

Russia-Korea trade and investment cooperation: critical trends and perspectives

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ABSTRACT

Since 1988 Russia and Korea have been developing bilateral economic relations. After the conclusion of, the first trade agreement, Korea has become one of the largest trading and investment partners of the Russian Far East. Annually, Korea has increased trade and investment flows to the Russian Far East, a region with high growth potential. By the 2000s Korea has become the Russian Far East's third largest trading partner. This article considers trade and investment flows from the 1990s to the present, analyses the prospects of achieving goals, and the problems of developing further bilateral cooperation between Russia and Korea.

Keywords: *trade and investment flows, Korea, Russia and the Russian Far East.*

I. METHODOLOGY

Theory on trade and investment suggests a large number of factors such as tariffs, quotes, taxes and subsidies that should be examined to explain the pattern of trade and investment in terms of protection or liberalization (see Krugman & Obstfeld, 2000, Argy, 1994). However, there are significant discrepancies between effectiveness of these instruments in economics and politics. A good example is cooperation between Russia and Korea that have not had any economic relations for a long time. It is understandable that trade and investment barriers prevent developing mutual cooperation between them from economic point of view. On the other hand, it is almost impossible for countries with a short history of relations to open the borders unless they have achieved political agreements, because it is quite difficult to accurately assess the effectiveness of some instruments in terms of uncertain political situation. Therefore our analysis has focused on available data sets.

We compare the different approaches of Russia and Korea toward the development of bilateral trade and investment agreements. To deepen our understanding of bilateral

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trade development and investment, we consider both the commodity structure of exports and imports and the investment structure of Korean capital that has been flowing into the Russian economy since 1995. The implication is that bilateral economic relations between Russia and Korea are developing slowly. It is necessary to intensify these relations by revamping the legislative measures governing Russia-Korea trade and investment cooperation to create the basis for integrating the two economies to widen the activity of Korean companies in the local trade and financial markets.

At present, Korea imports natural resources from Russia. Clearly, Russia is a competitive producer of gas and oil, which makes it very attractive to those countries that lack natural resources. Russia also produces skill-intensive goods that could be of interest to Korean companies (e.g. aircraft and machinery equipment). Moreover, both Russian scientific organizations and large-scale enterprises have gained plenty of experience in applying the results of fundamental research to the production process. A number of Korean and Russian companies have established joint-ventures to conduct research in different spheres. Specifically, some Russian-Korean joint ventures are focused on producing home electrical equipment. This type of cooperation complements Russian scientific skills and Korean capital resources. The example illustrates how Russia and Korea can engage in different forms of economic cooperation based on the use of resources each country lacks. Consequently, this article considers different forms and ways of further Russia-Korea economic cooperation and analyzes mutual outcomes.

II. INTRODUCTION

In 1988 Russia-Korea trade and investment relations commenced. The process went through two phases. The first phase is characterized as a period of political confrontation between 1970 and 1989. Direct trade and investment contacts between the Soviet Union and Korea did not exist. This was primarily due to the fact that the Soviet Union did not recognize South Korea as an independent state. However, there were instances when Korean companies bought Soviet resources through other countries. Subsequently, the North Korean government forced Soviet leaders to cease any relations with South Korea, including trade through third countries.

The political situation between the Koreas has had a negative influence on relations between the Soviet Union and South Korea. After the collapse of the Soviet Union, Russia changed its policy with respect to South Korea. For instance, trade and investment cooperation developed intensively from the late 1980s, when Russia started to liberalize its trade and capital flows with other countries. This period is considered the second stage of Russia-Korea cooperation.

A series of issues are considered. How has the dynamics of Russia's trade changed since 1990 and how has the role of the Russian Far East altered? How have the trade policies of Russia and Korea differed? How have the dynamics of Korea trade changed since 1990? Further, what are the reasons for the slow development of trade between

Korea and Russia? More specially, what are the prospects for future trade between Russia and Korea?

These issues are examined by accessing and analyzing detailed trade statistics on both Russia and Korea. These statistics are used to analyze Russian trade dynamics, differences in policies between Russia and Korea, and Korea trade dynamics. Then a detailed examination is made of the reasons for the slow development of bilateral trade between the two countries featuring the dynamics of investment flows between Russia and Korea, the pivotal role of the Russian Far East and difficulties in bilateral investment. Then a detailed assessment of bilateral trade projects is provided before concluding that much remains to be done in developing the relationship satisfactorily during the second stage of cooperation between Russia and Korea.

III. DYNAMICS OF RUSSIAN FOREIGN TRADE

In 1990, Russia established diplomatic relations with the South Korean government. Trade representation was established in both countries. Korean companies entered joint ventures with Russian companies in different spheres of the economy. Initially, the joint ventures commenced in the fur and timber industries.

Trade and investment relations grew slowly as a result of Russia's primary interest in developing trade and investment cooperation with countries in Western Europe. Trade was facilitated because of the proximity of these countries to the western boundary of the Russian Federation, which made it easier and more profitable for Russian companies to exchange goods with them.

Figure 1. Location map of the Russian Federation



Source : The World Factbook, CIA 2005.

Western European countries established their trade branches in western Russia, notably in Moscow, St. Petersburg and their adjacent counties, because this region comprises almost 80 per cent of the country's financial resources. Thus, the opportunity for deriving a large profit propelled European companies to develop trade and investment relations primarily in Western Russia. The amount of Russia's foreign trade with European countries was always much greater than that with Asian countries.

Table 1. Russia's foreign trade by country, 1995-2001 (millions of US dollars)

Country	Exports							Imports						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
Total, including:	63,687	69,294	68,472	57,614	62,179	89,269	84,719	33,117	31,909	38,889	32,266	21,935	22,275	30,394
Germany	6,208	6,735	6,531	5,719	6,205	9,232	9,188	6,483	5,192	6,643	5,486	4,202	3,898	5,755
China	3,371	4,722	3,981	3,169	3,527	5,248	5,509	865	1,003	1,261	1,160	894	949	1,617
USA	4,315	4,889	4,482	5,100	4,709	4,644	4,159	2,648	2,901	4,058	4,114	2,388	2,694	3,203
United Kingdom	3,066	3,209	2,848	2,960	2,886	4,670	4,271	1,100	1,130	1,481	1,220	676	861	984
Poland	1,688	2,132	2,515	2,180	2,608	4,452	4,198	1,321	926	1,354	1,046	603	716	952
Netherlands	3,192	3,324	4,553	3,953	3,673	4,349	4,691	1,646	1,010	1,206	914	689	740	847
Italy	3,376	2,828	3,564	3,219	3,755	7,254	7,395	1,851	2,339	2,641	1,819	1,160	1,212	1,693
France	1,519	1,597	1,626	1,456	1,211	1,903	2,191	1,074	1,269	1,594	1,595	1,233	1,187	1,520
Finland	2,386	2,636	2,774	2,071	2,414	3,104	3,098	2,041	1,675	1,874	1,440	947	958	1,274
Republic of Korea	747	1,185	835	521	826	972	804	502	799	837	1,010	317	359	789

Source : Based on Goskomstat. *Statistics Yearbook* 2002.

