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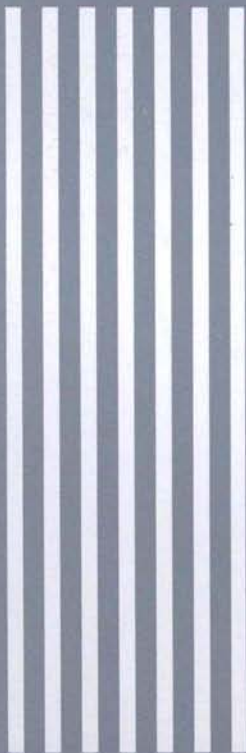
**CURRENT STATUS AND PROSPECTS FOR  
KOREA-RUSSIAN ECONOMIC COOPERATION**

**Chang Jae Lee**

**KIEP**  

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**Working Paper**



**KOREA INSTITUTE FOR  
INTERNATIONAL  
ECONOMIC POLICY**

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## I. Introduction

The rapprochement between Korea and the Soviet Union in the late 1980s unveiled the Soviet Union to Koreans for the first time in decades. The initial excitement generated in Korea by this tremendous opportunity was soon replaced by high expectations of economic cooperation with the Soviet Union.

In fact, trade between the two countries grew quickly, initiated by Korean businessmen who were also very active in searching for investment opportunities in the Soviet Union. Furthermore, in January 1991, Korea pledged to provide the Soviet Union with a US\$3 billion economic cooperation fund over a three-year period.

However, the disintegration of the Soviet Union at the end of 1991, as well as political instabilities and economic deterioration of the Russian economy that followed, constituted very serious obstacles to the further development of the economic cooperation between Korea and Russia. In addition, the fact that Russia was unable to service Korean loans made the Korean public very skeptical as to whether economic cooperation with Russia was in Korea's best interest.

Russians also appear to be disillusioned with bilateral economic cooperation with Korea. Some Russians even suggest that Korea is not actively seeking to enhance the level of its economic ties with Russia on the pretext of the unsolved "loan issue."<sup>1)</sup> President Yeltsin's proposal, during President Kim's visit in Moscow at the beginning of June, not to link the loan issue with the ongoing investment projects seems also to stem from a similar concern.

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1) See I. Golem'iovskii and S. Agafonov, "V roli statista," *Izvestiya*, May 27, 1994.

How serious is the recent slowdown in Korea-Russian economic cooperation? First, this paper will try to answer this question by reviewing the evolution of economic ties between the two countries, concentrating on their bilateral trade and direct investments. Furthermore, this paper will attempt to find the causes of the recent malaise in bilateral economic cooperation by analyzing the obstacles to it. In the last section of this paper, both long-term possibilities and short-term prospects for Korea-Russian economic cooperation will be discussed.

## **II. Current Status of Korea-Russian Economic Cooperation**

### Trade

The most visible signs of growing economic cooperation between Korea and Russia can be found in the rapid growth of bilateral trade.

For the period of 1987-1991, the average annual growth rate of trade between Korea and the Soviet Union was 71.8%. Trade between the two countries increased from US\$80 million in 1986 to US\$1.2 billion in 1991. However, the trade volume decreased substantially to US\$859 million in 1992, due to the collapse of the Soviet Union and the subsequent breakdown of the Soviet economy as well as the suspension of a Korean loan earmarked for purchase of Korean consumer goods (see Table 1).<sup>2)</sup> In 1993, Korean trade with the countries of the former Soviet Union jumped to US\$1.9 billion, which

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2) Korea-Russian trade data are only available as of July 1992. Therefore, even for 1992, Korea's trade figures with the countries of the former Soviet Union were used.

**Table 1. Korea-Russian Trade**

(Unit: thousand US\$)

	Trade	Exports	Imports	Trade Balance
1987	150,548 (87.6)	17,416 (39.8)	133,312 (96.4)	-115,716
1988	204,333 (35.7)	26,021 (49.4)	173,312 (33.9)	-152,291
1989	599,446 (193.3)	207,746 (698.3)	391,700 (119.6)	-183,954
1990	888,799 (48.2)	519,147 (149.9)	369,652 (5.6)	149,495
1991	1,202,373 (37.6)	625,080 (20.4)	577,293 (56.1)	47,787
1992	859,142 (-28.5)	364,609 (-41.7)	494,533 (-14.3)	-129,924
1993	1,575,992	601,171	974,821	373,650
1994	852,161	378,204	473,957	95,753
(Jan.-May)	(63.8)	(89.1)	(48.0)	

Notes: 1) For 1987-1992, Korean trade figures with the former Soviet Union are given.

