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Russia's Economic Modernization Policy and Implications for Cooperation between Korea and Russia

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1. Russia's Economic Achievement and Structural Challenges

Russia achieved rapid economic growth till 2008, mostly as a result of high oil prices. The country proudly stood as a member of the G8 and a leading economy of the BRICS group. However, the global financial crisis in 2008 ruthlessly battered

the Russian economy, bringing about a 7.8% reduction in GDP in 2009. The overdependence of the economy on energy resources was pointed out as the major factor in the GDP free-fall. The impact was so devastating that not even the recovery of oil prices could put Russian economic growth rates back on track. Rather, since 2010, growth rates continued to slow down.

Russia's economic growth model, which backed high economic growth until the mid-2000s, was reaching its limit. Thus, securing a new engine of growth has come to the forefront of Russia's economic policy agenda.

Against this backdrop, then-president Medvedev announced an economic modernization policy as part of the industrial policy aimed at the structural diversification of the economy. The five industries selected as key priority sectors include energy efficiency, nuclear technology, ICT, space technology, and medical and pharmaceutical technology.

The goal of Russia's economic modernization policy is to transform the economy, heavily dependent on energy exports, into an innovation-based economy. For this, the Russian government set up an advanced development strategy, intended to secure the lead in technology sectors where Russia holds a comparative advantage or development potential. At the same time, a catch-up development strategy - developing technologies through imports or technology-transfer - was adopted. This study analyzes and evaluates the main contents and implementing processes of Russia's economic modernization policy and proposes Korea-Russia cooperation measures in response to the findings.

2. Main Features of the Economic Modernization Policy

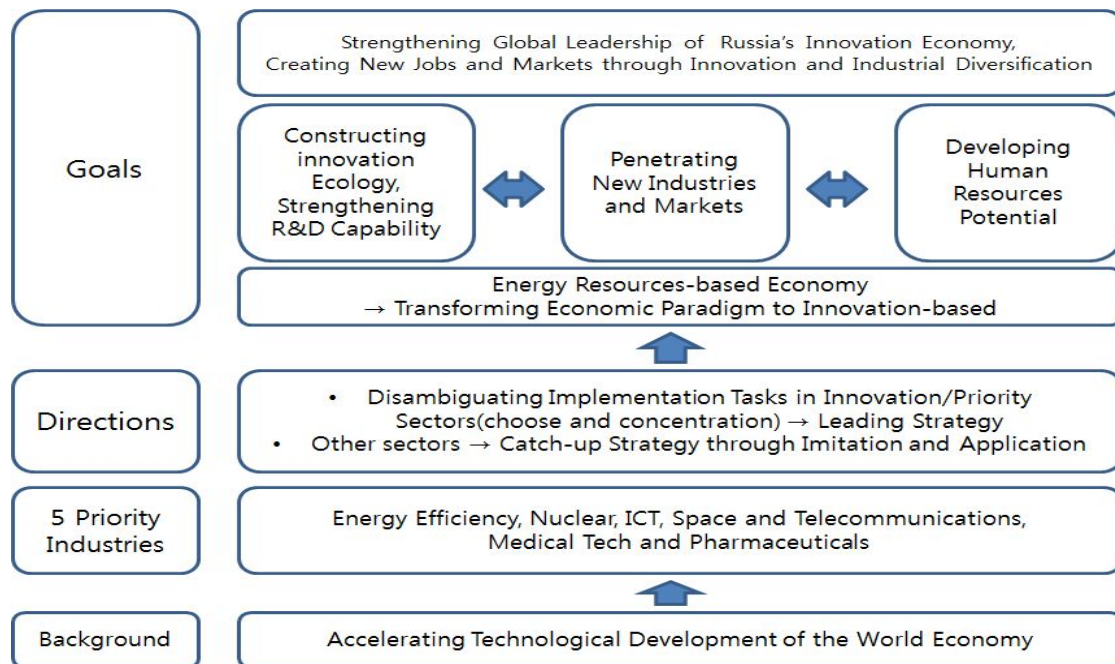
Institutional mechanisms of the economic modernization policy include a policy coordinating body and a number of implementing

organizations. Specifically, the Council under the President of the Russian Federation on Economic Modernization and Innovative Development of Russia is responsible for the coordination of these policies. The Agency for Strategic Initiatives, Skolkovo Foundation, Russia Venture Company, Vnesheconombank, and Rusnano all implement and support innovation projects through cooperation among themselves and beyond.

In December 2011 the Russian government presented a comprehensive direction for its economic modernization policy, in the 'Strategy for Innovative Development of the Russian Federation for the period until 2020.' In 2014, government programs on the key five industries involved in the economic modernization policy were confirmed. The programs are as follows: 'Energy efficiency and energy development', 'Development of Nuclear Power Complex', 'Information Society in 2011–2020', 'Space Activity of Russia in 2013–2020', and 'Development of the Pharmaceutical and Medical Industry.'