As shown in Table 1, Russia's foreign trade - exports and imports - reached US \$ 115 billion in 2001. The volume of trade grew constantly between 1995 and 2001, though there was a sharp decline in 1998 and 1999. Exports always exceeded imports during the period of review. Moreover, the annual rate of growth in exports was higher than that imports growth which led to a trade surplus.

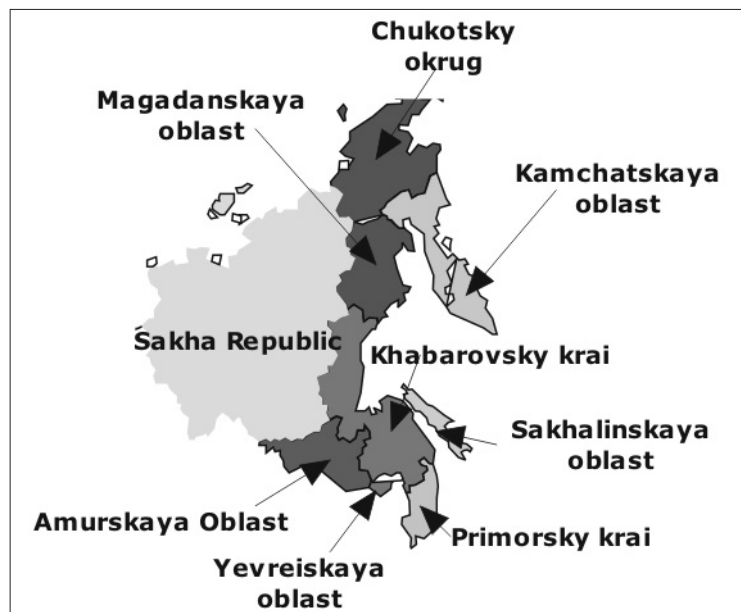
Between 1995 and 2001 Russia's main trading partners were Germany, the United Kingdom, Italy and France. In particular, Russia focused on exports to the markets of advanced European countries. Over the period under review Germany continued to be the top destination of Russian products, averaging for 10 per cent of the country's total exports and 18 per cent of total imports.

During the 1990s Asian countries did not play a major role in Russia's foreign trade. At the beginning of the new millennium this situation changed when China became the second largest export partner of Russia, accounting for 6.5 per cent of its total exports.

This was due to the Russian government's change in strategy with respect to the development of trade relations with the countries of the Asia-Pacific region. Korea was ranked as the tenth trading partner of Russia, and the share of Russia-Korea bilateral trade was about 10 per cent of Russia's total foreign trade. Korea's share in the Russian market has slightly increased since 2001 and has reached 2.6 per cent of Russia's total imports. Meanwhile, Russia's exports to Korea shrank to 1 per cent of its total amount in 2001.

Simultaneously, the Russian Far East was lagging in trade with European countries (fig. 2). The long distance that separates this region from Europe made goods more expensive and, therefore, less competitive in European markets. In these terms, the Russian Far East could not develop its economy successfully and depended much more on cooperation with neighboring countries such as China, Japan and Korea. These countries have become the main trading and investment partners of the Russian Far East. The share of Japan accounted for 12 per cent of the Russian Far East total trade in 2001. The share of China and Korea was 30 per cent and 14 per cent, respectively, of its total trade in 2001.

Figure 2. Location of Major Territories in the Russian Far East



The Russian Far East's Foreign Trade

Historically, Japan and China have been the Russian Far East's main trading partners, but their position is being challenged by Korea. Indeed, when we discuss cooperation between Russia and Korea, we consider primarily the economic relations between Korea and the Russian Far East rather than Russia's other regions.

Table 2. The Russian Far East exports and imports by country, 1996-2001 (millions of US dollars)

Country	Exports						Imports					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
Japan	734	1021	712	486	522	560	146	252	238	127	116	186
China	746	649	1023	414	1047	1716	208	297	175	132	139	171
Republic of Korea	333	334	336	314	578	644	275	583	578	144	153	207
United States	45	45	66	82	76	47	424	532	345	212	115	126

Source : Based on Goskomstat. *Statistics Yearbook* 2002.

Between 1996 and 2001, Korea became one of the major trading partners of the Russian Far East. At the beginning of the 1990s, Korea was the third major trading partner of the region. Since the development of diplomatic relations, however, Korea has become a leader in trade with the Russian Far East. By the beginning of 2000 Korea was the largest importer from the Russian Far East and the second largest exporter of goods to the region. This growth in trade is attributed to an increase in the supply of consumer and food products and investments in the Russian market.

Only a few territories in the Russian Far East have developed extensive trade relations with Korea-Sakhalinskaya oblast, Primorsky krai, and Khabarovskiy krai. Collectively, these three territories account for the largest share of the Russian Far East's foreign trade.

Table 3. The share of the Russian Far East territories in its exports and imports, 1998-2003 (percentage)

Territory	Exports						Imports					
	1998	1999	2000	2001	2002	2003	1998	1999	2000	2001	2002	2003
Amurskaya oblast	4.2	10.7	2	1.7	2.3	2.2	5.5	3.5	2.3	2.3	1.8	2
Kamchatskaya oblast	1.1	0.2	4.4	4.1	4.5	3.8	1.8	0.4	4.1	5.6	1.8	2.7
Magadanskaya oblast	0.2	0.1	0.1	0.1	0.2	0.2	0.1	0.1	6.8	6.7	4	3.2

Territory	Exports						Imports					
	1998	1999	2000	2001	2002	2003	1998	1999	2000	2001	2002	2003
Primorsky krai	80.7	79.4	20.8	25.5	25.4	22.2	70.3	59.9	46.6	48.7	55.3	52
Sakha Republic	0.1	0.1	5	1.3	3.4	5.7	0.8	0.03	5.1	2.5	2.6	2.5
Sakhalinskaya oblast	0.4	0.4	25	15.5	20.9	18.9	0.7	16.2	17.2	16.2	17	20.2
Khabarovsk krai	12.8	8.6	42.1	51.5	43.1	46.7	20.2	19.3	17	16.1	16.2	15.1
Yevreiskaya oblast	0.5	0.5	0.4	0.2	0.3	0.2	0.4	0.4	0.6	0.4	0.3	0.2
Chukotsky okrug	—	—	0.01	0.001	0.004	0.004	—	0.2	0.2	1.5	1	2

Source : Based on Goskomstat. *Statistics Yearbook* 2002.