2) Figures in parentheses show the percentage rise from the previous year.

Source: *KOTIS*.

represents a 120.3% rise from 1992.

The two-way trade between Korea and Russia also soared enormously in 1993, amounting to US\$1.58 billion. Korea's imports (US\$975 million) surpassed its exports to Russia (US\$601 million) by US\$374 million.<sup>3)</sup> Korea-Russian trade volume continued to grow rapidly in 1994. During the first five months of this year, trade increased by 64% over the same period last year. In particular, during this period, Korea's exports to Russia almost doubled

3) These trade statistics do not include Korea's indirect trade with Russia through a third country or small trade done by Korean and Russian peddlers. According to Russian statistics, Korea-Russian trade in 1993 amounted to US\$1.49 billion (*Ecotass Weekly*, No.24, June 13, 1994, p.21).

compared to the same period of 1993.

Despite such rapid growth, Korea-Russian trade is still relatively small.

In 1993 and the first five months of this year, Korea-Russian trade represented a mere 0.9% and 1.1%, respectively, of Korea's total trade, while it accounted for 2.3% and 3.7% of Russia's total foreign trade (not including trade with the CIS countries) in 1993 and the first four months of this year. In 1993 and the first five months of 1994, the ratio of Korea-Russian trade to Korea-Chinese trade amounted to 17.4% and 19.6%, respectively (see table 2).

However, the fact that the proportion of Korea-Russian trade to Japan-

**Table 2. Relative Importance of the Korea-Russian Trade**

	(Unit: %)	
	1993	1994
Ratio of Korea-Russian trade to:		
Korea's total trade	0.9	1.1 <sup>2</sup>
Russia's total trade	2.3	3.7 <sup>3</sup>
Korea-Chinese trade	17.4	19.6 <sup>2</sup>
Japan-Russian trade	36.9 (3.1) <sup>1</sup>	-
Ratio of Korean exports to Russia to:		
Korea's total exports	20.7	1.1 <sup>2</sup>
Russia's total imports	2.2	5.5 <sup>3</sup>
Korea's exports to China	11.7	16.6 <sup>2</sup>
Japan's exports to Russia	40.1 (0.7) <sup>1</sup>	-
Ratio of Korean imports from Russia to:		
Korea's total imports	1.2	1.2 <sup>2</sup>
Russia's total exports	2.3	2.9 <sup>3</sup>
Korea's imports from China	24.8	22.9 <sup>2</sup>
Japan's imports from Russia	35.2 (5.7) <sup>1</sup>	-

Notes: <sup>1</sup> 1987.

<sup>2</sup> January-May.

<sup>3</sup> January-April.

Sources: *Ekonomika i zhizn'*, No.6, February 1994; No.22, May 1994; *KOTIS; Monthly Bulletin on Trade with Russia & East Europe*, April 1994, p.2.

Russian trade grew from 3.1% in 1987 to 36.9% in 1993 indicates that Korea-Russian trade increased very rapidly during this period.

Tables 3 and 4 show Korea-Russian trade by industry in 1993. Electronics and electric appliances constituted almost half of Korean exports to Russia, followed by machinery, automobiles and vessels (20%) and textiles (18%). Korea's major export items to Russia were color TVs, automobiles, VTRs, video and audio tapes, refrigerators, and vessels.

During the first five months of 1994, Korean electronics and electric appliance exports to Russia continued to grow rapidly, attaining a 62.5% share of total exports to Russia. However, the share of machinery, automobiles and vessels shrank to 6.0% due to a substantial decrease in exports of automobiles and vessels compared to the same period last year.

In 1993, steel and metal products constituted almost half of Korea's imports from Russia. Korea also imported marine, chemical and agricultural products from Russia. Korea's major import items from Russia were steel, pig iron, frozen fish, cotton, timber, aluminum, crude oil and coal.

