

# The Improvement of Korea's New Northern Economic Cooperation Governance: Focusing on Russia

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## I. Introduction

Preparing for the next 30 years of relations between Korea and Russia is a true starting point for Korea's future national strategy of building a “bridging nation” that connects the continent with the sea. In order to achieve this national strategy, the Korean government should focus on establishing effective governance that can continuously promote economic cooperation with Russia.

Considering the government plays a particularly influential role in Russia, expanding intergovernmental consultations and establishing an institutional foundation for cooperation at the private level can be a useful approach to strengthening economic ties between Korea and Russia.

## II. The Concept and Theoretical Model of International Economic Cooperation Governance

This study presents a theoretical model based on the conceptual definition and core role of economic cooperation governance. In particular, we focused on transaction costs as an important factor in determining the level of economic cooperation with other countries, and attempted to theoretically analyze search and monitoring costs, which are the sources of transaction costs.

Ultimately, good governance for international economic cooperation could be defined as a series of institutional systems that effectively lower transaction costs as well as an “artificial commitment technology” that encourages fulfillment of a contract by reducing information asymmetry by establishing an effective surveillance system.

Based on the analysis, we concluded that while search costs are indirect factors, monitoring costs are important variables that directly affect transaction costs. However, considering the characteristics of Russia, the significance of search costs cannot be overlooked.

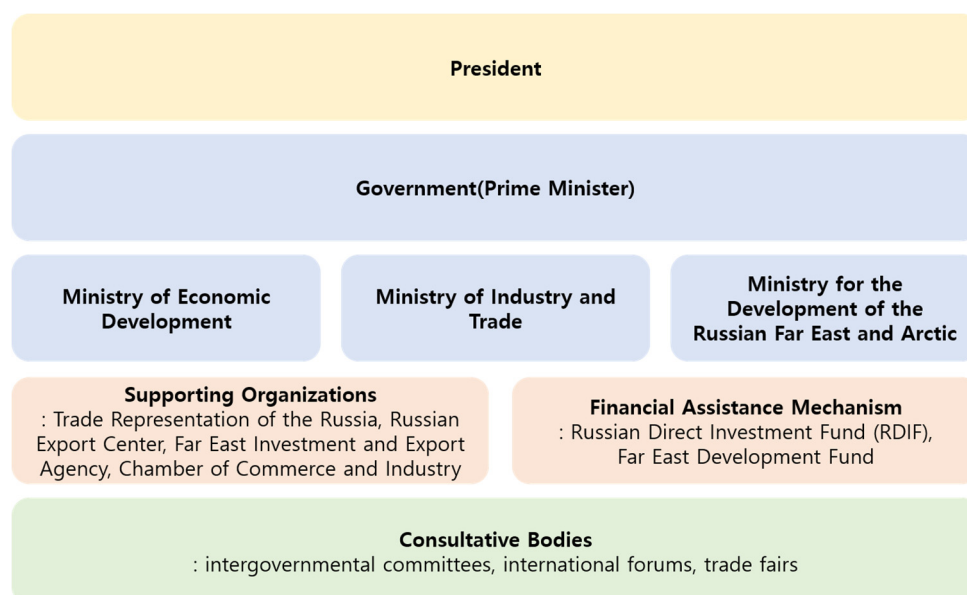
### III. Structure and Features of Russia's International Economic Cooperation Governance

The foreign economic cooperation governance of Russia mainly takes place at three types of entities: government ministries (the Ministry of Economic Development, Ministry of Industry and Trade, Ministry for the Development of the Russian Far East and Arctic), supporting organizations (Trade Representation of the Russia, Russian Export Center, Far East Investment and Export Agency, Chamber of Commerce

and Industry), and consultative bodies (inter-governmental committees, international forums, etc.). In addition, there are platforms for financial support such as the Russian Direct Investment Fund (RDIF) and Far East Development Fund.

The Russian government has sought to expand economic cooperation by strengthening bilateral relations with major partner countries. In cooperation with major countries in the Asia-Pacific region (Korea, China, and Japan), which are rapidly emerging in the global economy, the Russian government aimed at diversifying its trade structure and promoting the implementation of economic development programs in the Far East and Siberia. Meanwhile, Russia has given priority to facilitating investment cooperation with Vietnam and Germany, with which it has historically maintained close ties.

**Figure 1. Structure of Russia's International Economic Cooperation Governance**



Source: Authors' Summary.

## IV. Cases of Economic Cooperation Governance with Russia in Major Countries

This study analyzes various cases of economic cooperation governance in four major countries (China, Japan, Germany and Vietnam). Each of these countries are common in that they share regional and strategic interests with Russia. While Germany and Japan are participating in economic sanctions against Russia, China and Vietnam are not.