As shown in Table 3, Primorsky krai is one of the largest importing territories in the Russian Far East. In 2003 it contributed 52 per cent of the Russian Far East's total imports. Primorsky krai's proximity to Japan, China and Korea makes it a favorable source for importing goods than other territories of the Russian Far East (fig. 3).

Figure 3. Map of Primorsky krai



Source : Russian Information Network.

If we consider the foreign trade of Primorsky krai by country, we can conclude that Korea is its second largest trading partner. In particular, the share of Korea accounted for 25 per cent of Primorsky krai's foreign trade in 2002.

Table 4. Primorsky krai's foreign trade by country, 1998-2002
(millions of US dollars and percentage)

Country	1998		1999		2000		2001		2002	
	USD	%	USD	%	USD	%	USD	%	USD	%
China	250.5	17.3	244.2	20	376.8	27.5	311.4	17.5	607.5	33.6
Republic of Korea	208.9	14.4	234.4	19	278.3	20.3	372.5	21	445.3	24.7
Singapore	41.9	2.9	19.9	1.6	24.6	1.8	344.6	19.3	156	8.6
Japan	321.1	22	198.7	16	227.1	16.6	305.8	17.2	280.6	15.6
Total	1450	100	1233	100	1371	100	1781	100	1804	100

Source: Based on Goskomstat. *Statistics Yearbook* 2002.

Generally, the Russian Far East is attractive to Korean companies, because it has large reserves of timber, metal ores, coal, oil and other natural resources. Natural resources are one of the factors that make Russia, and especially its Far East, competitive in the Asia-Pacific region. The Russian Far East also has a large market with a high growth potential. Obviously, companies are gaining immediate access to this market will have expended fewer investment resources than those entering the market after it is already saturated by producers not only from Korea, but from other Asian countries. Not only is market demand unstable but, more importantly, the local population has a comparatively low income. These circumstances preclude many producers from entering the market.

Nowadays, foreign producers prefer to earn a high profit during a short period of time. This explains the reason why Russian-Korean joint ventures concentrate on doing business in the mining industries. Korea, on the other hand, is considered a supplier of high-tech and consumer products to Russia.

Russia's exports to Korea comprise a large number of raw material items. In particular, the Russian Far East exports steel (43 per cent of the total amount), timber and fish products (13 per cent), chemical products (10 per cent), coal and other energy resources (33 per cent) to Korea. However, its imports from Korea are mostly home and office electrical equipment, plastic, automobiles and buses. The share of these goods accounts for 80 per cent of the region's imports.

Table 5. The commodity structure of Russia's exports to Korea, 1992-2002 (percentage)

Year	Steel and ore products	Chemical products (oil, cellulose, etc.)	Coal, nickel, aluminum	Timber, fish products
1992	67	7.7	0.2	22.7
1993	46.4	10.6	11	28.6
1994	49.6	12.3	9.9	22.6
1995	51.6	15.4	7.6	19.6
1996	45.7	19.5	4.4	21.9
1997	10.9	20.5	5.6	16.9
1998	37.8	19.6	13.6	20.2
1999	40	16.2	16.4	19.8
2000	44.6	20.1	19.3	11.6
2001	40.8	9	32.9	13.4
2002	42.8	10.1	33.2	12.5

Source : Based on Goskomstat. *Statistics Yearbook* 2002.

The commodity structure of Russia's exports to Korea is unrepresentative of the economy as the country, has a relatively well developed manufacturing industry, including an air and space industry, and it is in a position to supply products from this industry. However, there is little demand for such Russian high-tech products in Korea. Nevertheless, Korea is interested in getting products from the Russian defense industry. For example, in 1996 Russia supplied 26 tanks, antiaircraft emplacements "Igla" and antitank complexes to Korea (Souslina, 2001).

As a result of the ineffective commodity structure of exports, Russia loses profits by trading labor-intensive products, which cost less than skill-intensive ones. To be sure, such a commodity structure of exports will not make Russia better off in the long run. However, it is also true that it is impossible to restructure Russian exports within a short period of time.

IV. DIFFERENCES IN TRADE POLICIES BETWEEN RUSSIA AND KOREA

In comprehending the trading situation we need to examine differences in the economic basis of two countries. In terms of industry, agriculture and services, there are no marked differences between the two countries. For example, both countries have a larger share of service sector in the economy (more than 50 per cent of GDP), and a large share of production sector (more than 30 per cent of GDP) (UNCTAD, 2003). Yet if we consider the manufacturing industry structure in more detail, we note that the heavy engineering industry accounts for the largest share of Russian industrial production, while the electronic industry represents the largest share of the Korea's manufacturing industry.

Both Russia and Korea may trade goods in areas which they lack the necessary resources. Korea lacks both land and fossil fuels. It has a comparatively high-qualified labor force and large capital resources. Conversely, Russia lacks financial resources, which handicaps the development of its manufacturing industry and, consequently, does not allow it to reap benefits from trade by exporting finished products. Despite this handicap, Russia is highly endowed with labor resources, making the production of labor-intensive goods cheaper.

Understandably, Korea is not interested in supporting the economic development of Russia for the sake of getting a new global competitor in the high-tech products market. Simultaneously, bilateral trade and investment cooperation between the countries could focus on developing different forms of cooperation.

Korea has an export-oriented model of economic development, specializing on supplying high-tech products, vessels, petrochemical and textile products, automobiles and home electronic equipment to the world market. The exports of goods and services accounted for 40 per cent of Korea's GDP in 2002 (UNCTAD, 2003). The country is successful in the development of its economy because of its strong orientation toward international markets. The development of foreign trade relations make Korea one of the largest trading countries in the world.

Russia has an export-oriented model specializing in supplying petroleum products to the world market. Its exports to GDP ratio accounted for 35 per cent in 2002, compared with 30 per cent in 1998. However, Russia is not developing its foreign trade relations with other countries as intensively as Korea. The ratio of Russia's exports to its GDP was growing over the last years not because it broadened foreign trade cooperation, but because prices for its traded products in foreign markets were rising. In particular, prices for oil products sharply increased in 2004, which has almost doubled the volume of Russian oil exports.

A prime reason for Russia's slow development in foreign trade cooperation concerns the competitiveness of its economy. By competitiveness, we mean the capacity of a country to develop its competitive advantages over time. According to the *2003 World Economic Report*, Russia has been ranked sixty-fifth among the 102 countries surveyed (World Economic Forum, 2003). Its exports are not competitive in the world market. Even Russia's oil is less competitive than that derived from other sources because it is unrefined and contains paraffin. Ahead of Russia, Korea, by comparison, ranked eighteenth among competitive economies.