During the first five months of 1994, steel and metal products continued

**Table 3. Korea's Exports to Russia in 1993**

	Amount (thousand US\$)	Share (%)
Electronics & Electric Appliance	269,539	44.8
Machinery, Automobiles, Vessels	119,242	19.8
Textiles	100,717	16.8
Agricultural Products	37,256	6.2
Oil Products	13,185	2.2
Footwear	11,958	2.2
Others	49,274	8.2

Source: *KOTIS*.



**Table 4. Korea's Imports from Russia in 1993**

	Amount (thousand US\$)	Share (%)
Iron and Steel, Metal Products	452,569	46.4
Marine Products	143,669	14.7
Chemical Products	95,287	9.8
Agricultural Products	87,687	9.0
Forestry Products	46,998	4.8
Crude Oil	32,807	3.4
Coal	28,712	2.9
Others	87,092	9.0

Source: KOTIS.

to be the most dominant group among Korean imports from Russia, accounting for more than 50% of them. In particular, imports of steel, aluminum and timber soared compared to the same period last year.

### Investments

Since the beginning of Korea-Russian economic cooperation, Korean investments in Russia have drawn a lot of attention from both sides. However, unlike trade, the progress of Korean investments in Russia has been relatively modest.

As of April 1994, forty-six Korean investment projects had been approved by the Korean government. Capital investment has already begun on twenty-eight of the projects. The permitted amount of investments has reached US\$41 million, of which US\$24 million has actually been invested.<sup>4)</sup>

4) The total number and amount of Korean investments in Russia would be higher, if projects completed by foreign subsidiaries of Korean companies and projects realized without proper notification to the Korean government were included. However, the

The first investments approved by the Korean government were two joint ventures of Jindo in 1989. Since then, three projects came in 1990; another three in 1991; eight in 1992; twenty-three in 1993; and six during the first four months of 1994. After a slow start, the number of Korean investment projects increased substantially in 1993.

As of April 1994, the average size of the forty-six approved Korean investments amounted to US\$892,000. However, aside from Hyundai's Svetlaya forest development project and Vladivostok business center, which represented US\$16,000,000 and US\$8,820,000, respectively, most of the Korean investments were of relatively small scale averaging less than US\$400,000.

As shown in Table 5 and Table 6, among the 46 Korean investment projects in Russia, 18 projects are in the field of trade. The processing of marine products is the second most popular sector. Other investment areas include foods, clothing, ship repairing, manufacturing, services, forest development, etc.

When these investment projects are analyzed according to their location, we can observe that more than half of them are located in the Russian Far East; while Moscow is the second most popular site. In the Russian Far East, Korean investments are concentrated in the Maritime Province, including Vladivostok, the Sakhalin Province and the Khabarovsk Province (see Table 5 and Table 6).

With regard to capital share, only three of the projects are 100% Korean-owned. In twenty-one projects, Korean and Russian partners share an equal 50%; in thirteen projects Korean firms own less than 50% of the capital; and in nine projects the Korean contribution is more than 51%.

Table 7 indicates that Korean investments in Russia lag behind Korean

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difference would not be significant.

**Table 5. Korean Investment Projects in Russia**

(as of April 1994)

Firms	Sector	Location
Interlik	Trade	Moscow
Jindo Rus	Trade	Moscow
Hongjoong Khabarovsk	Software Development	Khabarovsk
Svetlaya	Forest Development	Maritime Province
Anam Co., Ltd.	Chopsticks	Amur Province
Kornam	Ship Repairing	Sakhalin
Vremya-Hyunjae Co., Ltd.	Food	Sakhalin
Goldstar Telecom Corporation	Communication instruments	Moscow
Han-Ros-Techcom	Clothing	Moscow
Roskor Fisheries Co., Ltd.	Fishery	Vladivostok
Ultramed Co., Ltd.	Trade	Moscow
Roskorturbo Ltd.	Gas Turbine	St. Petersburg
Daljko Corporation	Trade	Khabarovsk
Ecosa	Trade	Sakhalin
Han Gang	Trade	Moscow
Dalmoreproduct	Fishery	Vladivostok
Daewoo Electronics Positron Co., Ltd.	Trade	St. Petersburg
Rusco	Trade	Kamchatka
Khasco Co., Ltd.	Trade	Khabarovsk
Khabarovsk International Fishery Inc.	Food	Khabarovsk
Primornamsung	Ship Repairing	Nakhodka
Sungwon Vimp Co., Ltd.	Clothing	Ekaterinburg
Prehan Enterprise Ltd.	Fishery	Maritime Province
Daewoo Electronics Moscow Trading Company	Trade	Moscow
Jscot Jv Goldstar Buryat	Manufacturing	Ulan Ude
Roskor Industries & Trading Co., Ltd.	Trade	Sakhalin
Persunyang	Manufacturing	Vladivostok
Koros-M Ltd.	Trade	Moscow

Source: The Bank of Korea.

