsoo PARK	Research Fellow, Science and Technology Policy Institute (STEPI)
Suk Bum PARK	Director-General, International Economic Affairs Bureau, Ministry of Foreign Affairs and Trade (MOFAT), Republic of Korea
Sung Hoon PARK	Professor, Graduate School of International Studies, Korea University
Igor I. SAGITOV	Counsellor, Russian Embassy in the Republic of Korea
Weonyoung SUNG	Research Fellow, The Korea Transport Institute (KTI)
Alexander A. TIMONIN	Minister-Counsellor and Deputy Chief of Mission, Russian Embassy in the Republic of Korea
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