If we compare the level of macroeconomic development in the countries, Russia is ranked sixty-first, while Korea is twenty-third. This means that economic conditions are less suitable in Russia than in Korea. Consequently, the rate of Russia's economic growth is lower. In 2002, by comparison, the rate of GDP growth in Russia was 4 per cent, whereas it was about 7 per cent in Korea. Russia is also less competitive, because of its level of technology application to production. Based on a comparison of technology,

Russia and Korea have been ranked among the 102 countries surveyed in 2003 as the sixty-fifth and the sixth most competitive economies, respectively (World Economic Forum, 2003).

It is logical that innovation activity is only developing comparatively slowly in Russia because, after all, it is far behind an industrialized economy such as Korea. Obviously, this situation can be traced to the problems applying of scientific breakthroughs to the production process. Surprisingly, it takes about between five and ten years in Russia to apply a new technology to the industrial production process. Yet, it is well-known that this period has been shortened by up to 3 years in newly industrialized countries since the new millennium. However, it would be a mistake to think that Russia has lost all its industrial power. Russia has the world's second largest highly-qualified labor force and ranks seventh in the number of scientists per capita - twice as many as in Korea! (World Economic Forum, 2003).

The competitiveness of the Russian economy is affected by internal economic problems that influence the trade and investment activity of Russian companies. Russia is considered a less competitive country not only by international organizations, but also by Russian companies. Most Russian businessmen think both Russian products and companies are generally not competitive on the world market. Exceptions include Gazprom, Lukoil, RAO UES, Surgutneft, Norilskii Nikel and Severostal, which mine natural resources (gas, oil and ores) and export raw materials. These companies are included in the International Institute for Management Development's list of the world's top-2000 most competitive companies. Some of them are even more profitable than Korean companies, such as SK Corporation and S-Oil, which compete in the same industry (IMD, 2004). For example, the Russian companies mentioned above get 9 cents per unit by selling petrochemical products, while the Korean companies get 7 cents per unit or even less. While Russian manufacturing companies are as profitable as their Korean counterparts, Russian manufacturing products produced in Russia are less competitive than products made in Korea.

Russian products are less competitive not because their quality is poor, though this should also be taken into account, but as a result of high production expenses. Despite the tax privileges that Korean companies enjoyed by Korea's industrial and export processing zones, Russian companies pay comparatively higher taxes on profits and value added taxes (VAT) even if they invest profits in the development of their production facilities. As a result, Russian companies prefer to invest in trade rather than in production to gain sufficient profit under the country's prevailing economic conditions.

V. DYNAMICS OF KOREA'S FOREIGN TRADE

To develop trade relations with Korean companies, Russian enterprises have established joint ventures in Korea. However, the size of the companies established by Russian individuals in Korea and the amount of their sales are far less than those of companies established by businessmen from other countries.

Clearly, Korea does not consider Russia a main or strategic trading partner. Korea is mainly focused on the North American and South Asian markets. By comparison, the share of Korean exports to the US market was about 21 per cent of its total amount in 2001, but the share of its exports to Russia was a mere 0.6 per cent (OECD, 2004). The share of Korea's imports from Russia was 1.4 per cent of its total imports in 2001. In general, Russia is ranked as the thirty-second export and fifteenth import partner of Korea.

Table 6. Korea's exports and imports by country, 1996-2001 (billions of US dollars)

Country	Exports						Imports					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
Total	124.5	136.2	132.3	143.7	172.3	150.4	144.1	144.6	93.3	119.8	160.5	141.1
United States	16.6	21.6	22.8	29.5	37.6	31.2	30.9	30.1	20.4	24.9	29.2	22.4
Japan	15.8	14.8	12.2	15.9	20.5	16.5	31.4	27.9	16.8	24.1	31.8	26.6
China	11.4	13.6	11.9	13.7	18.5	18.2	8.5	10.1	6.5	8.9	12.8	13.3
Europe	19.3	22.8	27.4	25.3	27.1	22.8	24.3	21.98	13.08	14.7	17.6	16.7
Russia	1.97	1.77	1.11	0.64	0.79	0.94	1.81	1.53	1	1.59	2.06	1.93

Source : based on OECD *Countries Economic Surveys: Korea*. June 2004

As shown in Table 6, Korea had a trade surplus with Russia between 1996 and 1998, though it has started to export less and import more products from Russia since 1999 which led to a trade deficit. In 2001, the trade deficit still remained.

Russia, on the contrary, has accumulated a trade surplus with Korea. However, it had a trade deficit between 1996 and 1998, because prices of its major exports were low until 1999. During the period between 1996 and 1998, Russia was faced with economic problems that led to the crash of its financial system in 1998.

The rate of bilateral trade growth between Russia and Korea fluctuated throughout the 1990s. Both increases and decreases in trade turnover between the two countries occurred between 1995 and 2003. The average rate of trade growth was about 10 per cent. Bilateral trade significantly increased and reached an annual rate of 20 per cent in only the last few years. The increase was due primarily to the to a growing demand for traditional exports from both countries. In particular, Korea increased exports of mobile phones, radio and TV sets, computing, plastic, clothing, and other goods to Russia. Conversely, Russia increased exports of steel, ores, fish products, coal, timber, aluminum, and nickel.

Korea exports comprised heavy industry products, notably electric equipment, electronic machines, vessels, iron, steel, and machinery equipment and light industry products woven and textile fabric, tubes. Collectively, these products in 2003 accounted for almost 80 per cent of Korean exports.

Table 7. Korea's exports by commodity, 1993-2003 (percentage)

Commodity	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Heavy industry products	62.9	65.8	69.6	67.7	67.3	67.8	71.8	74.1	74.1	77.5	79.8
Light industry products	30.3	27.8	24.3	25.2	24.8	24.6	20.7	17.6	17.5	15.7	14.1
Crude materials and fuels	4	3.7	3.7	4.7	5.7	5.6	5.5	6.7	6.6	5.2	4.7
Food and direct consumer goods	2.8	2.7	2.4	2.4	2.2	2.1	2.1	1.6	1.8	1.6	1.4

Source: Korea National Statistical Office. Statistical Database (KOSIS) online.

Russia has a high demand for heavy industrial products, notably electronic equipment and industrial machinery. The country possesses highly developed machinery and shipbuilding industries but their development has been sluggish. Currently, most Russian fishing companies prefer to buy vessels from Japan and Korea rather than at home, because these countries offer reasonable prices and suitable quality. This demand for imported products is temporary, and can easily be changed should the Russian Government adopt a new economic policy centered upon restoring the country's manufacturing industry to its former status.

Korea's imports comprises three main groups of goods such as consumer goods, capital goods and crude material and fuel. The share of crude material and fuel, being the largest one, accounted for 48.3 per cent of Korea's total imports in 2003.