**Table 6. Korean Investment Projects in Russia\***

Firms	Sector	Location
Sofco Co., Ltd.	Fishery	Nakhodka
Caxko	Service	Sakhalin
Sako	Ship Repairing	Sakhalin
Kim Bekcity Co., Ltd.	Trade	Novosibirsk
Dek Co., Ltd.	Trade	Ekaterinburg
Krasa Co., Ltd.	Photograph	Moscow
Lotte-Beriozka	Trade	St. Petersburg
North-East Company Ltd.	Trade	Khabarovsk
Erel Ltd.	Trade	Sakha
Yakor Diamond Corporation	Diamond Cutting	Yakutsk
Rusdy International Inc.	Clothing	Vladivostok
Roskor-Sungwon Ueip Co., Ltd.	Leather, Clothing	Ekaterinburg
Company DarakoVostok	Transportation	Maritime Province
Vladivostok Business Center	Hotel	Vladivostok
Sagrima Company Limited	Trade	Sakhalin
Tehwa Kiop	Food	Vladivostok
Ice Co., Ltd.	Fishery	Sakhalin
Vladkor	Service	Vladivostok

Note: \* Received the Korean government's permission, but were not invested as of April 1994.

Source: The Bank of Korea.

investments in other countries.

As of the end of 1993, the ratio of realized Korean investments in Russia to realized Korean investments in China was 3.7%, while the ratio for total invested Korean capital between the two countries was 5.0%. The ratio of realized Korean investments in Russia to Korea's total overseas investments in terms of number of investments and total capital investment were 0.9% and 0.4%, respectively.

In terms of approved investment projects, the relative size of Korean investments in Russia remains pretty similar. However, Korean investments in Russia lag far behind Korean investments in Uzbekistan as far as the total

**Table 7. Relative Importance of Korean Investments to Russia**

(as of the end of 1993)

	Realized	Investments	Approved	Investments
	number	Amount (thousand US\$)	number	Amounts (thousand US\$)
A Korean Investments to Russia	24	23,685	38	29,349
B Korean Investments to Uzbekistan	2	15,000	4	130,490
C Korean Investments to Kazakhstan	5	1,813	6	5,941
D Korean Investments to China	647	474,573	1,043	976,923
E Korea's Total Overseas Investments	2,755	5,578,237	3,513	7,266,196
A/D	3.7%	5.0%	3.7%	3.0%
A/E	0.9%	0.4%	1.1%	0.4%

Source: The Bank of Korea, Korea's Overseas Investments, 1994, pp.10-44.

approved amount is concerned.

According to Russian statistics, as of the end of June 1993, there were 50 Korean joint ventures in Russia—approximately 1% of total foreign joint ventures (5,249) in Russia—making Korea the 16th largest foreign investor in Russia in number of joint ventures. In terms of size of capital, Korean investments in Russia amounted to Rbl 221.9 million, representing 0.4% of total foreign investments and making Korea the 13th largest foreign investor in Russia in volume of invested capital.<sup>5)</sup>

In addition, some important Korean investment projects in Russia are presently under negotiation. Among them, the most prominent one is Sakha gas development project. During President Kim's visit to Moscow in June 1994, the

5) JETRO's White Paper for World's and Japan's Overseas Investments, 1994, p.18.

two governments agreed upon the principle that each side will pay US\$10 million for the preliminary feasibility test. Furthermore, projects like Sakhalin gas development, Korea-Russian business center in Moscow and Korea-Russian industrial complex in Nakhodka are of great importance. Several other projects are also under negotiation such as Samsung's TDX project, Daewoo's electronics project, Goldstar's microwave oven project, etc.

In contrast, as of March 1994, there were only 15 Russian investments in Korea. Most of them were in export-import business or transport and forwarding operations, and of relatively small size. Russia's total investments in Korea amounted to US\$2.5 million.