There are diverse views as to the achievements and limits of Russia's economic modernization policy. The Russian leadership considers the discussions over goals, policy directions, and priority sectors of the modernization policy to be yet unfinished. Meanwhile, experts do agree in general that economic modernization is a laudable policy direction for sustainable development, and that the government's willingness, efficient operation of the constituent mechanisms, improving the investment environment through intensive structural reforms, and promoting innovation of SMEs through political and financial methods are critical factors for the policy's success.

Figure 1. Goals and Directions of Economic Modernization Policy



Source: Author.

3. Enforcement of the Economic Modernization Policy: Focusing on key industries

The level of innovation in Russia is high compared to developing countries; however it falls way behind the level of developed economies. Russia still lacks efficient institutions and financial development that can utilize inputs adequately to produce quality outputs. Therefore, more robust financial development is a must to facilitate R&D investment, and institutions in the innovation sector need to be realigned to manage resources efficiently.

Recently, the Russian government has shown a tendency to include economic reform tasks such as nurturing import substitute industries and SMEs in economic modernization policies. This reflects Russia's reality in which comprehensive reforms led by the government are

urgently called for. The five sectors are still Russia's key priority, and the industries are discussed as core agendas by the Council for Economic Modernization and Innovative Development, the control tower of the policy.

From the five key industries, the nuclear technology and space technology sectors are excluded because international cooperation in these fields are strictly restricted by the Russian government for national security and other reasons. Thus, the study investigates the current status of three sectors; energy efficiency, medical and pharmaceuticals and ICT.

The energy efficiency, medical/pharmaceutical technology and ICT sectors are steadily growing thanks to government support and active international cooperation. This is where Korea needs to develop strategies for the Russian market. There is much room for raising energy efficiency in Russia, since the infrastructure is largely outdated. However, im-

ported goods account for more than 70% of the domestic market due to the low competitiveness of Russian products. In addition, global companies are beginning to localize production by establishing joint ventures with Russian companies.

The medical and pharmaceutical sector grew nearly 10% on average in the last decade. Yet, the country is heavily dependent on imports for medical devices and medications. Responding to this, the Russian government implemented an import substitution policy for pharmaceuticals, to obtain advanced technology and know-how through the promotion of direct investment from global companies. Since recently, medical devices produced outside the EAEU can no longer be included in government procurement. Thus, foreign companies are investing directly into special industrial zones in Russia to build production facilities.

The ICT services sector exhibits more dynamic growth than the ICT manufacturing sector in Russia. This is because Russia possesses competitiveness in developing software and programming. Foreign businesses tend to be more interested in outsourcing or in R&D cooperation than direct entry into the Russian market.

4. Policy Recommendation

Based on the findings of this study, measures for Korea-Russia cooperation in terms of Russia's economic modernization policy are suggested as follows. First, a Korea-Russia business forum for innovative venture companies should be held simultaneously when the Korea-Russia Joint Committee on Economic, Scientific and Technological Cooperation convenes. The forum can enhance the efforts

of the Joint Committee by generating tangible results, and examining achievements and forthcoming challenges for subsequent Committee meetings.

Second, it is necessary to open a Korea Innovation Center (KIC) in Moscow and set up cooperative relations with the implementing agencies of the economic modernization policy. KIC is expected to provide support for technological cooperation between companies, expand business activities and increase investment. So far, most of the policy-implementing organizations in Moscow are collaborating with ministries and local companies only. In order for KIC in Moscow to play a comprehensive and unique role, it should establish partnerships with the institutions that implement Russia's economic modernization policy, such as the Skolkovo Foundation, Russia Venture Company, Agency for Strategic Initiatives, etc.

Third, the next generation's human resources should be nurtured to enhance scientific and technological cooperation between Korea and Russia. The Korean government needs to devise a long-term plan to nurture tech professionals with a profound understanding of Russian industrial technologies. This will be possible by sending out a number of students to Russia through a government scholarship program. Various forms of scholarship programs must be developed. Those who are sent to Russia through such programs will become mediators for Korea-Russia cooperation, particularly in the R&D sector, and help overcome barriers of language, culture, information and network. In the long term, they will even play a crucial role in realizing the "Creative Continent" of the Eurasia Initiative.

Fourth, Russia's special industrial and innovative economic zones can be utilized as a platform for Korea-Russia cooperation related

to Russia's economic cooperation policy. R&D cooperation with skilled experts and the use of business infrastructure in the zones can facilitate the entry of Korean companies into the Russian market.

Fifth, launching a Korean-Russian portal site for economic modernization and innovation will be helpful in strengthening bilateral cooperation. The governments and businesses from

both sides can share information on policies and market conditions of the five key sectors and exchange industrial technologies through the site. This will eventually invigorate cooperation in the private sector. Moreover, providing consultation services through the active participation of qualified consulting companies and governmental organizations in the technology sector from both sides will create a stronger synergy. 