Table 8. Korea's imports by commodity, 1993-2003 (percentage)

Commodity	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Capital goods	37.8	40.8	40.6	40.2	37.6	37.6	40.5	40.8	37.2	38.1	38.5
Crude materials and fuel	52.5	49	47.8	45.6	48	48.9	47.8	49.2	51	48.6	48.3
Consumer goods	9.7	10.2	11.6	14.2	14.5	13.6	11.7	10	11.8	13.3	13.2

Source : Korea National Statistical Office. Statistical Database (KOSIS) online.

Korea could import any of these goods from Russia. Yet the question is not what Korea is interested in importing from Russia, but whether Russia is in a position to export

to Korea, considering transportation costs, prices and the quality of its products. Despite the diversified commodity structure of Russian exports, comprising, as noted, both raw materials and finished products, Russian suppliers can provide oil and gas products of good quality and at relevant prices to the Korean market. The import of Russian capital goods in Korea is not profitable for both Russian and Korean companies because of high transportation charges. As a rule, the goods are supplied by ships and factories producing capital-intensive products are located in Western Russian - at some distance from Korea.

Probably, the need to substitute land for sea transport is a prime reason why South Korea would like to develop a railroad line through North Korea to Russia. Another reason includes the interest of Korean companies have in expanding the scale of their sales worldwide and to gain access to the markets of advanced European countries. For example, in 2001, the share of the European Union countries attained 13 per cent of Korea's total exports, an increase of 16 per cent over the preceding year (Korea National Statistical Office, 2002).

VI. REASONS FOR SLOW DEVELOPMENT OF BILATERAL TRADE BETWEEN RUSSIA AND KOREA

There are many reasons for the slow development of Russia-Korea trade relations. Apart from the economic reasons, such as a slightly different structure in their economies, there is a need to emphasize political problems. They include the undeveloped legal structure underpinning bilateral trade and investment cooperation.

As Russia-Korea economic relations are recent the number of trade agreements is very small. The first one was concluded in December 1990. Later, the two countries signed an agreement on their cooperation between their trade missions. After the onset of economic liberalization in Russia and the implementation of the government's policy to develop free economic zones, Korea signed an agreement to participate in the construction of a Russian-Korean industrial complex in the "Nakhodka" free economic zone. This agreement was signed in September 1997. Despite the interest of both countries in this project, it has not been successful because investment expenses have apparently been very high. One of the latest agreements signed by the two countries in October 2000 was designed to supply strategic petroleum products to Korea.

Last year, Korea implemented a new policy towards its Russian trading partner. The policy reflects the Korean government's desire to intensify its economic relations with Russia. South Korea is very interested in developing trilateral cooperation with North Korea and Russia. In this arrangement Russia could use its good offices to persuade the North Korean government to end its political confrontation with South Korea.

The Dynamics of Russia-Korea Investment Flows

Existing political problems do not allow Russia and South Korea to use the full

potential of their trade cooperation. The same is true for investment relations. The investment cooperation is developing very slowly. The amount of Korean investment in the Russian economy is very small. Specifically Korean investment inflows, in 2000 amounted to US \$ 15,217 million. The share of Russia was about 0.007 per cent of Korea's total FDI by country in 2000.

Table 9. Korea's foreign direct investment from abroad by country, 1991-2000
(millions of US dollars)

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Japan	204	174	157	345	337	277	275	423	836	1100
France	42	50	44	54	33	90	501	356	365	414
Germany	102	67	35	49	46	47	397	644	766	1117
Netherlands	426	71	58	91	124	252	316	1227	3080	1246
United Kingdom	58	13	44	22	50	48	94	53	485	58
United States	262	268	303	223	342	393	391	1479	1973	1696
Russia	—	—	—	—	—	—	—	1	1	1

Source: OECD International Direct Investment. Statistics Yearbook 1989-2000.

Russia is ranked as Korea's fourteenth investment partner - far behind the US, the United Kingdom, and Japan, the largest investors in Korea. In particular, the share of the US accounted for 21.9 per cent of Korea's total investment in 2003, the shares of the UK and Japan were about 16 per cent and 13.8 per cent, respectively.

Both Russia and Korea get the largest share of investment inflows from developed countries such as Germany, the United States, the United Kingdom and Switzerland. In particular, the share from Germany was 20.2 per cent of the total capital invested in the economy of Russia in 2002, the share from the UK and Switzerland was 11.8 per cent and 6.8 per cent in 2002, respectively. The share from the US shrank to 5.7 per cent in 2002 from 14.5 per cent in 2000, when it was the largest foreign investor in Russia. The amount of Korean investment does not exceed 1 per cent of Russia's total foreign investment from abroad.

Table 10. Russia's foreign investment by country, 1995-2002 (percentage)

Country	1995	1997	1998	1999	2000	2001	2002
United States	27.9	24.1	19	30.6	14.6	11.2	5.7
Germany	10.3	13.4	24.2	17.7	13.4	8.7	20.2
Cyprus	1.4	8.1	7.8	9.7	13.2	16.3	11.8
Netherlands	2.9	4.4	7.5	5.7	11.2	8.8	5.9
Switzerland	14.6	14.3	3.5	4.2	7.2	9.4	6.8
France	3.6	1.7	13.1	3.3	6.8	8.4	6
United Kingdom	6.1	19.6	13.5	7.7	5.4	10.9	11.5
Sweden	2.1	0.6	1.2	0.7	2.8	0.5	—
Japan	2.5	1.1	0.5	0.4	1.1	2.9	—
Korea	0.8	0.06	0.14	0.01	0.02	0.04	—

Source: Based on Goskomstat. *Statistics Yearbook* 2002.

Significantly, the structure of foreign investment from abroad by industry differs in both countries. In Russia, foreign companies mainly invest their capital in the petroleum industry. There is strong competition among foreign investors interested in the development of gas and oil fields in the territory of Russia. Generally, there are three main groups of investors from the US, the Netherlands and Japan who exploit natural resources in Siberia, Sakhalin and other territories. Recently, Korean companies have also started to invest money in the development of oil resources in the Russian Far East, thereby intensifying the competition among foreign investors. Apart from the petroleum industry, foreign investors consider service and trade sectors attractive for investment. The service industry gives investors opportunities to earn higher incomes over the short-term. This industry looks more attractive to Korean companies that prefer to make a short-term, small investment in Russia.

Russia and Korea also have different amounts of inward foreign direct investment (FDI). For example, inward FDI to the Korean economy amounted to US \$ 43.7 billion in 2002, while inward FDI was only US \$ 22.6 billion in Russia. Indeed, the amount of foreign investment allocated in the countries every year is also different. In particular, in 2002, Russia received about US \$ 3.98 billion of FDI. Korea received US \$ 2.8 billion in 2001, though it received about US \$ 10 billion the preceding year. However, Russia received about US \$ 30 billion of FDI annually without any threat of becoming economically dependent on foreign capital (Chistov, 2003).