### Science and Technology Cooperation

Since the Agreement on science and technology cooperation between the two governments in December 1990, and the first science and technology ministers' meeting in May 1991, science and technology cooperation between Korea and Russia has progressed in various forms: joint R&D, purchasing and selling of technology, joint venture and exchange of scientists.

The Korean government sector, including government financed research institutes, has been very active in joint R&D projects, exchange of scientists, as well as in building the basic frameworks of Korea-Russian science and technology cooperation.

Of the 79 joint R&D projects agreed by both governments, 39 were started, as of April 1994; concrete results have been achieved in about 13 projects. With regard to personnel exchange programs, for 1991-1993 about 500 Russian scientists paid a short term visit to Korea, while 95 and 130 Russian scientists stayed in Korea for more than several weeks in 1992 and 1993, respectively. In

addition, three Korea-Russian joint R&D centers were opened in Moscow in June 1994.

At the university level, 16 Korean universities and 34 Russian universities and institutes have been involved in various exchange programs.

Substantial progress has also been made in the private sector. Some Korean companies, like Samsung, established joint research centers in Moscow, while others set up joint ventures. Halla opened a joint venture (Roskorturbo, Ltd.) in St. Petersburg (see Table 5) and Hyundai-Yak established a joint venture in Seoul in April 1994. Furthermore, for the period of 1989-1993, Korean firms purchased 30 technologies from Russia at US\$3.3 million and sold 5 technologies to Russia at US\$3.21 million. In addition, a number of joint R&D projects between Korean private firms and Russian research institutions have been under way.

### Other Areas of Economic Cooperation

In the long term, cooperation in resource development is regarded as one of the most important areas in Korea-Russian economic cooperation. However, as mentioned earlier, aside from Hyundai's Svetlaya forest development project, Korean resource development projects in Russia are virtually nonexistent. So far, most of the bilateral economic cooperation in resource related areas have been limited to the imports of energy, mineral, forest and marine resources.

In the initial stage of economic cooperation between Korea and the Soviet Union, the earliest and most concrete results were realized in the fishery sector. Now, through negotiation, Korean fishermen are granted the right to fish in Russian waters with payment of fees, within the quota agreed by both sides.

Another promising area of economic cooperation between the two countries lies in the construction sector. So far, Korean companies have obtained six construction projects (worth US\$326 million), four of which (worth US\$234 million) are under way.

Bilateral economic cooperation has also been pursued in the fields of transportation and communication. In particular, the Korea Telecommunications Agency is participating in the optical fiber cable construction project, which will connect Denmark and Italy with Korea and Japan through Siberia. The Korea Telecommunications Agency is constructing the lines between Pusan and Nakhodka.

A quick review of the status of Korea-Russian economic cooperation reveals that substantial progress has been achieved in bilateral economic cooperation during a relatively short period of time; although these results fall short of the high expectations of both countries.

### **III. Obstacles to Korea-Russian Economic Cooperation**

In the early years, there were three major groups of problem areas in Korea-Russian economic cooperation. First, the lack of a basic framework for economic cooperation existed between the two countries. Second, Korea lacked substantial knowledge regarding Russia. Third, the Russian economic environment was not mature enough for international economic cooperation. Although further details need to be ironed out, a basic institutional framework for bilateral economic activities has been established, while Korea's lack of experience and knowledge of Russia has been partly overcome.



However, the biggest hindrance to economic cooperation between Korea and Russia remains the highly destabilized domestic situation in Russia. Unfortunately, the Russian economic environment is not yet conducive for international economic cooperation.

The Russian economy continues to decline. Russia's GDP decreased by 9% and 19%, respectively, in 1991 and 1992, and it shrank by 12% in 1993. The drop of the Russian economy has worsened this year. During the first four months of 1994, Russia's GDP and industrial production decreased by 17% and 25.4%, respectively (see Table 8).<sup>6)</sup> However, despite a continuous decline in production, massive unemployment has yet to set in.<sup>7)</sup>

To make matters worse, since the price liberalization of January 1992, Russia has been suffering from very high inflation. The average price for consumer goods and services rose 245 times between December 1991 and December 1993. Consequently, the real income of the Russian population for 1993 was 43% lower than that of 1991. During the first four months of 1994, inflation has been slowing down but still remains at a very high level; the monthly inflation rate was 21% in January, 10% in February, 9% in March and 10% in April.<sup>8)</sup>

The deterioration of Russia's domestic economy was also reflected in

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6) Such a recent shrinkage of the Russian economy seems to be somewhat exaggerated taking into consideration the fact that, recently, Russian firms had a tendency to underreport their production and that activities of newly emerging private firms are not fully reflected in these statistics. Nevertheless, it is undeniable that the state of the Russian economy continues to worsen.