China and Germany have established a strong economic governance platform as Russia's first and second largest trading and import partners in the area of energy resources. In addition, Vietnam has maintained close ties with Russia since the Soviet Union era based on solid mutual trust. Japan is imposing economic sanctions on Russia and engaged in territorial disputes with Russia, but nevertheless it has been one of Russia's major partner countries for development of the Far East and the Arctic energy cooperation projects.

On the other hand, the following differences exist among the four countries in regard to economic cooperation governance with Russia. In China, foreign economic cooperation is led by the government. While the public sector participates in most of the economic cooperation platforms between the two countries, the role of the private sector is not very significant. China is actively utilizing joint investment funds and strengthening bilateral financial cooperation for developing economic relations with Russia.

The Japanese government is also recently expanding its influence over economic cooperation governance with Russia. However, the cooperative network between the two countries' private sectors is still making a relatively large contribution to economic relations, unlike China. While participating in economic sanctions against Russia, Japan has established a joint investment fund with Russia, and continued to provide financial support for the joint projects.

Germany has constructed the best private-led cooperation governance with Russia among the four countries. Private level economic cooperation continued even though intergovernmental meetings were temporarily suspended due to the Ukraine crisis in 2014. The Russian-German Chamber of Commerce has been playing a crucial role in deepening economic relations between the two countries, and the Petersburg Dialogue has contributed to increasing mutual understanding.

Vietnam is another country where government organizations play an important role in promoting economic cooperation with Russia. The Vietnamese government holds annual summits and high-level meetings to maintain and develop bilateral relations with Russia, and Vietnam is also the first country to sign an FTA with the Eurasian Economic Union (EAEU). In addition, Vietnam is different from other countries in that it has created Vietnam-Russia Joint Venture Bank (VRB), a joint venture between the two leading banks in Vietnam and Russia, as part of financial cooperation.

## V. Korea's Economic Cooperation Governance with Russia

In September 2017, the Korean government officialized its New Northern Policy at the 3<sup>rd</sup> Eastern Economic Forum General Assembly held in Vladivostok. The Moon Jae-in administration has set economic cooperation with Russia as the primary goal of the New Northern Policy, and also adopted the 9-Bridge Strategy to promote cooperative tasks in nine sectors. The Presidential Committee on Northern Economic Cooperation has been established as a separate body responsible for formulating policy in the area, and the Russian-Korean Initiative for Financial Cooperation has been introduced as a new financial assistance mechanism.

This year marks the 30<sup>th</sup> anniversary of diplomatic relations between Korea and Russia. In order to reinforce economic relations between the two countries, it is time for fundamental considerations on improving Korea's economic cooperation governance with Russia.

In this regard, we conducted a survey of experts at home and abroad on their evaluation of Korea's economic cooperation governance with Russia. The experts made the following suggestions.

First, among the intergovernmental committees, the Korea-Russian Far East and Siberia Sub-committee and Korea-Russia Consultative Body should be abolished or integrated since their roles overlap with other meetings, while

committees on cultural cooperation and Korea-EAEU economic cooperation need to be newly constituted.

Second, in the area of public-private and private economic cooperative bodies, many experts suggested to abolish or integrate institutions such as the Korea-Russia Business Dialogue, Business Forum, and Korea-Russia Dialogue (KRD). On the other hand, it was recommended to found strategic dialogues and forums for private-public experts in various fields to discuss cooperation strategies. The experts also proposed to form a private consultative group for technical cooperation as technology has become more important in terms of trade and industrial development in recent years. The consultative group could serve as a platform to build a network between technology companies of Korea and Russia.

Third, in regard to the supporting organizations, it was suggested that there is a need to improve the operation of the Russian-Korean Investment Platform and Russian-Korean Initiative for financial cooperation in order for them to function as effective financial assistance systems. The experts also recommended to establish a cooperation fund to support small and medium-sized enterprises entering the northern region and to open additional KOTRA trade centers in Northern regions.

## VI. Conclusion

Based on the above findings, this study presents five policy proposals to improve Korea's economic cooperation governance with Russia.

- 1) Reorganize the Korea-Russia Joint Committee on Economic, Scientific and Technological Cooperation and its subcommittees;
- 2) Restructure and revitalize public-private and private consultative bodies for economic cooperation;
- 3) Successfully utilize financial assistance mechanisms and consider launching a cooperation fund;
- 4) Establish a K-business center; and
- 5) Strategically utilize the major international forums organized by Russia. **KIEP**