Simultaneously, the structure of foreign capital allocated in the Russian economy is unsatisfactory. Russia receives more commercial bank loans and trade credits than foreign direct investment. For example, in 2002, foreign direct investment accounted for 20.2 per cent of Russia's total foreign investment, while the share of loans and other types of investment attracted was 77.4 per cent.

Table 11. Russia's foreign investment from abroad by type, 1997-2002
(millions of US dollars and percentage)

Type of investment	1997		1998		1999		2000		2001		2002	
	USD ml.	% of total	USD ml.	% of total	USD ml.	% of total	USD ml.	% of total	USD ml.	% of total	USD ml.	% of total
FDI	5,333	43.4	3,361	28.6	4,260	44.6	4,429	40.4	3,980	27.9	4,000	20.2
Portfolio investment	681	5.5	191	1.6	31	0.3	145	1.3	451	3.2	470	2.4
Other investment	6,281	51.1	8,221	69.8	5,269	55.1	6,384	58.3	9,827	69.9	15,310	77.4

"Other investment" includes trade credits, loans and other financial borrowings.

Source: Based on Goskomstat. *Statistics Yearbook* 2002

In 2002, Russia attracted 0.6 per cent of the world's total FDI, while Korea's share of the world's FDI inflows was 0.3 per cent. However, Korea's FDI inward position looked better. Korea's share of inward FDI totaled about 0.6 per cent of the world's FDI inward stock, while Russia's share was 0.3 per cent (UNCTAD, 2003).

FDI inflows to Korea have increased significantly since 2003. Annually in Russia, FDI inflows have increased slightly. Clearly, the growth of foreign investment in the Korean economy has been due to the improvement of the economy's investment climate. A key feature of this improvement was the establishment of a state agency for foreign investment that provided valuable information to foreign investors interested in the allocation of capital in the Korean economy. Russia had such an agency too, but it was closed down after functioning for just three years. Now, there is no longer a unified investment agency in Russia like its counterpart in Korea. This has had a negative impact on foreign capital inflow, which, as noted, decreased over the 1990s due to the Russian economy's opacity.

The Russian Far East's Role in Developing Russia-Korea Investment Cooperation

Korea is a large investor in the Asia-Pacific region. It mostly invests capital in the economies of advanced countries, notably the US, Japan and Taiwan. Since 1990 Korea has invested more capital in Asia and North America than in Europe. By comparison, the average share of Korea's overseas direct investment in Asia was 42.2 per cent of the total amount invested during the period from 1990 to 2003, while its share of direct investment in North America and Europe was 30 per cent and 15 per cent respectively. Russia's share, on the other hand, did not exceed 0.6 per cent of the total amount of Korea's overseas investment.

In Russia, Korea invests the largest share of its capital in the Russian Far East. Among the territories of the Russian Far East, Primorsky krai has the most actively developed investment cooperation with Korea. As a result, Korea has become the largest

investor in Primorsky krai's economy.

Table 12. Foreign investment in the economy of Primorsky krai by country, 1998-2002
(millions of US dollars and percentage)

Country	1998		1999		2000		2001		2002	
	USD ml.	%	USD ml.	%	USD ml.	%	USD ml.	%	USD ml.	%
Total	56.3	100	53.9	100	78.1	100	108.6	100	57.3	100
Republic of Korea	23.3	41.4	20.6	38.2	43.4	55.6	30.6	28.2	21.3	37.2
Japan	13.2	23.4	15.9	29.5	11.8	15.1	29.7	27.3	19.8	34.6
China	0	0	0.7	1.3	1.8	2.3	0.4	0.4	0.6	1.05
United States	3.4	6	4.4	8.2	11.9	15.2	38.9	35.8	8	14

Source: Based on Goskomstat. *Statistics Yearbook* 2002

Primorsky krai's favorable location plays a major role in the amount of investment it receives from Korea. Korean companies prefer to invest in projects in the Russian East, because the market is not monopolized by large Russian companies. Further, the region has a high demand for specialized high-tech products from Korea. Simultaneously, Korean companies prefer to invest capital in spheres where they can earn a high profit quickly (e.g. clothing industry, tourism, telecommunication, and service sectors, such as hotels). For the most part, they focus on investing medium-term capital in the economy of the Russian Far East, a practice contributing to the region's unstable economic and political situation.

Difficulties in Bilateral Investment Cooperation between Russia and Korea

The development of Russia-Korea investment cooperation has stopped because of the debt the former Soviet Union accumulated in loans from Korea. Russia must repay about US \$ 1.58 billion, plus interest, to Korean banks for its loans. This debt level might be a serious barrier to future Korean investment in the Russian economy. Indeed, the Korean government has been paying careful attention to how the Russian government will fulfill its financial obligations. In September 2003 this concern paved the way for an intergovernmental debt rescheduling agreement that was signed by the Ministers of both countries. This debt problem, however, will have an impact on how Korea decides to develop economic ties with Russia.

Currently, bilateral economic relations have fallen short of expectations. Korean companies are still faced with an unsatisfactory investment climate while doing business in Russia. The Korean government insists that the host government offer Korean companies some privileges in Russia. Some of these claims have been met. In particular, Russia and Korea signed an agreement on avoiding a double tax obligation.

These measures are not sufficient to change the current situation in the investment sphere and persuade Korean companies to invest in the Russian economy. A new approach to the government investment policy should focus on attracting investment from Korea to encourage Korean companies to make long-term and large investments in Russia.

The obstacle preventing the Korean Government taking such a step is the continuing economic and political instability that exists in Russia. So long as this instability persists, Korean companies will continue to make only short-term and small investments in the Russian economy, concentrating on the development of small-sized joint business ventures in services sector. This focus adversely affects the development of long-term bilateral investment cooperation between Russia and Korea.

VII. PROSPECTS FOR DEVELOPING INVESTMENT AND TRADE COOPERATION

The prospects of developing the Russia-Korea investment cooperation are multifaceted. They may be good prospects for developing cooperation in the services sector. There may also be opportunities for developing joint ventures in mining natural resources within the Russian Far East, though this can be doubtful due to high upfront investment expenses that Korean companies will need to incur to gain higher profits later.

In the near future Russian companies are likely to continue to develop trade relations with Korean firms buying mostly consumer goods that are in great demand at home. There will be a continuing high demand for home electronic equipment in Russia, because the country's national electronics industry is less developed. The only goods that Russian companies are in a position to offer Korean companies in exchange for high-tech products are raw materials (wood, metal ores, and petroleum). The commodity structure of the Russian exports can vary in some Russian regions, but energy sources will account for the largest share.