7) According to Russian official statistics, as of the end of April 1994, the number of people without work amounted to 4.5 million (6.0% of active population), out of which only 1.2 million people (1.5% of active population) are officially registered unemployed (*Ekonomika i zhizn'*, No.22, May 1994).

8) Gosudarstvennyi komitet Rossiiskoi Federatsii po statistike, *Sotsial'no-ekonomichskoe polozhenie Rossii, yanvar'-aprel' 1994g.*, p.80.

**Table 8. Evolution of the Russian Economy**

	1991	1992	1993	1994 (Jan.April)
GDP <sup>1</sup>	-9	-19	-12	-17
Industrial Production <sup>1</sup>	-8	-18.8	-16.2	-25.4
Consumer Price	92 <sup>1</sup>	2500 <sup>2</sup>	840 <sup>2</sup>	59 <sup>3</sup>
Exports <sup>1</sup>	-29	-25	1.4	6
Imports <sup>1</sup>	-46	-21	-27	-23

Notes: <sup>1</sup> Percentage change from the previous year (%).

<sup>2</sup> Percentage change of December price from the previous year.

<sup>3</sup> Percentage change during January-April 1994.

Sources: *Ekonomika i zhizn'*, No.4, January 1992; No.4, January, 1993; No.6, February 1994; No.22, May 1994.

Russia's foreign economic sector. A 23% drop in Russian foreign trade in 1992 was followed by a 12% decrease in 1993.<sup>9)</sup> During the first four months of 1994, Russian exports increased by 6% over the previous year; however, Russian imports shrank again by 23%.

The number and size of foreign investments in Russia have also grown slowly. According to the State Committee for Statistics of Russia, there were 6,359 foreign or joint ventures operating in Russia as of January 1994, with an estimated value of US\$2 billion to US\$2.5 billion.<sup>10)</sup>

Aside from the deterioration of the Russian economy, political instability, widespread corruption and mounting crimes are discouraging factors to not only

9) *Ekonomika i zhizn'*, No.4, January 1993; NO.6, February 1994.

10) The Institute of Economic Problems of the Transition Period estimates the number of enterprises with foreign participation at 11 to 12 thousand, and the volume of foreign equities in enterprises with foreign investments at US\$3 billion to US\$4 billion (*Ecotass Weekly*, No.24, June 13, 1994). By comparison, the size of foreign investments in China in 1993 alone is estimated at US\$26 billion.

Korean businessmen, but to their Western counterparts as well.

Furthermore, lack of laws and regulations for foreign economic activities, frequent changes in taxes and regulations, unclear division of power and responsibility regarding foreign economic matters between the central government and local ones on the one hand, and among various ministers and state committees on the other, majority of Russian bureaucrats' and managers' unfamiliarity with market practices, and lack of a modern banking system, telecommunication network and port facilities are the main obstacles to doing business in Russia.

In addition, Russia's inability to service Korean loans constitutes another hindrance to Korea-Russian economic cooperation. Korea provided the Soviet Union with two bank loans of US\$500 million each in May and October 1991 and additional loans earmarked for the purchase of Korean consumer goods and raw materials (worth US\$473 million) by the end of 1991. However, due to its deteriorating economic situation, Russia could not service these loans, and as of the end of 1993, the delayed payments amounted to US\$388 million.

#### **IV. Possibilities and Prospects for Korea-Russian Economic Cooperation**

##### **Long-term Possibilities for Korea-Russian Economic Cooperation**

Despite the aforementioned obstacles, the long-term prospects for Korea-Russian economic cooperation are bright due to the following factors: complementarity of economic structures of the two countries, geographic proximity and potential of Russian economy. First, the complementarity of economic

structures of Korea and Russia is well-known. Russia owns abundant natural resources and a highly developed basic science and advanced technology base, while Korea has well developed production technology, expertise in international marketing, and international experiences in construction and development. When it comes to industrial structure, Russia is a world leader in aerospace, new materials, and other military industries, while Korea is very strong in manufacturing electronics, automobiles and consumer goods, as well as in construction.