Russia's exports by commodity will continue in this fashion because there are no prerequisites for change that could be implemented within a short period of time that would significantly alter the country's export specialization. Moreover, the commodity structure of any country's exports depends upon its domestic production base that is created over the course of many years.

What Russia may rely on now is some long-term trade and investment cooperation with Korean companies, which may help strengthen the former's commodity structure and improve the competitiveness of Russian products through the development of joint research projects. Russian scientific organizations conduct applied research in different spheres of natural science that are of interest to Korean companies, notably physics. These organizations lack the finance to develop their research. Currently, the government is unable to provide sufficient financial resources to all scientific organizations in the

country, though many of them are still state-owned.

The Russian Government's expenditure on science has decreased. In 2003, the Government contributed 18.4 per cent of total expenditure on science and technology development. The ratio of expenditure on science and technology development to Russia's GDP equaled 0.28 per cent in 2002 and 0.30 per cent in 2003, far less than in comparison with advanced nations (2 to 3 per cent). In Korea, government expenditure accounted for 15 per cent of total R&D expenses in 2002 (OECD, 2003).

In Russia, the current economic situation is not conducive to the investment of private capital in the development of applied science. As a rule, government investment accounts for the largest share of capital attracted in the science sphere. In contrast, private capital in Korea finances about 80 per cent of all R&D expenses.

Despite the financial problems, Russian scientific organizations have managed to achieve significant results and even gain some scientific potential for growth. Russia still has a great number of world-renowned scientists. Scientists working in Russia comprise 11 per cent of the world total. Thus Russia still has the potential to achieve important breakthroughs in science.

Cooperation between Russian scientific organizations and Korean companies will be mutually profitable if the latter provide the financial resources: Korean companies may acquire the latest achievements in Russian science and apply them to the production process, allowing Russian scientific organizations to reduce the deficit in financial resources needed for research. An instance of such cooperation is Samsung provision of financial aid to Russian scientific organizations to create new types of semiconductors. The results of this research are applied to the company's production of television sets. Samsung has also concluded an agreement with the Russian Academy of Science to purchase the results of its research (Souslina, 2001). Moreover, large-size Korean companies regularly attract Russian scientists to develop research projects in Korea.

Korean companies are not interested in developing manufacturing industries in Russia other than those that produce raw materials. While there are some Korean companies doing business in this sphere, they have entered into the Russian territory merely to be closer to the sources of raw materials.

Russian defense enterprises might attract some Korean investment, because most of them have been engaged in advanced technology and large-scale production since the mid-1960s. However, the government strictly controls and regulates this sphere, and investment of foreign capital is limited. The development of any project in this industry requires more financial resources that Korean companies could provide, getting some guarantees from the Russian government on the capital invested or sharing investment expenses with Russian partners. This seems unlikely, though, because the defense industry is not a priority sphere where the Russian government provides guarantees on foreign capital invested, and Russian investors prefer to invest money in short-term projects or in

projects concerned with the supply of natural resources.

The perspectives of Russia-Korea trade and investment cooperation also depend on the possibility of expanding the commodity structure of their exports and imports. This refers to the export potential of both countries. Russia can easily increase its exports of raw materials by intensifying production processes in the Russian Far East, a region rich in natural resources. As Korean companies become more familiar with the Russian market, surely, they can increase the supply of their exports to enlarge their own niche markets. Obviously, in the future Korean companies will be willing to supply their goods to the Russian market without intermediaries to maximize their profits.

Russia may gain considerable benefit from its participation in the projects with both North and South Korea. In particular, South Korean investors have an interest to connect Russia's Trans-Siberian Railway through North Korea to supply their goods to the European market. The project seems realistic, though the North Korean government policy is inconsistent.

All parties engaged in the project will benefit from the railways completion. Russia and North Korea will earn extra revenue for their budgets due to an increase of cargo flow through their territories. Moreover, this project may intensify the development of their transportation infrastructure. South Korean companies may be able to reduce their transportation expenses as a result of moving cargo by rail rather than by ship.

The other project, which also may bring some benefits to all three countries, is the construction of gas and oil pipelines from Russia to South Korea. The pipelines are supposed to go through the territory of North Korea which would make it involved in the project too. This project is optimistic due to a projected increase in demand in South Korea for natural resources between 2005 and 2007.

The realization of this project will enable Russia to supply more natural resources, rather than finished goods. As noted, such a commodity structure of exports makes the country worse off in the long run, as mentioned earlier. Therefore, it is necessary for Russia to develop projects that would involve it in becoming an equal partner in trade and investment relations.

There are at least two well-known projects relating to the development of infrastructure in Russia. One of them is Tumangan. This project is designed to develop port infrastructure at the mouth of the Tuman River. Russia would benefit from developing this project because it would attract more foreign investment to its economy, especially the regional economies of Khabarovsky and Primorsky krais. There are foreign investors, including Korean companies, who have an interest in financing the development of port facilities in the territory along the Russian side of the Tuman River. Obviously, the adjacent Russian regions as Khabarovsky and Primorsky krais would benefit. However, this project is developing very slowly, impacting the benefits and losses Russia may endure. It is difficult to measure the effect of this project development on the

Russian economy. Obviously, the railroad system and seaport infrastructure in the Russian Far East will be bypassed, because the main trade flows will move via the Tuman River. Consequently, the Russian Far East economy may decline.

Another project concerns the development of the Nakhodka free economic zone in Primorsky krai. This project has been focused on creating an export processing zone. It was designed specifically to attract investment from Korean companies to develop the project. However unfavorable economic conditions have forced investors to postpone development. Now this project only exists on paper.

Russia and Korea have opportunities for further trade and investment cooperation in the sphere of marine and wooden goods production. Korea depends heavily on imports of wood and wood products. It imports up to 95 per cent of wood from abroad. Having large reserves of timber, Russia is considered a main supplier of wood to Korea. It is reasonable to develop Russian-Korean joint ventures in this sphere that would produce finished goods. Moreover, there is a great demand for fishing vessels in Russia, and Korea, being a large producer of vessels, is in a position to supply them to the Russian market. The cooperation based on leasing the Korean vessels to Russian fishing companies should be very promising in the future.

Tourism is one direction for Russia-Korea investment cooperation. Korean companies have a great interest in developing tourism between Korea and Russia. This interest is related to different types of tourism, including both ecological and business tourism. Nowadays, Russian companies are actively developing ecological tourism. On the one hand, the industry will be focused on providing services aimed at sightseeing and organizing camping trips in the Russia Far East (e.g. Primorsky krai, Khabarovskiy krai, Sakhalin and Amurskaya oblast). On the other hand, it will satisfy a growing demand for trips to Korean ski resorts and amusement parks from the Russian side. Korean ski resorts attract Russian tourists with their well-organized facility structure (e.g. ski slopes), which are still undeveloped in Russia.