The second reason for this positive outlook is the geographic proximity of the two countries. With the removal of the ideological barrier separating Korea and Russia, it is only natural that the two neighboring countries should endeavor to increase their economic cooperation. The concentration of Korean investments in the Russian Far East seems to testify to the importance of geographic proximity.

The third reason is that Russia's economic potential is enormous. In spite of the short-term difficulties of the Russian economy, the nation's vast territory, abundant natural resources, highly developed technology, well-educated manpower and population of 150 million, endow it with enormous economic potential.

### Short-term Prospects for Korea-Russian Economic Cooperation

Since the main obstacle to Korea-Russian economic cooperation lies in the continuing deterioration of the Russian economy, the prospects for Korea-Russian economic cooperation depend on the outlook of the Russian economy.

However, there is a great deal of uncertainty regarding the outlook of the Russian economy due to the fact that it will vary according to different economic

policy measures to be taken by the Russian government. Regardless of policy decisions, however, the short-term prospects of the Russian economy look rather gloomy.

The Russian government predicted in March 1994 that Russia's GDP would most likely fall by 8% and industrial production would decline by 12%. It also forecasted a 5 to 6% unemployment rate, which translates to about 3 million unemployed Russians, and a 12 to 13% per month average inflation rate.<sup>11)</sup>

PlanEcon also estimated that the Russian economy would decrease by 4.7% this year. According to PlanEcon, the Russian economy will continue to fall again in 1995 (by 2.0%), and then will begin to recover from 1996.<sup>12)</sup>

In addition, the outlook of Russia's political situation is still not clear. Therefore, drastic improvements in the business environment for foreign firms may take quite a while.

Under these conditions, it is unrealistic to expect a dramatic change in Korea-Russian economic cooperation in the near future. However, in addition to the aforementioned favorable long-term possibilities, there are several reasons why the short-term prospects for Korea-Russian economic cooperation are quite good.

First, although the Russian economy is faced with great difficulties, the Russian government appears to be committed to economic reform, as evidenced by the recent signing of six Presidential decrees on the Russian economy.<sup>13)</sup>

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11) *Ecotass Weekly*, No.14, April 4, 1994, p.3.

12) *PlanEcon Review and Outlook for the Former Soviet Republics*, February 1994, p.52.

13) *Ecotass Weekly*, No.22, May 30, 1994, pp.5-6.

Second, as mentioned earlier, a series of big projects such as a Korea-Russian trade center in Moscow, a Korea-Russian industrial complex in Nakhodka and Sakha gas development project are about to start, and a lot of other important projects are under negotiation.

Third, the future of Korea-Russian economic cooperation looks promising, since the frameworks necessary for bilateral economic cooperation have been established to a large extent during the past several years. Through growing personal contact, Korean firms have managed to build a good image for Korean products and services in Russia. Furthermore, Korean firms seem to have accumulated a lot of experience about the ways of doing business in Russia.<sup>14)</sup> For instance, the substantial growth of Korea-Russian trade in 1993, during which Russia's foreign trade volume went down significantly, can be explained by Korean firms' increased knowledge of the Russian market.

Finally, as mentioned earlier, despite rapid increases in the past several years, the present level of bilateral economic cooperation remains relatively low. Therefore, even without a dramatic improvement in Russia's business environment, bilateral economic cooperation should develop rather quickly.

## **V. Conclusion**

The analysis of the evolution of Korea-Russian economic cooperation shows us that the prevalent negative views toward bilateral economic cooperation in both countries are either largely groundless or greatly exaggerated. Korea-Russian economic cooperation has progressed rather quickly in various

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14) As of the end of 1993, there are 54 branches of various Korean firms and organizations, including two KOTRA offices, in Russia.

fields during a relatively short period of time, if not as rapidly as both sides had expected.

The main obstacle to Korea-Russian economic cooperation has been the unfavorable Russian business environment including a deteriorating economy, an unstable political situation and a lack of a market institution. Unfortunately, these conditions are not likely to change dramatically in the short-run.

However, the long-term outlook of Korea-Russian economic cooperation is very bright due to its great potential. Furthermore, despite the uncertainties of Russian politicoeconomic instability, the short-term prospects for Korea-Russian economic cooperation also look promising, mainly due to the well established basic frameworks for bilateral economic cooperation which have been created in the past several years.

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