Business tourism is designed to provide opportunities for Korean and Russian businessmen to become familiar with the economic situation in each others' countries, to participate in business seminars, to meet with potential partners and to receive all necessary information on conducting business in Korea and Russia.

Many projects have been offered by Korean companies to develop business services in the Russia Far East. However, only one project has appeared to be successful. This project was developed by the Hyundai Company. The company constructed a business center in Vladivostok, the capital of Primorsky krai.

VIII. CONCLUSION

Russia-Korea trade and investment cooperation is developing very slowly. Cooperation over the last 10 years has fluctuated markedly. There were years when trade turnover increased between countries, and years when it significantly declined. Unlike the trend in trade relations, investment cooperation has developed in a stable manner. Nevertheless the amount of investment flows between the two countries has been extremely small.

Trade and investment cooperation between the countries is developing through joint ventures. Other forms of cooperation, namely research and production ties, remain stagnant due to economic and political problems.

Having concluded diplomatic relations, Russia and Korea have established the basis for further trade and investment cooperation. However, there is still a need for the improvement of the legal documents that underpin trade and investment cooperation between the two countries. Clearly, the development of research and production cooperation together with other forms of economic activities require the support of both governments. Joint projects will be ineffective unless the two countries create more favorable conditions for the joint ventures doing business in their territories.

Trade and investment cooperation between Russia and Korea have a high potential. It is to their mutual advantage to intensify this cooperation. However, this intensification will hinge on the policies implemented by the respective countries.

Russia has a great interest in the development of projects with Korea because they will provide the country with an opportunity to increase its export potential. The growth of exports will be possible because of the development of Russia's manufacturing industry through foreign investment inflows. Certainly, the amount of foreign investment will definitely increase once Russia's economic recovery is sustained. Korean investors are in a position to inject new technologies into the Russian industries.

Korea will also be at an advantage in cooperating with Russia. The country will gain access to the Russian market and will be able to expand its exports to Europe. Further cooperation with Russia may make Korean goods more competitive in the European market by decreasing transportation costs.

The more precise recommendations for developing bilateral relations between the two countries could be as follows:

1. In our opinion, Russia and Korea need to intensify the work to advance bilateral cooperation through existing working committees (e.g. the Korean-Russian Joint Commission on Economic, Science and Technology Cooperation) and working groups (e.g. the Korean-Russian Forum) under the leadership of ministers in the field of business development, science and technology, shipbuilding and others.
2. Russia and Korea are members of the Asia-Pacific Economic Cooperation

(APEC). To our mind, they should coordinate their efforts and participate actively in APEC's Committee on Trade and Investment to reduce major impediments to trade and investment activity of Korean and Russian companies doing business in their territories.

3. Clearly that the two countries will not succeed in deepening their bilateral ties unless Russia accelerates its integration in the global economy through active involvement in negotiating the free-trade agreements. These agreements would help create a favorable climate to expand trade and investment. As part of these agreements, some potential regions of the countries may be selected in order to foster the development of trade and investment cooperation. In particular, Primorsky krai and Busan (Pusan) are currently initiative sites through which Russia and Korea build up economic relations. These regions have high rates of cross-border business creation. Therefore, it is reasonable to consider these territories to boost cooperation between the two countries.

Even it is possible to estimate economic welfare, we don't specifically focus on this, suggesting free-trade agreements as a way to increase trade and investment flows, because it is well-known that free-trade agreements lead to tariff reductions, which raises economic efficiency. It seems to us more important to establish free trade under which trade and investment flows become stable or any changes in fluctuations are predictable with a high certainty for private sector. The dynamics of trade figures analyzed above shows that there is quite little trade between Russia and Korea taking into account their close location and demand for imported goods. Therefore, additional trade liberalization will increase trade between the two countries. At present, we do not consider the formation of a customs union between these countries in which the effect of trade creation or trade diversion appears, simply because this stage of trade arrangements is far ahead of time and cannot be achieved now.

4. In the current situation Russian and Korean companies trade with each other freely. Both countries represent a free market with some sense of regulation where trade and investment take place. However, economic activity and growth are unequally distributed among the Russian and Korean sites involved in the cross-border trade. Consequently, a necessity of regulation appears (Daniels and Radebaugh, 1993). In terms of free market, both countries had better protect the development of national industry using effective economic measures rather than administrative barriers.
5. For the Russian government to design an appropriate plan for development of bilateral relations, it should be reasonable to reduce administrative barriers with respect to imports from Korea.
6. It would be helpful if Korea actively supported Russia to join the World Trade Organization (WTO) on economically viable terms. The existing financial disputes will be eliminated when both countries follow the unified rules of the WTO. However, the Russian government seeks such conditions of its membership in the WTO that would not negatively influence its main industries upon accession. This probably will not suit the Korean government that prefers commercially focused membership to gain access to Russia's market and

resources.

7. To become Korea's major trading partner, Russia needs not only trade oil and minerals, but also sell finished products that are in high demand in Korea. Though oil and minerals are Russia's main export earners, the Russian government should try to diversify the commodity structure of Russia's exports in order to move from interindustry to intraindustry trade. Indeed, Russia is not the only supplier of raw materials to Korea, and Korean companies are not strongly oriented towards Russia's oil and minerals. In terms of unfavorable market conditions they can easily change to those derived from other countries.
8. One of the most important reasons that stop Korean companies doing business in Russia is that some Russian territories lack a suitable economic infrastructure (mostly, communications and utilities). It could be a good move if the Russian government increased investments in the territories where existing infrastructure is inadequate.
9. Russia's government should make laws, culture and the way of doing business understandable to Korean companies, which will necessitate further movements and set out well in advance considering the growth and size of the Russian economy.
10. Russia and Korea should keep moving toward trade and investment cooperation under different forms of partnerships (e.g. leases, joint ventures, R&D).
11. Both countries had better cooperate on programs that include investment promotion, business training, trade exhibitions, science and professional partnership.

Obviously, Russia and Korea have a stable basis of trade and investment cooperation. As the relationship between the two countries did not commence until 1988, it is unreasonable to expect deeper export/import operations among Russian and Korean companies. Nevertheless, there is great potential for a growth in trade and investment flows between these countries. The governments of both countries need to continue their collaboration towards achieving an agreement on outstanding issues hindering their economic relations. Trends in further trade and investment cooperation will depend heavily on the nature of the economic policy which the Russian and Korean governments are seeking to implement as the basis for creating favorable conditions for increasing trade and investment flows between their two economies.

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